INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 19, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: **October 19, 2015**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York	**1-2360**	**13-0871985**
(State of Incorporation)	(Commission File Number)	(IRS employer Identification No.)

ARMONK, NEW YORK	**10504**
(Address of principal executive offices)	(Zip Code)

914-499-1900

(Registrant s telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

- o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

The registrant s press release dated October 19, 2015, regarding its financial results for the periods ended September 30, 2015, including consolidated financial statements for the periods ended September 30, 2015, is Attachment I of this Form 8-K. Attachment II are the slides for IBM s Chief Financial Officer Martin Schroeter s third quarter earnings presentation on October 19, 2015, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Schroeter s presentation. All of the information in Attachment I and II is hereby filed.

IBM s web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: October 19, 2015

By: /s/ Stanley J. Sutula III

Stanley J. Sutula III
Vice President and Controller

ATTACHMENT I

IBM REPORTS 2015 THIRD-QUARTER RESULTS

- **Diluted EPS from continuing operations:**
- **Operating (non-GAAP): $3.34, down 9 percent;**
- **GAAP: $3.02, down 13 percent;**
- **Net income from continuing operations:**
- **Operating (non-GAAP): $3.3 billion, down 11 percent;**
- **GAAP: $3.0 billion, down 14 percent;**
- **Gross profit margin from continuing operations:**
- **Operating (non-GAAP): 50.0 percent, up 80 basis points;**
- **GAAP: 48.9 percent, up 40 basis points;**
- **Revenue from continuing operations: $19.3 billion:**
- **Down 1 percent adjusting for currency (9 points) and the divested System x business (4 points); down 14 percent as reported;**
- **Strategic imperatives revenue:**
- **Up 27 percent year-to-year, adjusting for currency and divested business; up 17 percent as reported;**
- **Up more than 30 percent year-to-date adjusting for currency and divested business; up 20 percent as reported:**
- **Cloud revenue up more than 65 percent year-to-date adjusting for currency and divested business; up more than 45 percent as reported;**
- **Total cloud revenue of $9.4 billion over trailing 12 months;**
- **For cloud delivered as a service, annual run rate of $4.5 billion vs. $3.1 billion in third-quarter 2014;**
- **Business analytics revenue up 19 percent year-to-date adjusting for currency; up 9 percent as reported;**
- **Services backlog of $118 billion, up 1 percent adjusting for currency;**

- **Free cash flow of $13.6 billion over trailing 12 months;**

- **Total capital return to shareholders of $8.7 billion over trailing 12 months; dividends of $4.7 billion and gross share repurchases of $4.0 billion;**

- **Expect full-year 2015 operating (non-GAAP) EPS of $14.75 to $15.75;**

- **Expect full-year 2015 free cash flow to be relatively flat.**

ARMONK, N.Y., October 19, 2015 . . . IBM (NYSE: IBM) today announced third-quarter 2015 diluted earnings from continuing operations of $3.02 per share, down 13 percent year-to-year. Operating (non-GAAP) diluted earnings from continuing operations were $3.34 per share, compared with operating diluted earnings of $3.68 per share in the third quarter of 2014, a decrease of 9 percent.

In the third quarter we again made progress in the transformation of our business to higher value, with strong growth in our strategic imperatives and expanded operating margins, said Ginni Rometty, IBM chairman, president and chief executive officer. We are continuing to make significant investments to build platforms around analytics, cloud, mobility and security that lay the foundation for a new era of cognitive business where we see long-term value for our clients and shareholders.

Third-quarter net income from continuing operations was $3.0 billion compared with $3.5 billion in the third quarter of 2014, a decrease of 14 percent. Operating (non-GAAP) net income was $3.3 billion compared with $3.7 billion in the third quarter of 2014, a decrease of 11 percent, impacted by currency.

Total revenues from continuing operations for the third quarter of 2015 of $19.3 billion were down 14 percent (down 1 percent, adjusting for currency and the divested System x business) from the third quarter of 2014.

Third-Quarter GAAP Operating (non-GAAP) Reconciliation

Third-quarter operating (non-GAAP) diluted earnings exclude $0.32 per share of charges: $0.18 per share for the amortization of purchased intangible assets and other acquisition-related charges, and $0.14 per share for non-operating retirement-related charges driven by changes to plan assets and liabilities primarily related to past market performance.

Full-Year 2015 Expectations

IBM expects full-year 2015 GAAP diluted earnings per share of $13.25 to $14.25, and operating (non-GAAP) diluted earnings per share of $14.75 to $15.75. IBM expects free cash flow to be relatively flat year-to-year. The 2015 operating (non-GAAP) earnings expectation excludes $1.50 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges.

Strategic Imperatives

Revenues from the company s strategic imperatives cloud, analytics, and engagement increased 17 percent year-to-year (up 27 percent adjusting for currency and the divested System x business); increased 20 percent year-to-date (up more than 30 percent adjusting for currency and the divested System x business). Total cloud revenues (public, private and hybrid) increased more than 45 percent (more than 65 percent adjusting for currency and the divested System x business) year-to-date, and is $9.4 billion over trailing 12 months. The annual run rate for cloud delivered as a service a subset of the total cloud revenue increased to $4.5 billion from $3.1 billion in the third quarter of 2014. Revenues from business analytics increased 9 percent year-to-date (19 percent adjusting for currency). Revenues year-to-date from mobile more than quadrupled, from security increased 6 percent (12 percent adjusting for currency) and from social increased 32 percent (about 40 percent adjusting for currency).

Geographic Regions

The Americas third-quarter revenues were $9.1 billion, a decrease of 10 percent (down 3 percent adjusting for currency and the divested System x business) from the 2014 period. Revenues from Europe/Middle East/Africa were $6.1 billion, down 16 percent (up 1 percent adjusting for currency and the divested System x business). Asia-Pacific revenues decreased 19 percent (down 1 percent adjusting for currency and the divested System x business) to $4.1 billion. Revenues from the BRIC countries

were down 30 percent as reported (down 7 percent adjusting for currency and the divested System x business).

Services

Global Technology Services segment revenues were down 10 percent (up 1 percent adjusting for currency and the divested System x business) to $7.9 billion. Global Business Services segment revenues were down 13 percent (down 5 percent adjusting for currency) to $4.2 billion.

The estimated services backlog as of September 30 was $118 billion, up 1 percent year-to-year adjusting for currency.

Software

Revenues from the Software segment were down 10 percent to $5.1 billion (down 3 percent adjusting for currency) compared with the third quarter of 2014.

Revenues from IBM s key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were $3.4 billion, down 7 percent (down 1 percent adjusting for currency) year-to-year. Operating systems revenues of $0.4 billion were down 14 percent (down 7 percent adjusting for currency) year-to-year.

Hardware

Revenues from the Systems Hardware segment totaled $1.5 billion for the quarter, down 39 percent (down 2 percent adjusting for currency and the divested System x business) year-to-year.

Revenues from z Systems mainframe server products increased 15 percent compared with the year-ago period (up 20 percent adjusting for currency). Total delivery of z Systems computing power, as measured in MIPS (millions of instructions per second), increased 18 percent. Revenues from Power Systems were down 3 percent compared with the 2014 period (up 2 percent adjusting for currency). Revenues from System Storage decreased 19 percent (down 14 percent adjusting for currency).

Financing

Global Financing segment revenues decreased 8 percent (up 7 percent, adjusting for currency) in the third quarter at $0.4 billion.

Gross Profit

The company s total gross profit margin from continuing operations was 48.9 percent in the 2015 third quarter compared with 48.6 percent in the 2014 third quarter. Total operating (non-GAAP) gross profit margin from continuing operations was 50.0 percent in the 2015 third quarter compared with 49.2 percent in the 2014

third quarter, with an increase in Hardware and an improving segment mix partially offset by declines in Services.

Expense

Total expense and other income from continuing operations decreased to $5.8 billion, down 11 percent compared to the prior-year period, primarily due to the impact of currency. S,G&A expense of $4.7 billion decreased 10 percent year over year. R,D&E expense of $1.3 billion decreased 5 percent year-to-year; the related expense-to-revenue ratio increased to 6.7 percent compared with 6.0 percent in the year-ago period. Intellectual property and custom development income increased to $188 million compared with $145 million a year ago. Other (income) and expense was income of $133 million compared with prior-year income of $103 million. Interest expense decreased to $117 million compared with $126 million in the prior year.

Total operating (non-GAAP) expense and other income from continuing operations decreased to $5.7 billion, down 12 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of $4.6 billion decreased 11 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of $1.3 billion decreased 7 percent year-to-year; the related expense-to-revenue ratio increased to 6.6 percent compared with 6.1 percent in the year-ago period.

Pre-Tax Income

Pre-tax income from continuing operations decreased 17 percent to $3.6 billion. Pre-tax margin from continuing operations decreased 0.7 points to 18.8 percent. Operating (non-GAAP) pre-tax income from continuing operations decreased 14 percent to $4.0 billion and pre-tax margin was 20.7 percent, flat year to year.

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IBM s tax rate from continuing operations was 18.2 percent, down 2.6 points year over year; the operating (non-GAAP) tax rate was 18.0 percent, down 2.8 points compared to the year-ago period.

Net income margin from continuing operations is essentially flat at 15.4 percent. Total operating (non-GAAP) net income margin from continuing operations increased 0.6 points to 17.0 percent.

The weighted-average number of diluted common shares outstanding in the third-quarter 2015 was 979 million compared with 998 million shares in the same period of 2014. As of September 30, 2015, there were 970 million basic common shares outstanding.

Debt, including Global Financing, totaled $39.7 billion, compared with $40.8 billion at year-end 2014. From a management segment view, Global Financing debt totaled $26.0 billion versus $29.1 billion at year-end 2014. The debt-to-equity ratio is 7.0 to 1. Core (non-global financing) debt totaled $13.7 billion, an increase of $2.0 billion since year-end 2014 and a decrease of $3.4 billion from the

third quarter of 2014. IBM ended the third-quarter 2015 with $9.6 billion of cash on hand.

The company generated free cash flow of $2.6 billion, excluding Global Financing receivables, up $0.4 billion year over year. The company returned $2.8 billion to shareholders through $1.3 billion in dividends and $1.5 billion of gross share repurchases. The balance sheet remains strong, and is well positioned to support the business over the long term.

Year-To-Date 2015 Results

Net income from continuing operations for the nine months ended September 30, 2015 was $8.9 billion compared with $10.2 billion in the year-ago period, a decrease of 13 percent. Diluted earnings per share from continuing operations were $9.03, down 11 percent compared to the 2014 period.

Consolidated net income was $8.7 billion compared to $6.5 billion, including operating net losses in discontinued operations related to the divested Microelectronics business. Consolidated diluted earnings per share were $8.85 compared to $6.44, up 37 percent year-to-year. Revenues from continuing operations for the nine-month period totaled $59.7 billion, a decrease of 13 percent (down 1 percent year to year, adjusting for currency and divested businesses) compared with $68.7 billion for the first nine months of 2014.

Operating (non-GAAP) net income from continuing operations for the nine months ended September 30, 2015 was $10.0 billion compared with $10.9 billion in the year-ago period, a decrease of 9 percent. Operating (non-GAAP) diluted earnings per share from continuing operations were $10.09 compared with $10.76 per diluted share for the 2014 period, a decrease of 6 percent.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company s current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and client spending budgets; the company s failure to meet growth and productivity objectives, a failure of the company s innovation initiatives; risks from investing in growth opportunities; failure of the company s intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company s pension plans; ineffective internal controls;

the company s use of accounting estimates; the company s ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company s ability to successfully manage acquisitions, alliances and dispositions; risks from legal proceedings; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company s Form 10-Qs, Form 10-K and in the company s other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company s results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM results and expectations

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- adjusting for the divestiture of the System x and the customer care outsourcing businesses.

The rationale for management s use of non-GAAP measures is included as part of the supplemental materials presented within the third-quarter earnings materials. These materials are available via a link on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II (Non-GAAP Supplemental Materials) to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM s regular quarterly earnings conference call is scheduled to begin at 5:00 p.m. EDT, today. The Webcast may be accessed via a link at http://www.ibm.com/investor/events/earnings/3q15.html. Presentation charts will be available shortly before the Webcast.

Financial Results Below (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

INTERNATIONAL BUSINESS MACHINES CORPORATION

COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Percent Change	2015	2014	Percent Change
REVENUE						
Global Technology Services *	$ 7,937	$ 8,837	-10.2%	$ 23,891	$ 26,696	-10.5%
Gross profit margin	38.1%	39.0%		37.3%	38.9%	
Global Business Services *	4,206	4,840	-13.1%	12,869	14,742	-12.7%
Gross profit margin	29.7%	30.9%		28.2%	30.0%	
Software	5,136	5,708	-10.0%	16,165	17,857	-9.5%
Gross profit margin	86.4%	87.6%		87.0%	88.0%	
Systems Hardware	1,492	2,434	-38.7%	5,209	7,590	-31.4%
Gross profit margin	44.7%	33.9%		46.0%	36.3%	
Global Financing	447	487	-8.1%	1,386	1,502	-7.7%
Gross profit margin	48.4%	47.8%		47.5%	49.6%	
Other	60	92	-34.4%	162	292	-44.4%
Gross profit margin	-260.4%	-143.8%		-237.0%	-162.5%	
TOTAL REVENUE	19,280	22,397	-13.9%	59,682	68,680	-13.1%
GROSS PROFIT	9,436	10,874	-13.2%	29,278	33,545	-12.7%
Gross profit margin	48.9%	48.6%		49.1%	48.8%	
EXPENSE AND OTHER INCOME						
S,G&A	4,731	5,281	-10.4%	15,273	17,146	-10.9%
Expense to revenue	24.5%	23.6%		25.6%	25.0%	
R,D&E	1,287	1,354	-4.9%	3,885	4,117	-5.6%
Expense to revenue	6.7%	6.0%		6.5%	6.0%	
Intellectual property and custom development income	(188)	(145)	29.2%	(489)	(543)	-10.0%
Other (income) and expense	(133)	(103)	29.5%	(578)	(433)	33.6%
Interest expense	117	126	-7.2%	340	367	-7.3%
TOTAL EXPENSE AND OTHER INCOME	5,815	6,513	-10.7%	18,431	20,654	-10.8%
Expense to revenue	30.2%	29.1%		30.9%	30.1%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,621	4,361	-17.0%	10,846	12,891	-15.9%
Pre-tax margin	18.8%	19.5%		18.2%	18.8%	
Provision for income taxes	659	906	-27.2%	1,943	2,655	-26.8%
Effective tax rate	18.2%	20.8%		17.9%	20.6%	
INCOME FROM CONTINUING OPERATIONS	$ 2,962	$ 3,455	-14.3%	$ 8,904	$ 10,237	-13.0%
Net margin	15.4%	15.4%		14.9%	14.9%	
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of taxes	(12)	(3,437)		(176)	(3,698)	

NET INCOME	$	2,950	$	18	NM	$	8,727	$	6,539	33.5%
EARNINGS PER SHARE OF COMMON STOCK:										
Assuming Dilution										
Continuing Operations	$	3.02	$	3.46	-12.7%	$	9.03	$	10.09	-10.5%
Discontinued Operations	$	(0.01)	$	(3.44)		$	(0.18)	$	(3.65)	
TOTAL	$	3.01	$	0.02	NM	$	8.85	$	6.44	37.4%
Basic										
Continuing Operations	$	3.04	$	3.48	-12.6%	$	9.07	$	10.15	-10.6%
Discontinued Operations	$	(0.01)	$	(3.46)		$	(0.18)	$	(3.67)	
TOTAL	$	3.03	$	0.02	NM	$	8.89	$	6.48	37.2%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s):										
Assuming Dilution		979.0		997.7			986.0		1,014.9	
Basic		975.1		991.8			981.8		1,008.9	

***Reclassified to conform with 2015 presentation.**

NM Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At September 30, 2015	At December 31, 2014
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 9,480	$ 8,476
Marketable securities	88	0
Notes and accounts receivable - trade (net of allowances of $362 in 2015 and $336 in 2014)	7,987	9,090
Short-term financing receivables (net of allowances of $488 in 2015 and $452 in 2014)	16,195	19,835
Other accounts receivable (net of allowances of $53 in 2015 and $40 in 2014)	931	2,906
Inventories, at lower of average cost or market:		
Finished goods	388	430
Work in process and raw materials	1,224	1,674
Total inventories	1,613	2,103
Deferred taxes	1,660	2,044
Prepaid expenses and other current assets	4,158	4,967
Total Current Assets	**42,112**	**49,422**
Property, plant and equipment	29,229	39,034
Less: Accumulated depreciation	18,568	28,263
Property, plant and equipment - net	10,661	10,771
Long-term financing receivables (net of allowances of $121 in 2015 and $126 in 2014)	9,517	11,109
Prepaid pension assets	4,033	2,160
Deferred taxes	3,690	4,808
Goodwill	30,275	30,556
Intangible assets - net	2,775	3,104
Investments and sundry assets	5,586	5,603
Total Assets	**$ 108,649**	**$ 117,532**
LIABILITIES:		
Current Liabilities:		
Taxes	$ 2,883	$ 5,084
Short-term debt	7,538	5,731
Accounts payable	5,166	6,864
Compensation and benefits	3,785	4,031
Deferred income	10,458	11,877
Other accrued expenses and liabilities	3,902	6,013
Total Current Liabilities	**33,732**	**39,600**
Long-term debt	32,122	35,073
Retirement and nonpension postretirement benefit obligations	17,012	18,261
Deferred income	3,593	3,691
Other liabilities	8,739	8,892
Total Liabilities	**95,198**	**105,518**
EQUITY:		
IBM Stockholders Equity:		
Common stock	53,220	52,666
Retained earnings	141,898	137,793
Treasury stock at cost	(154,669)	(150,715)

Accumulated other comprehensive income/(loss)		(28,155)		(27,875)
Total IBM stockholders equity		**13,294**		**11,868**
Noncontrolling interests		157		146
Total Equity		**13,450**		**12,014**
Total Liabilities and Equity	**$**	**108,649**	**$**	**117,532**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net Cash from Operating Activities per GAAP:	**$ 4,235**	**$ 3,904**	**$ 11,729**	**$ 10,809**
Less: the change in Global Financing (GF) Receivables	749	719	1,962	2,223
Net Cash from Operating Activities (Excluding GF Receivables)	**3,487**	**3,185**	**9,767**	**8,587**
Capital Expenditures, Net	(934)	(1,008)	(2,764)	(2,803)
Free Cash Flow (Excluding GF Receivables)	**2,553**	**2,177**	**7,003**	**5,783**
Acquisitions	(112)	(47)	(821)	(650)
Divestitures	(568)	81	(488)	489
Dividends	(1,271)	(1,090)	(3,636)	(3,176)
Share Repurchase	(1,542)	(1,719)	(3,846)	(13,547)
Non-GF Debt	379	(483)	770	4,536
Other (includes GF Receivables, and GF Debt)	1,370	925	2,108	5,065
Change in Cash, Cash Equivalents and Short-term Marketable Securities	**$ 808**	**$ (156)**	**$ 1,091**	**$ (1,501)**

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	THIRD-QUARTER 2015				
	Revenue			Pre-tax Income/ (Loss)	
(Dollars in Millions)	External	Internal	Total	Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 7,937	$ 190	$ 8,127	$ 1,274	15.7%
Y-T-Y change	-10.2%	-24.6%	-10.6%	-21.6%	
Global Business Services	4,206	120	4,326	673	15.6%
Y-T-Y change	-13.1%	-11.5%	-13.0%	-21.8%	
Software	5,136	785	5,921	1,899	32.1%
Y-T-Y change	-10.0%	-8.9%	-9.9%	-18.6%	
Systems Hardware	1,492	121	1,613	(24)	-1.5%
Y-T-Y change	-38.7%	-33.9%	-38.3%	NM	
Global Financing	447	584	1,031	562	54.5%
Y-T-Y change	-8.1%	-2.3%	-4.9%	18.1%	
TOTAL REPORTABLE SEGMENTS	**$ 19,219**	**$ 1,800**	**$ 21,019**	**$ 4,384**	**20.9%**
Y-T-Y change	**-13.8%**	**-11.3**	**-13.6%**	**-15.6%**	

Eliminations / Other		60		(1,800)		(1,739)		(763)	
TOTAL IBM CONSOLIDATED	**$**	**19,280**	**$**	**0**	**$**	**19,280**	**$**	**3,621**	**18.8%**
Y-T-Y change		**-13.9%**				**-13.9%**		**-17.0%**	

	THIRD-QUARTER 2014				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services *	$ 8,837	$ 252	$ 9,089	$ 1,625	17.9%
Global Business Services *	4,840	135	4,975	861	17.3%
Software	5,708	862	6,570	2,333	35.5%
Systems Hardware	2,434	182	2,616	(99)	-3.8%
Global Financing	487	598	1,084	475	43.9%
TOTAL REPORTABLE SEGMENTS	**$ 22,305**	**$ 2,029**	**$ 24,334**	**$ 5,195**	**21.3%**
Eliminations / Other	92	(2,029)	(1,937)	(835)	
TOTAL IBM CONSOLIDATED	**$ 22,397**	**$ 0**	**$ 22,397**	**$ 4,361**	**19.5%**

***Reclassified to conform with 2015 presentation.**

NM = Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	NINE-MONTHS 2015				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income/ (Loss) Continuing Operations**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services	$ 23,891	$ 589	$ 24,480	$ 3,516	14.4%
Y-T-Y change	-10.5%	-20.3%	-10.8%	-22.0%	
Global Business Services	12,869	380	13,249	1,926	14.5%
Y-T-Y change	-12.7%	-8.6%	-12.6%	-26.8%	
Software	16,165	2,519	18,684	6,107	32.7%
Y-T-Y change	-9.5%	-5.0%	-8.9%	-11.9%	
Systems Hardware	5,209	320	5,529	255	4.6%
Y-T-Y change	-31.4%	-40.9%	-32.0%	NM	
Global Financing	1,386	1,874	3,261	1,690	51.8%
Y-T-Y change	-7.7%	-1.4%	-4.2%	1.6%	
TOTAL REPORTABLE SEGMENTS	**$ 59,520**	**$ 5,683**	**$ 65,203**	**$ 13,494**	**20.7%**
Y-T-Y change	**-13.0%**	**-9.0%**	**-12.6%**	**-12.3%**	
Eliminations / Other	162	(5,683)	(5,520)	(2,647)	
TOTAL IBM CONSOLIDATED	**$ 59,682**	**$ 0**	**$ 59,682**	**$ 10,846**	**18.2%**
Y-T-Y change	**-13.1%**		**-13.1%**	**-15.9%**	

	NINE-MONTHS 2014				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income (Loss)/ Continuing Operations**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services *	$ 26,696	$ 739	$ 27,435	$ 4,509	16.4%
Global Business Services *	14,742	416	15,158	2,633	17.4%
Software	17,857	2,652	20,508	6,935	33.8%
Systems Hardware	7,590	541	8,131	(354)	-4.4%
Global Financing	1,502	1,900	3,403	1,664	48.9%

TOTAL REPORTABLE SEGMENTS	**$**	**68,387**	**$**	**6,248**	**$**	**74,635**	**$**	**15,386**	**20.6%**
Eliminations / Other		292		(6,248)		(5,955)		(2,495)	
TOTAL IBM CONSOLIDATED	**$**	**68,680**	**$**	**0**	**$**	**68,680**	**$**	**12,891**	**18.8%**

***Reclassified to conform with 2015 presentation.**

NM = Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	THIRD-QUARTER 2015 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 9,436	$ 89	$ 118	$ 9,643
Gross Profit Margin	48.9%	0.5Pts	0.6Pts	50.0%
S,G&A	4,731	(76)	(74)	4,581
R,D&E	1,287		(12)	1,275
Other (Income) & Expense	(133)	0		(133)
Total Expense & Other (Income)	5,815	(76)	(86)	5,652
Pre-tax Income from Continuing Operations	3,621	165	204	3,991
Pre-tax Income Margin from Continuing Operations	18.8%	0.9Pts	1.1Pts	20.7%
Provision for Income Taxes* **	659	(5)	64	718
Effective Tax Rate	18.2%	-0.9Pts	0.7Pts	18.0%
Income from Continuing Operations	2,962	170	140	3,272
Income Margin from Continuing Operations	15.4%	0.9Pts	0.7Pts	17.0%
Diluted Earnings Per Share: Continuing Operations	$ 3.02	$ 0.18	$ 0.14	$ 3.34

	THIRD-QUARTER 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 10,874	$ 106	$ 43	$ 11,023
Gross Profit Margin	48.6%	0.5Pts	0.2Pts	49.2%
S,G&A	5,281	(96)	(48)	5,137
R,D&E	1,354		19	1,373
Other (Income) & Expense	(103)	0		(103)

Total Expense & Other (Income)	6,513	(96)	(29)	6,389
Pre-tax Income from Continuing Operations	4,361	202	71	4,634
Pre-tax Income Margin from Continuing Operations	19.5%	0.9Pts	0.3Pts	20.7%
Provision for Income Taxes* **	906	42	14	963
Effective Tax Rate	20.8%	0.0Pts	0.0Pts	20.8%
Income from Continuing Operations	3,455	159	57	3,671
Income Margin from Continuing Operations	15.4%	0.7Pts	0.3Pts	16.4%
Diluted Earnings Per Share: Continuing Operations	$ 3.46	$ 0.16	$ 0.06	$ 3.68

*** Includes amortization of acquired intangible assets and other acquisition-related charges.**

**** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.**

***** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.**

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	NINE-MONTHS 2015 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 29,278	$ 268	$ 350	$ 29,896
Gross Profit Margin	49.1%	0.4Pts	0.6Pts	50.1%
S,G&A	15,273	(230)	(445)	14,598
R,D&E	3,885		(36)	3,849
Other (Income) & Expense	(578)	(5)		(583)
Total Expense & Other (Income)	18,431	(235)	(481)	17,715
Pre-tax Income from Continuing Operations	10,846	503	831	12,181
Pre-tax Income Margin from Continuing Operations	18.2%	0.8Pts	1.4Pts	20.4%
Provision for Income Taxes* **	1,943	52	234	2,228
Effective Tax Rate	17.9%	-0.3Pts	0.7Pts	18.3%
Income from Continuing Operations	8,904	452	597	9,953
Income Margin from Continuing Operations	14.9%	0.8Pts	1.0Pts	16.7%
Diluted Earnings Per Share: Continuing Operations	$ 9.03	$ 0.46	$ 0.60	$ 10.09

	NINE-MONTHS 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 33,545	$ 315	$ 141	$ 34,001
Gross Profit Margin	48.8%	0.5Pts	0.2Pts	49.5%
S,G&A	17,146	(291)	(162)	16,693
R,D&E	4,117		56	4,173
Other (Income) & Expense	(433)	0		(433)
Total Expense & Other (Income)	20,654	(292)	(106)	20,257
Pre-tax Income from Continuing Operations	12,891	607	246	13,744
Pre-tax Income Margin from Continuing Operations	18.8%	0.9Pts	0.4Pts	20.0%
Provision for Income Taxes* **	2,655	123	49	2,827
Effective Tax Rate	20.6%	0.0Pts	0.0Pts	20.6%
Income from Continuing Operations	10,237	483	197	10,917
Income Margin from Continuing Operations	14.9%	0.7Pts	0.3Pts	15.9%
Diluted Earnings Per Share: Continuing Operations	$ 10.09	$ 0.48	$ 0.19	$ 10.76

*** Includes amortization of acquired intangible assets and other acquisition-related charges.**

**** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.**

***** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.**

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ATTACHMENT II