

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 16, 2013

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 16, 2013**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES
CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900

(Registrant's telephone number)

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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:

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

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

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

 - 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 16, 2013, regarding its financial results for the periods ended September 30, 2013, including consolidated financial statements for the periods ended September 30, 2013, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's third quarter earnings presentation on October 16, 2013, 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. Loughridge'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 16, 2013

By:

/s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2013 THIRD-QUARTER RESULTS

- **GAAP Results:**

- **Diluted EPS: \$3.68, up 11 percent;**
- **Net income: \$4.0 billion, up 6 percent;**
- **Gross profit margin: 48.0 percent, up 0.6 points;**

- **Operating (non-GAAP) Results:**

- **Diluted EPS: \$3.99, up 10 percent;**
- **Net income: \$4.4 billion, up 6 percent;**
- **Gross profit margin: 49.1 percent, up 1.0 points;**

- **Revenue:**

\$23.7 billion, down 4 percent, down 2 percent adjusting for currency:

- **Software revenue up 1 percent, up 2 percent adjusting for currency;**
- **Key branded middleware up 3 percent; up 4 percent adjusting for currency;**
- **Services revenue down 3 percent, up 1 percent adjusting for currency;**
- **Global Business Services revenue flat, up 5 percent adjusting for currency;**
- **Services backlog of \$141 billion, up 2 percent, up 6 percent adjusting for currency;**

- **Systems and Technology revenue down 17 percent, down 16 percent adjusting for currency;**
- **System z mainframe revenue up 6 percent; up 7 percent adjusting for currency;**
- **Growth markets revenue down 9 percent, down 5 percent adjusting for currency;**
- **Business analytics revenue up 8 percent year to date;**
- **Smarter Planet revenue up more than 20 percent year to date;**
- **Cloud revenue up more than 70 percent year to date;**
- **Revenue in third-quarter exceeds \$1 billion, of which about \$460 million is delivered as a cloud service;**

- **Maintaining full-year 2013 Operating (non-GAAP) EPS expectation of at least \$16.25; at least \$16.90, excluding second-quarter workforce rebalancing charge.**

ARMONK, N.Y., October 16, 2013 . . . IBM (NYSE: IBM) today announced third-quarter 2013 diluted earnings of \$3.68 per share, compared with diluted earnings of \$3.33 per share in the third-quarter of 2012, an increase of 11 percent. Operating (non-GAAP) diluted earnings were \$3.99 per share compared with operating diluted earnings of \$3.62 per share in the third-quarter of 2012, an increase of 10 percent.

Third-quarter net income was \$4.0 billion compared with \$3.8 billion in the third-quarter of 2012, an increase of 6 percent. Operating (non-GAAP) net income was \$4.4 billion, as compared with \$4.2 billion in the third-quarter of 2012, an increase of 6 percent.

Total revenues for the third-quarter of 2013 of \$23.7 billion were down 4 percent (down 2 percent, adjusting for currency) from the third-quarter of 2012.

In the third-quarter we continued to expand operating margins and increased earnings per share, but fell short on revenue. Where we had identified high growth opportunities and pursued them aggressively – cloud, mobile, business analytics, and security – we continued to show strong growth. This underscores our strategy to continuously transform the company to high value, said Ginni Rometty, IBM chairman, president and chief executive officer.

We are taking action to improve execution in our growth markets unit and in the elements of our hardware businesses that are under performing. Given these actions, our strategic initiatives and the strength of our model, we are maintaining our view for the full year and remain confident in our ability to achieve at least \$20 operating EPS in 2015.

Third-Quarter GAAP - Operating (non-GAAP) Reconciliation

Third-quarter operating (non-GAAP) diluted earnings exclude \$0.31 per share of charges: \$0.15 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.16 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2013 Expectations

The company expects full-year 2013 GAAP diluted earnings per share of at least \$15.01. Operating (non-GAAP) diluted earnings per share expectations remain at least \$16.25; and at least \$16.90, excluding the second-quarter workforce rebalancing charge of \$1.0 billion. Operating (non-GAAP) diluted earnings expectations exclude \$1.24 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges.

Geographic Regions

The Americas third-quarter revenues were \$10.3 billion, a decrease of 1 percent (flat, adjusting for currency) from the 2012 period. Revenues from Europe/Middle East/Africa were up 1 percent to \$7.3 billion (down 2 percent, adjusting for currency). Asia-Pacific revenues decreased 15 percent (down 4 percent, adjusting for currency) to \$5.5 billion. OEM revenues were \$534 million, down 1 percent (flat, adjusting for currency) compared with the 2012 third-quarter.

Growth Markets

Revenues from the company's growth markets were down 9 percent (down 5 percent, adjusting for currency). Revenues in the BRIC countries (Brazil, Russia, India and China) were down 15 percent (down 12 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 4 percent (down 1 percent, adjusting for currency) to \$9.5 billion. Global Business Services segment revenues were flat (up 5 percent, adjusting for currency) at \$4.6 billion.

Pre-tax income from Global Technology Services increased 12 percent and pre-tax margin increased to 19.4 percent. Global Business Services pre-tax income increased 28 percent and pre-tax margin increased to 20.0 percent.

The estimated services backlog at September 30 was \$141 billion, up 2 percent year over year at actual rates (up 6 percent, adjusting for currency).

Software

Revenues from the Software segment were \$5.8 billion, up 1 percent (up 2 percent, adjusting for currency) compared with the third-quarter of 2012. Software pre-tax income increased 2 percent and pre-tax margin increased to 36.8 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Social Workforce Solutions and Rational products, were \$3.7 billion, up 3 percent (up 4 percent, adjusting for currency) versus the third-quarter of 2012. Operating systems revenues of \$576 million were down 4 percent (down 2 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products were flat year over year. Information Management software revenues increased 2 percent. Revenues from Tivoli software increased 2 percent. Revenues from Social Workforce Solutions increased 14 percent, and Rational software increased 12 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$3.2 billion for the quarter, down 17 percent (down 16 percent, adjusting for currency) from the third-quarter of 2012. Systems and Technology pre-tax income decreased \$291 million to a loss of \$167 million.

Total systems revenues decreased 19 percent (down 18 percent, adjusting for currency). Revenues from Power Systems were down 38 percent compared with the 2012 period. Revenues from System x were down 18 percent. Revenues from System z mainframe server products increased 6 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 56 percent. Revenues from System Storage decreased 11 percent. Revenues from Microelectronics OEM increased 1 percent.

Financing

Global Financing segment revenues increased 6 percent (up 9 percent, adjusting for currency) in the third-quarter at \$502 million. Pre-tax income for the segment increased 4 percent to \$494 million.

Gross Profit

The company's total gross profit margin was 48.0 percent in the 2013 third-quarter compared with 47.4 percent in the 2012 third-quarter period. Total operating (non-GAAP) gross profit margin was 49.1 percent in the 2013 third-quarter compared with 48.1 percent in the 2012 third-quarter period, with increases in Global Technology Services, Global Business Services and Global Financing.

Expense

Total expense and other income decreased 1 percent to \$6.6 billion compared with the prior year period. S,G&A expense of \$5.3 billion decreased 11 percent year over year, including the prior year third-quarter workforce rebalancing charge of \$408 million. R,D&E expense of \$1.5 billion decreased 4 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$191 million compared with \$303 million a year ago. Other (income) and expense was income of \$62 million compared with prior-year income of \$606 million, which included a \$447 million gain from the divestiture of Retail Store Solutions. Interest expense decreased to \$97 million compared with \$124 million in the prior year.

Total operating (non-GAAP) expense and other income was flat at \$6.4 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense decreased 10 percent to \$5.1 billion compared with the prior-year period. Operating (non-GAAP) R,D&E expense of \$1.5 billion was down 6 percent compared with the year-ago period.

Pre-Tax Income

Pre-tax income decreased 5 percent to \$4.8 billion and pre-tax margin of 20.3 percent was down 0.2 points compared with the prior-year period. Operating (non-GAAP) pre-tax income decreased 4 percent to \$5.3 billion and pre-tax margin was flat compared to the year-ago period.

IBM's tax rate was 16.0 percent, down 8.6 points year over year; operating (non-GAAP) tax rate was 17.0 percent, down 7.7 points compared to the year-ago period. The change in the third-quarter tax rate reflects a decrease to 23 percent in the ongoing effective tax rate for the full-year, discrete benefits associated with foreign tax audits and the third-quarter 2012 tax charge related to the divestiture of Retail Store Solutions.

Net income margin increased 1.6 points to 17.0 percent. Total operating (non-GAAP) net income margin increased 1.7 points to 18.5 percent.

The weighted-average number of diluted common shares outstanding in the

third-quarter 2013 was 1.10 billion compared with 1.15 billion shares in the same period of 2012. As of September 30, 2013, there were 1.09 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$36.2 billion, compared with \$33.3 billion at year-end 2012. From a management segment view, Global Financing debt totaled \$25.8 billion versus \$24.5 billion at year-end 2012, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$10.4 billion, an increase of \$1.6 billion since year-end 2012, resulting in a debt-to-capitalization ratio of 38.7 percent from 36.1 percent. On a year-over-year basis, debt increased \$2.5 billion, primarily driven by Global Financing debt.

IBM ended the third-quarter 2013 with \$10.2 billion of cash on hand and generated free cash flow of \$2.2 billion, excluding Global Financing receivables, down approximately \$0.9 billion year over year. The company returned \$3.0 billion to shareholders through \$1.0 billion in dividends and \$1.9 billion of gross share repurchases.

Year-To-Date 2013 Results

Net income for the nine months ended September 30, 2013 was \$10.3 billion compared with \$10.8 billion in the year-ago period, a decrease of 4 percent. Diluted earnings per share were \$9.27, flat compared to the 2012 period. Revenues for the nine-month period totaled \$72.1 billion, a decrease of 4 percent (down 2 percent, adjusting for currency) compared with \$75.2 billion for the nine months of 2012.

Operating (non-GAAP) net income for the nine months ended September 30, 2013 was \$11.3 billion compared with \$11.5 billion in the year-ago period, a decrease of 1.4 percent. Operating (non-GAAP) diluted earnings per share were \$10.21 compared with \$9.90 per diluted share for the 2012 period, an increase of 3 percent. Operating (non-GAAP) diluted earnings per share, excluding the impact of second-quarter workforce rebalancing charges, were \$10.91.

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 corporate IT 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 and purchases, 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 and alliances; 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;
- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- adjusting for workforce rebalancing.

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 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 4:30 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/3q13.phtml>. 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, | | |
|--|-------------------------------------|---------------|-------------------|------------------------------------|---------------|-------------------|
| | 2013 | 2012 | Percent Change | 2013 | 2012 | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 9,494 | \$ 9,922 | -4.3% | \$ 28,634 | \$ 29,952 | -4.4% |
| Gross profit margin | 39.0% | 37.3% | | 37.9% | 36.3% | |
| Global Business Services | 4,558 | 4,542 | 0.4% | 13,649 | 13,846 | -1.4% |
| Gross profit margin | 32.9% | 31.2% | | 30.9% | 30.0% | |
| Software | 5,798 | 5,763 | 0.6% | 17,792 | 17,533 | 1.5% |
| Gross profit margin | 88.0% | 88.0% | | 88.0% | 87.8% | |
| Systems and Technology | 3,247 | 3,895 | -16.6% | 10,111 | 11,903 | -15.1% |
| Gross profit margin | 33.6% | 37.3% | | 34.4% | 36.7% | |
| Global Financing | 502 | 472 | 6.5% | 1,488 | 1,478 | 0.7% |
| Gross profit margin | 47.2% | 45.8% | | 46.4% | 47.5% | |
| Other | 122 | 154 | -20.8% | 378 | 490 | -22.8% |
| Gross profit margin | -211.6% | -80.4% | | -185.3% | -71.3% | |
| TOTAL REVENUE | 23,720 | 24,747 | -4.1% | 72,052 | 75,203 | -4.2% |
| GROSS PROFIT | 11,380 | 11,732 | -3.0% | 34,189 | 35,131 | -2.7% |
| Gross profit margin | 48.0% | 47.4% | | 47.5% | 46.7% | |
| EXPENSE AND OTHER INCOME | | | | | | |
| S,G&A | 5,255 | 5,908 | -11.0% | 17,512 | 17,632 | -0.7% |
| Expense to revenue | 22.2% | 23.9% | | 24.3% | 23.4% | |
| R,D&E | 1,468 | 1,534 | -4.3% | 4,661 | 4,722 | -1.3% |
| Expense to revenue | 6.2% | 6.2% | | 6.5% | 6.3% | |
| Intellectual property and custom development income | (191) | (303) | -36.8% | (621) | (847) | -26.7% |
| Other (income) and expense | (62) | (606) | -89.7% | (214) | (796) | -73.2% |
| Interest expense | 97 | 124 | -21.5% | 289 | 350 | -17.5% |
| TOTAL EXPENSE AND OTHER INCOME | 6,567 | 6,657 | -1.4% | 21,627 | 21,060 | 2.7% |
| Expense to revenue | 27.7% | 26.9% | | 30.0% | 28.0% | |
| INCOME BEFORE INCOME TAXES | 4,812 | 5,074 | -5.2% | 12,562 | 14,071 | -10.7% |
| Pre-tax margin | 20.3% | 20.5% | | 17.4% | 18.7% | |

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| | | | | | | |
|----------------------------|-------|-------|--------|-------|-------|--------|
| Provision for income taxes | 772 | 1,251 | -38.3% | 2,263 | 3,300 | -31.4% |
| Effective tax rate | 16.0% | 24.6% | | 18.0% | 23.5% | |

| | | | | | | |
|-------------------|----------|----------|------|-----------|-----------|-------|
| NET INCOME | \$ 4,041 | \$ 3,824 | 5.7% | \$ 10,299 | \$ 10,771 | -4.4% |
| Net income margin | 17.0% | 15.5% | | 14.3% | 14.3% | |

**EARNINGS PER SHARE OF
COMMON STOCK:**

| | | | | | | |
|-------------------|---------|---------|-------|---------|---------|-------|
| ASSUMING DILUTION | \$ 3.68 | \$ 3.33 | 10.5% | \$ 9.27 | \$ 9.27 | 0.0% |
| BASIC | \$ 3.70 | \$ 3.36 | 10.1% | \$ 9.35 | \$ 9.38 | -0.3% |

**WEIGHTED-AVERAGE NUMBER
OF COMMON SHARES
OUTSTANDING (M s):**

| | | | | | | |
|-------------------|---------|---------|--|---------|---------|--|
| ASSUMING DILUTION | 1,098.8 | 1,149.3 | | 1,110.7 | 1,161.8 | |
| BASIC | 1,090.9 | 1,137.2 | | 1,101.8 | 1,148.4 | |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions) | At September 30, 2013 | At December 31, 2012 |
|---|-----------------------------|----------------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,072 | \$ 10,412 |
| Marketable securities | 160 | 717 |
| Notes and accounts receivable - trade (net of allowances of \$273 in 2013 and \$255 in 2012) | 9,865 | 10,667 |
| Short-term financing receivables (net of allowances of \$280 in 2013 and \$288 in 2012) | 16,786 | 18,038 |
| Other accounts receivable (net of allowances of \$29 in 2013 and \$17 in 2012) | 1,683 | 1,873 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 528 | 475 |
| Work in process and raw materials | 1,964 | 1,812 |
| Total inventories | 2,492 | 2,287 |
| Deferred taxes | 1,752 | 1,415 |
| Prepaid expenses and other current assets | 4,723 | 4,024 |
| Total Current Assets | 47,533 | 49,433 |
| Property, plant and equipment | 40,808 | 40,501 |
| Less: Accumulated depreciation | 26,931 | 26,505 |
| Property, plant and equipment - net | 13,877 | 13,996 |
| Long-term financing receivables (net of allowances of \$72 in 2013 and \$66 in 2012) | 11,675 | 12,812 |
| Prepaid pension assets | 1,476 | 945 |
| Deferred taxes | 3,682 | 3,973 |
| Goodwill | 30,882 | 29,247 |
| Intangible assets - net | 4,003 | 3,787 |
| Investments and sundry assets | 4,718 | 5,021 |
| Total Assets | \$ 117,845 | \$ 119,213 |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Taxes | \$ 4,746 | \$ 4,948 |
| Short-term debt | 7,702 | 9,181 |
| Accounts payable | 6,263 | 7,952 |
| Compensation and benefits | 4,210 | 4,745 |
| Deferred income | 11,658 | 11,952 |
| Other accrued expenses and liabilities | 4,643 | 4,847 |
| Total Current Liabilities | 39,222 | 43,625 |

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| | | |
|--|-------------------|-------------------|
| Long-term debt | 28,478 | 24,088 |
| Retirement and nonpension postretirement benefit obligations | 17,994 | 20,418 |
| Deferred income | 4,087 | 4,491 |
| Other liabilities | 8,057 | 7,607 |
| Total Liabilities | 97,837 | 100,229 |
| EQUITY: | | |
| IBM Stockholders Equity: | | |
| Common stock | 51,203 | 50,110 |
| Retained earnings | 124,885 | 117,641 |
| Treasury stock at cost | (131,240) | (123,131) |
| Accumulated other comprehensive income/(loss) | (24,971) | (25,759) |
| Total IBM stockholders equity | 19,877 | 18,860 |
| Noncontrolling interests | 131 | 124 |
| Total Equity | 20,008 | 18,984 |
| Total Liabilities and Equity | \$ 117,845 | \$ 119,213 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net Cash from Operating Activities per GAAP: | \$ 3,760 | \$ 4,514 | \$ 10,957 | \$ 13,240 |
| Less: the change in Global Financing (GF) Receivables | 481 | 327 | 1,628 | 1,245 |
| Net Cash from Operating Activities (Excluding GF Receivables) | 3,279 | 4,187 | 9,329 | 11,995 |
| Capital Expenditures, Net | (1,041) | (1,046) | (2,709) | (3,326) |
| Free Cash Flow (Excluding GF Receivables) | 2,238 | 3,141 | 6,620 | 8,670 |
| Acquisitions | (2,382) | (342) | (2,562) | (2,266) |
| Divestitures | 235 | 573 | 247 | 587 |
| Dividends | (1,037) | (968) | (3,033) | (2,816) |
| Share Repurchase | (1,917) | (2,986) | (8,062) | (8,988) |
| Non-GF Debt | 1,351 | 694 | 1,556 | 2,284 |
| Other (includes GF Receivables, and GF Debt) | 1,388 | 954 | 4,337 | 2,861 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ (125) | \$ 1,067 | \$ (897) | \$ 331 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

| (Dollars in Millions) | THIRD-QUARTER 2013 | | | | | |
|----------------------------------|--------------------|---------------------|------------------|------------------------------|-------------------|--|
| | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin | |
| SEGMENTS | | | | | | |
| Global Technology Services | \$ 9,494 | \$ 262 | \$ 9,755 | \$ 1,895 | 19.4% | |
| Y-T-Y change | -4.3% | -8.0% | -4.4% | 11.7% | | |
| Global Business Services | 4,558 | 177 | 4,735 | 948 | 20.0% | |
| Y-T-Y change | 0.4% | 0.9% | 0.4% | 28.4% | | |
| Software | 5,798 | 744 | 6,542 | 2,410 | 36.8% | |
| Y-T-Y change | 0.6% | -11.8% | -1.0% | 2.3% | | |
| Systems and Technology | 3,247 | 168 | 3,415 | (167) | -4.9% | |
| Y-T-Y change | -16.6% | -7.3% | -16.2% | NM | | |
| Global Financing | 502 | 512 | 1,015 | 494 | 48.7% | |
| Y-T-Y change | 6.5% | 4.2% | 5.3% | 3.8% | | |
| TOTAL REPORTABLE SEGMENTS | \$ 23,599 | \$ 1,863 | \$ 25,461 | \$ 5,579 | 21.9% | |
| Y-T-Y change | -4.0% | -5.7% | -4.2% | 3.5% | | |
| Eliminations / Other | 122 | (1,863) | (1,741) | (766) | | |
| TOTAL IBM CONSOLIDATED | \$ 23,720 | \$ 0 | \$ 23,720 | \$ 4,812 | 20.3% | |
| Y-T-Y change | -4.1% | | -4.1% | -5.2% | | |

NM - Not Meaningful

| (Dollars in Millions) | THIRD-QUARTER 2012 | | | | | |
|----------------------------|--------------------|---------------------|-----------|------------------------------|-------------------|--|
| | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin | |
| SEGMENTS | | | | | | |
| Global Technology Services | \$ 9,922 | \$ 285 | \$ 10,206 | \$ 1,697 | 16.6% | |
| Global Business Services | 4,542 | 175 | 4,717 | 738 | 15.6% | |
| Software | 5,763 | 843 | 6,606 | 2,355 | 35.6% | |
| Systems and Technology | 3,895 | 181 | 4,076 | 124 | 3.0% | |

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|----------------------------------|------------------|-----------------|------------------|-----------------|--------------|
| Global Financing | 472 | 491 | 963 | 476 | 49.4% |
| TOTAL REPORTABLE SEGMENTS | \$ 24,594 | \$ 1,976 | \$ 26,570 | \$ 5,389 | 20.3% |
| Eliminations / Other | 154 | (1,976) | (1,822) | (315) | |
| TOTAL IBM CONSOLIDATED | \$ 24,747 | \$ 0 | \$ 24,747 | \$ 5,074 | 20.5% |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

| (Dollars in Millions) | NINE-MONTHS 2013 | | | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| | External | Revenue Internal | Total | | |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 28,634 | \$ 801 | \$ 29,435 | \$ 4,994 | 17.0% |
| Y-T-Y change | -4.4% | -7.7% | -4.5% | 1.2% | |
| Global Business Services | 13,649 | 545 | 14,194 | 2,274 | 16.0% |
| Y-T-Y change | -1.4% | 1.3% | -1.3% | 6.1% | |
| Software | 17,792 | 2,312 | 20,105 | 6,867 | 34.2% |
| Y-T-Y change | 1.5% | -6.0% | 0.6% | 1.1% | |
| Systems and Technology | 10,111 | 423 | 10,533 | (713) | -6.8% |
| Y-T-Y change | -15.1% | -13.9% | -15.0% | NM | |
| Global Financing | 1,488 | 1,628 | 3,116 | 1,582 | 50.8% |
| Y-T-Y change | 0.7% | 9.1% | 4.9% | 4.4% | |
| TOTAL REPORTABLE SEGMENTS | \$ 71,674 | \$ 5,710 | \$ 77,383 | \$ 15,003 | 19.4% |
| Y-T-Y change | -4.1% | -2.4% | -3.9% | -4.1% | |
| Eliminations / Other | 378 | (5,710) | (5,331) | (2,441) | |
| TOTAL IBM CONSOLIDATED | \$ 72,052 | \$ 0 | \$ 72,052 | \$ 12,562 | 17.4% |
| Y-T-Y change | -4.2% | | -4.2% | -10.7% | |

NM - Not Meaningful

| (Dollars in Millions) | NINE-MONTHS 2012 | | | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------|------------------|---------------------|-----------|------------------------------|-------------------|
| | External | Revenue Internal | Total | | |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 29,952 | \$ 869 | \$ 30,821 | \$ 4,934 | 16.0% |
| Global Business Services | 13,846 | 538 | 14,384 | 2,142 | 14.9% |
| Software | 17,533 | 2,459 | 19,992 | 6,793 | 34.0% |
| Systems and Technology | 11,903 | 491 | 12,394 | 253 | 2.0% |

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| | | | | | |
|----------------------------------|------------------|-----------------|------------------|------------------|--------------|
| Global Financing | 1,478 | 1,492 | 2,970 | 1,516 | 51.0% |
| TOTAL REPORTABLE SEGMENTS | \$ 74,713 | \$ 5,848 | \$ 80,561 | \$ 15,637 | 19.4% |
| Eliminations / Other | 490 | (5,848) | (5,358) | (1,566) | |
| TOTAL IBM CONSOLIDATED | \$ 75,203 | \$ 0 | \$ 75,203 | \$ 14,071 | 18.7% |

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

| | THIRD-QUARTER 2013 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 11,380 | \$ 102 | \$ 154 | \$ 11,636 |
| Gross Profit Margin | 48.0% | 0.4Pts | 0.6Pts | 49.1% |
| S,G&A | 5,255 | (111) | (89) | 5,055 |
| R,D&E | 1,468 | 0 | (14) | 1,454 |
| Other (Income) & Expense | (62) | (1) | 0 | (63) |
| Total Expense & Other (Income) | 6,567 | (112) | (103) | 6,352 |
| Pre-Tax Income | 4,812 | 214 | 257 | 5,284 |
| Pre-Tax Income Margin | 20.3% | 0.9Pts | 1.1Pts | 22.3% |
| Provision for Income Taxes*** | 772 | 48 | 77 | 897 |
| Effective Tax Rate | 16.0% | 0.3Pts | 0.7Pts | 17.0% |
| Net Income | 4,041 | 166 | 181 | 4,387 |
| Net Income Margin | 17.0% | 0.7Pts | 0.8Pts | 18.5% |
| Diluted Earnings Per Share | \$ 3.68 | \$ 0.15 | \$ 0.16 | \$ 3.99 |

| | THIRD-QUARTER 2012 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 11,732 | \$ 95 | \$ 67 | \$ 11,894 |
| Gross Profit Margin | 47.4% | 0.4Pts | 0.3Pts | 48.1% |
| S,G&A | 5,908 | (88) | (196) | 5,625 |
| R,D&E | 1,534 | 0 | 5 | 1,539 |
| Other (Income) & Expense | (606) | (5) | 0 | (611) |
| Total Expense & Other (Income) | 6,657 | (92) | (191) | 6,374 |
| Pre-Tax Income | 5,074 | 188 | 258 | 5,520 |
| Pre-Tax Income Margin | 20.5% | 0.8Pts | 1.0Pts | 22.3% |

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| | | | | |
|--------------------------------------|---------|---------|---------|---------|
| Provision for Income Taxes*** | 1,251 | 47 | 67 | 1,364 |
| Effective Tax Rate | 24.6% | 0.0Pts | 0.1Pts | 24.7% |
| Net Income | 3,824 | 141 | 191 | 4,155 |
| Net Income Margin | 15.5% | 0.6Pts | 0.8Pts | 16.8% |
| Diluted Earnings Per Share | \$ 3.33 | \$ 0.12 | \$ 0.17 | \$ 3.62 |

* 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 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 2013 | | | |
|---|------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 34,189 | \$ 289 | \$ 474 | \$ 34,953 |
| Gross Profit Margin | 47.5% | 0.4Pts | 0.7Pts | 48.5% |
| S,G&A | 17,512 | (294) | (286) | 16,933 |
| R,D&E | 4,661 | 0 | (43) | 4,618 |
| Other (Income) & Expense | (214) | (8) | 0 | (222) |
| Total Expense & Other (Income) | 21,627 | (302) | (329) | 20,997 |
| Pre-Tax Income | 12,562 | 590 | 803 | 13,956 |
| Pre-Tax Income Margin | 17.4% | 0.8Pts | 1.1Pts | 19.4% |
| Provision for Income Taxes*** | 2,263 | 112 | 239 | 2,614 |
| Effective Tax Rate | 18.0% | 0.0Pts | 0.7Pts | 18.7% |
| Net Income | 10,299 | 479 | 564 | 11,342 |
| Net Income Margin | 14.3% | 0.7Pts | 0.8Pts | 15.7% |
| Diluted Earnings Per Share | \$ 9.27 | \$ 0.43 | \$ 0.51 | \$ 10.21 |

| | NINE-MONTHS 2012 | | | |
|---|------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 35,131 | \$ 276 | \$ 204 | \$ 35,611 |
| Gross Profit Margin | 46.7% | 0.4Pts | 0.3Pts | 47.4% |
| S,G&A | 17,632 | (258) | (265) | 17,108 |
| R,D&E | 4,722 | 0 | 14 | 4,736 |
| Other (Income) & Expense | (796) | (7) | 0 | (803) |
| Total Expense & Other (Income) | 21,060 | (265) | (251) | 20,545 |
| Pre-Tax Income | 14,071 | 541 | 454 | 15,067 |
| Pre-Tax Income Margin | 18.7% | 0.7Pts | 0.6Pts | 20.0% |

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| | | | | |
|--------------------------------------|---------|---------|---------|---------|
| Provision for Income Taxes*** | 3,300 | 143 | 127 | 3,569 |
| Effective Tax Rate | 23.5% | 0.1Pts | 0.1Pts | 23.7% |
| Net Income | 10,771 | 399 | 328 | 11,498 |
| Net Income Margin | 14.3% | 0.5Pts | 0.4Pts | 15.3% |
| Diluted Earnings Per Share | \$ 9.27 | \$ 0.34 | \$ 0.28 | \$ 9.90 |

* 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 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.

Contact: IBM
Mike Fay, 914-525-8476
mikefay@us.ibm.com

John Bukovinsky, 732-618-3531
jbuko@us.ibm.com

