INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 19, 2016

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: **January 19, 2016**

(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 January 19, 2016, regarding its financial results for the periods ended December 31, 2015, including consolidated financial statements for the periods ended December 31, 2015, is Attachment I of this Form 8-K. Attachment II are the slides for IBM s Chief Financial Officer Martin Schroeter s fourth quarter earnings presentation on January 19, 2016, 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: January 19, 2016

By: /s/ Stanley J. Sutula III

Stanley J. Sutula III
Vice President and Controller

ATTACHMENT I

IBM REPORTS 2015 FOURTH-QUARTER AND FULL-YEAR RESULTS

Fourth-Quarter 2015:

- **Diluted EPS from continuing operations:**
- **Operating (non-GAAP): $4.84, down 17 percent; impact of 20 points from prior year System x divestiture gain;**
- **GAAP: $4.59, down 17 percent;**
- **Net income from continuing operations:**
- **Operating (non-GAAP): $4.7 billion, down 19 percent; impact of 19 points from prior year System x divestiture gain;**
- **GAAP: $4.5 billion, down 19 percent;**
- **Revenue from continuing operations: $22.1 billion:**
- **Down 2 percent adjusting for currency; down 9 percent as reported;**
- **Services backlog of $121 billion, up 1 percent adjusting for currency.**

Full-Year 2015:

- **Diluted EPS from continuing operations:**
- **Operating (non-GAAP): $14.92, down 10 percent; impact of 7 points from prior year System x and customer care divestiture gains;**
- **GAAP: $13.60, down 13 percent;**
- **Net income from continuing operations:**
- **Operating (non-GAAP): $14.7 billion, down 12 percent; impact of 7 points from prior year System x and customer care divestiture gains;**
- **GAAP: $13.4 billion, down 15 percent;**
- **Gross profit margin from continuing operations:**

- **Operating (non-GAAP): 50.8 percent, up 20 basis points;**
- **GAAP: 49.8 percent, down 20 basis points;**
- **Revenue from continuing operations: $81.7 billion:**
- **Down 1 percent adjusting for currency (8 points or more than $7 billion) and divestitures (3 points or nearly $3 billion); down 12 percent as reported;**
- **Strategic imperatives revenue of $28.9 billion now represents 35 percent of total IBM revenue, up 26 percent adjusting for currency and the System x divestiture; up 17 percent as reported:**
- **Total Cloud revenue of $10.2 billion up 57 percent adjusting for currency and the System x divestiture, up 43 percent as reported;**
- **Cloud delivered as a service revenues of $4.5 billion, up 61 percent adjusting for currency, up 50 percent as reported;**
- **Annual run rate of $5.3 billion vs. $3.5 billion in the fourth quarter 2014 for cloud delivered as a service;**
- **Business analytics revenue up 16 percent adjusting for currency, up 7 percent as reported to $17.9 billion;**
- **Mobile revenue more than tripled;**
- **Security revenue up 12 percent adjusting for currency, up 5 percent as reported;**
- **Free cash flow of $13.1 billion, up $0.7 billion;**
- **Free cash flow realization equaled 98 percent of GAAP net income from continuing operations;**
- **Total capital return to shareholders of $9.5 billion; dividends of $4.9 billion and gross share repurchases of $4.6 billion;**
- **The company will discuss 2016 during today s quarterly earnings conference call.**

ARMONK, N.Y., January 19, 2016 . . . IBM (NYSE: IBM) today announced fourth-quarter 2015 diluted earnings from continuing operations of $4.59 per share, down 17 percent year-to-year. Operating (non-GAAP) diluted earnings from continuing operations were $4.84 per share, compared with operating diluted earnings of $5.81 per share in the fourth quarter of 2014, down 17 percent. The prior-year gain from the divestiture of the System x business impacted operating diluted earnings per share from continuing operations by 20 points.

We continue to make significant progress in our transformation to higher value. In 2015, our strategic imperatives of cloud, analytics, mobile, social and security

grew 26 percent to $29 billion and now represent 35 percent of our total revenue, said Ginni Rometty, IBM chairman, president and chief executive officer. We strengthened our existing portfolio while investing aggressively in new opportunities like Watson Health, Watson Internet of Things and hybrid cloud. As we transform to a cognitive solutions and cloud platform company, we are well positioned to continue delivering greater value to our clients and returning capital to our shareholders.

Fourth-quarter net income from continuing operations was $4.5 billion compared with $5.5 billion in the fourth quarter of 2014, down 19 percent. Operating (non-GAAP) net income was $4.7 billion compared with $5.8 billion in the fourth quarter of 2014, down 19 percent. The prior-year gain from the divestiture of the System x business impacted operating net income by 19 points.

Total revenues from continuing operations for the fourth quarter of 2015 of $22.1 billion were down 9 percent (down 2 percent adjusting for currency) from the fourth quarter of 2014.

GAAP Operating (non-GAAP) Reconciliation

Fourth-quarter operating (non-GAAP) diluted earnings exclude $0.25 per share of charges: $0.11 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 operating (non-GAAP) diluted earnings exclude $1.32 per share of charges: $0.57 per share for the amortization of purchased intangible assets and other acquisition-related charges, and $0.75 per share for non-operating retirement-related charges driven by changes to plan assets and liabilities primarily related to past market performance.

Strategic Imperatives

Fourth-quarter revenues from the company s strategic imperatives cloud, analytics and engagement increased 10 percent year to year (up 16 percent adjusting for currency). For the full year, revenues from strategic imperatives increased 17 percent (up 26 percent adjusting for currency and the divested System x business) to $28.9 billion and now represent 35 percent of total IBM consolidated revenue.

For the full year, total cloud revenues (public, private and hybrid) increased 43 percent (up 57 percent adjusting for currency and the divested System x business) to $10.2 billion. Revenues for cloud delivered as a service a subset of the total cloud revenue increased 50 percent to $4.5 billion; and the annual as-a-service run rate increased to $5.3 billion from $3.5 billion in the fourth quarter of 2014. Revenues from business analytics increased 7 percent (up 16 percent adjusting for currency) to $17.9 billion. Revenues from mobile more than tripled and from security increased 5 percent (up 12 percent adjusting for currency).

Geographic Regions

The Americas fourth-quarter revenues were $10.3 billion, a decrease of 8 percent (down 4 percent adjusting for currency) from the 2014 period. Revenues from Europe/Middle East/Africa were $7.3 billion, down 9 percent (up 1 percent adjusting for currency). Asia-Pacific revenues decreased 10 percent (down 3 percent adjusting for currency) to $4.4 billion. Revenues from the BRIC countries were down 21 percent as reported (down 11 percent adjusting for currency).

Services

Global Technology Services segment revenues were down 7 percent (up 1 percent adjusting for currency) to $8.1 billion. Global Business Services segment revenues were down 10 percent (down 4 percent adjusting for currency) to $4.3 billion.

The estimated services backlog as of December 31 was $121 billion, up 1 percent year to year adjusting for currency.

Software

Revenues from the Software segment were down 11 percent to $6.8 billion (down 6 percent adjusting for currency) compared with the fourth quarter of 2014.

Revenues from IBM s key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were $4.9 billion, down 10 percent (down 6 percent adjusting for currency) year to year. Operating systems revenues of $0.5 billion were down 12 percent (down 7 percent adjusting for currency) year to year.

Hardware

Revenues from the Systems Hardware segment totaled $2.4 billion for the quarter, down 1 percent (up 3 percent adjusting for currency) year to year.

Revenues from z Systems mainframe server products increased 16 percent compared with the year-ago period (up 21 percent adjusting for currency). Total delivery of z Systems computing power, as measured in MIPS (millions of instructions per second), increased 28 percent. Revenues from Power Systems were up 4 percent compared with the 2014 period (up 8 percent adjusting for currency). Revenues from System Storage decreased 11 percent (down 7 percent adjusting for currency).

Financing

Global Financing segment revenues decreased 15 percent (down 6 percent adjusting for currency) in the fourth quarter at $0.5 billion.

Gross Profit

The company s total gross profit margin from continuing operations was 51.7 percent in the 2015 fourth quarter compared with 53.3 percent in the 2014 fourth quarter. Total operating (non-GAAP) gross profit margin from continuing operations was 52.7 percent in the 2015 fourth quarter compared with 53.9 percent in the 2014 fourth quarter.

Expense

Total expense and other income from continuing operations increased to $6.3 billion, up 9 percent compared to the prior-year period. S,G&A expense of $5.2 billion decreased 15 percent year over year. R,D&E expense of $1.4 billion increased 3 percent year to year; the related expense-to-revenue ratio increased to 6.2 percent compared with 5.5 percent in the year-ago period. Other (income) and expense was income of $146 million compared with prior-year income of $1.5 billion. Intellectual property and custom development income was $193 million and interest expense was $128 million.

Total operating (non-GAAP) expense and other income from continuing operations increased to $6.1 billion, up 9 percent compared with the prior-year period, driven by the prior-year $1.4 billion gain from the divested System x business and the prior-year expense of $0.6 billion for

workforce rebalancing. Operating (non-GAAP) S,G&A expense of $5.0 billion decreased 15 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of $1.4 billion increased 1 percent year to year; the related expense-to-revenue ratio increased to 6.1 percent compared with 5.6 percent in the year-ago period.

Pre-Tax Income

Pre-tax income from continuing operations decreased 28 percent to $5.1 billion. Pre-tax margin from continuing operations decreased 6.3 points to 23.1 percent. Operating (non-GAAP) pre-tax income from continuing operations decreased 25 percent to $5.5 billion and pre-tax margin was 25.0 percent, a decrease of 5.7 points year to year.

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IBM s tax rate from continuing operations was 12.5 percent, down 9.7 points year over year; the operating (non-GAAP) tax rate was 14.7 percent, down 7.1 points compared to the year-ago period driven by current period discrete items.

Net income margin from continuing operations decreased 2.7 points to 20.2 percent. Total operating (non-GAAP) net income margin from continuing operations decreased 2.7 points to 21.3 percent.

The weighted-average number of diluted common shares outstanding in the fourth-quarter 2015 was 973 million compared with 995 million shares in the same period of

2014. As of December 31, 2015, there were 966 million basic common shares outstanding.

Debt, including Global Financing, totaled $39.9 billion, compared with $40.7 billion at year-end 2014. From a management segment view, Global Financing debt totaled $27.2 billion versus $29.1 billion at year-end 2014, resulting in a debt-to-equity ratio of 7.3 to 1. Core (non-global financing) debt totaled $12.7 billion, an increase of $1.1 billion since year-end 2014. IBM ended the fourth-quarter 2015 with $8.2 billion of cash on hand.

The company generated full-year free cash flow of $13.1 billion, excluding Global Financing receivables, up $0.7 billion compared to 2014. The company returned $9.5 billion to shareholders through $4.9 billion in dividends and $4.6 billion of gross share repurchases. The balance sheet remains strong and is well positioned to support the business over the long term.

At the end of December 2015, IBM had approximately $5.6 billion remaining from the current share repurchase authorization.

Full-Year 2015 Results

Diluted earnings per share from continuing operations were $13.60, down 13 percent compared to the 2014 period. Net income from continuing operations for the twelve months ended December 31, 2015 was $13.4 billion compared with $15.8 billion in the year-ago period, a decrease of 15 percent.

Consolidated net income was $13.2 billion compared to $12.0 billion in the year-ago period, including operating net losses in discontinued operations related to the divested Microelectronics business. Consolidated diluted earnings per share were $13.42 compared to $11.90, up 13 percent year to year. Revenues from continuing operations for the twelve-month period totaled $81.7 billion, a decrease of 12 percent (down 1 percent year to year, adjusting for currency and divested businesses) compared with $92.8 billion for the first twelve months of 2014.

Operating (non-GAAP) diluted earnings per share from continuing operations were $14.92 compared with $16.53 per diluted share for the 2014 period, a decrease of 10 percent. The prior-year gain from the divestitures of the System x and the customer care outsourcing businesses impacted earnings per share from continuing operations by 7 points. Operating (non-GAAP) net income from continuing operations for the twelve months ended December 31, 2015 was $14.7 billion compared with $16.7 billion in the year-ago period, a decrease of 12 percent. The prior-year gain from the divestitures of the System x and the customer care outsourcing businesses impacted net income from continuing operations by 7 points.

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

- 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 fourth-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. EST, today. The Webcast may be accessed via a link at http://www.ibm.com/investor/events/earnings/4q15.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 December 31,			Twelve Months Ended December 31,		
	2015	2014	Percent Change	2015	2014	Percent Change
REVENUE						
Global Technology Services *	$ 8,126	$ 8,746	-7.1%	$ 32,017	$ 35,442	-9.7%
Gross profit margin	37.7%	39.1%		37.4%	39.0%	
Global Business Services *	4,297	4,771	-9.9%	17,166	19,512	-12.0%
Gross profit margin	28.2%	31.5%		28.2%	30.4%	
Software	6,767	7,578	-10.7%	22,932	25,434	-9.8%
Gross profit margin	88.0%	90.0%		87.3%	88.6%	
Systems Hardware	2,372	2,406	-1.4%	7,581	9,996	-24.2%
Gross profit margin	48.0%	49.6%		46.6%	39.5%	
Global Financing	454	532	-14.6%	1,840	2,034	-9.5%
Gross profit margin	39.9%	48.7%		45.6%	49.4%	
Other	43	82	-47.1%	206	374	-45.0%
Gross profit margin	-312.7%	-401.7%		-253.0%	-215.0%	
TOTAL REVENUE	22,059	24,113	-8.5%	81,741	92,793	-11.9%
GROSS PROFIT	11,407	12,862	-11.3%	40,684	46,407	-12.3%
Gross profit margin	51.7%	53.3%		49.8%	50.0%	
EXPENSE AND OTHER INCOME						
S,G&A	5,157	6,034	-14.5%	20,430	23,180	-11.9%
Expense to revenue	23.4%	25.0%		25.0%	25.0%	
R,D&E	1,362	1,320	3.1%	5,247	5,437	-3.5%
Expense to revenue	6.2%	5.5%		6.4%	5.9%	
Intellectual property and custom development income	(193)	(199)	-2.9%	(682)	(742)	-8.1%
Other (income) and expense	(146)	(1,506)	-90.3%	(724)	(1,938)	-62.6%
Interest expense	128	117	9.7%	468	484	-3.2%
TOTAL EXPENSE AND OTHER INCOME	6,308	5,767	9.4%	24,740	26,421	-6.4%
Expense to revenue	28.6%	23.9%		30.3%	28.5%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	5,098	7,094	-28.1%	15,945	19,986	-20.2%
Pre-tax margin	23.1%	29.4%		19.5%	21.5%	
Provision for income taxes	638	1,580	-59.6%	2,581	4,234	-39.1%
Effective tax rate	12.5%	22.3%		16.2%	21.2%	
INCOME FROM CONTINUING OPERATIONS	$ 4,460	$ 5,515	-19.1%	$ 13,364	$ 15,751	-15.2%
Net margin	20.2%	22.9%		16.3%	17.0%	
DISCONTINUED OPERATIONS						
Income / (loss) from discontinued operations, net of taxes	3	(31)		(174)	(3,729)	
NET INCOME	$ 4,463	$ 5,484	-18.6%	$ 13,190	$ 12,022	9.7%
EARNINGS PER SHARE OF COMMON STOCK:						
Assuming Dilution						
Continuing Operations	$ 4.59	$ 5.54	-17.1%	$ 13.60	$ 15.59	-12.8%
Discontinued Operations	$ 0.00	$ (0.03)		$ (0.18)	$ (3.69)	
TOTAL	$ 4.59	$ 5.51	-16.7%	$ 13.42	$ 11.90	12.8%
Basic						

Continuing Operations	$ 4.60	$ 5.57	-17.4%	$ 13.66	$ 15.68	-12.9%
Discontinued Operations	$ 0.00	$ (0.03)		$ (0.18)	$ (3.71)	
TOTAL	$ 4.60	$ 5.54	-17.0%	$ 13.48	$ 11.97	12.6%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s):						
Assuming Dilution	972.8	995.4		982.7	1,010.0	
Basic	969.4	990.4		978.7	1,004.3	

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

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At December 31, 2015	At December 31, 2014 * **
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 7,686	$ 8,476
Marketable securities	508	0
Notes and accounts receivable - trade (net of allowances of $367 in 2015 and $336 in 2014)	8,333	9,090
Short-term financing receivables (net of allowances of $490 in 2015 and $452 in 2014)	19,020	19,835
Other accounts receivable (net of allowances of $51 in 2015 and $40 in 2014)	1,201	2,906
Inventories, at lower of average cost or market:		
Finished goods	352	430
Work in process and raw materials	1,199	1,674
Total inventories	1,551	2,103
Prepaid expenses and other current assets	4,205	4,967
Total Current Assets *	**42,504**	**47,377**
Property, plant and equipment	29,342	39,034
Less: Accumulated depreciation	18,615	28,263
Property, plant and equipment - net	10,727	10,771
Long-term financing receivables (net of allowances of $118 in 2015 and $126 in 2014)	10,013	11,109
Prepaid pension assets	1,734	2,160
Deferred taxes *	4,822	6,675
Goodwill	32,021	30,556
Intangible assets - net	3,487	3,104
Investments and sundry assets **	5,187	5,520
Total Assets * **	**$ 110,495**	**$ 117,271**
LIABILITIES:		
Current Liabilities:		
Taxes	$ 2,847	$ 5,084
Short-term debt **	6,461	5,731
Accounts payable	6,028	6,864
Compensation and benefits	3,560	4,031
Deferred income	11,021	11,877
Other accrued expenses and liabilities *	4,353	5,994
Total Current Liabilities * **	**34,269**	**39,581**
Long-term debt **	33,428	34,991
Retirement and nonpension postretirement benefit obligations	16,504	18,261
Deferred income	3,771	3,691
Other liabilities *	8,099	8,733
Total Liabilities * **	**96,071**	**105,257**
EQUITY:		
IBM Stockholders Equity:		
Common stock	53,262	52,666
Retained earnings	146,124	137,793
Treasury stock at cost	(155,518)	(150,715)
Accumulated other comprehensive income/(loss)	(29,607)	(27,875)

Total IBM stockholders equity		**14,262**		**11,868**
Noncontrolling interests		162		146
Total Equity		**14,424**		**12,014**
Total Liabilities and Equity * **	**$**	**110,495**	**$**	**117,271**

*** Reclassified to reflect adoption of the FASB guidance on deferred taxes in consolidated financial statements.**

**** Reclassified to reflect adoption of the FASB guidance on debt issuance costs in consolidated financial statements.**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended December 31, 2015	2014	Twelve Months Ended December 31, 2015	2014
Net Cash from Operating Activities per GAAP:	**$ 5,278**	**$ 6,059**	**$ 17,008**	**$ 16,868**
Less: the change in Global Financing (GF) Receivables	(1,810)	(1,505)	152	718
Net Cash from Operating Activities (Excluding GF Receivables)	**7,088**	**7,564**	**16,855**	**16,151**
Capital Expenditures, Net	(1,016)	(976)	(3,780)	(3,779)
Free Cash Flow (Excluding GF Receivables)	**6,072**	**6,588**	**13,075**	**12,372**
Acquisitions	(2,529)	(6)	(3,349)	(656)
Divestitures	87	1,869	(401)	2,357
Dividends	(1,261)	(1,089)	(4,897)	(4,265)
Share Repurchase	(764)	(132)	(4,609)	(13,679)
Non-GF Debt	(898)	(5,883)	(128)	(1,348)
Other (includes GF Receivables, and GF Debt)	(2,080)	(2,435)	28	2,629
Change in Cash, Cash Equivalents and Short-term Marketable Securities	**$ (1,373)**	**$ (1,088)**	**$ (282)**	**$ (2,589)**

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	FOURTH-QUARTER 2015				
	Revenue			Pre-tax Income/ (Loss)	
(Dollars in Millions)	**External**	**Internal**	**Total**	**Continuing Operations**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services	$ 8,126	$ 234	$ 8,359	$ 1,486	17.8%
Y-T-Y change	-7.1%	20.0%	-6.5%	4.5%	
Global Business Services	4,297	118	4,415	708	16.0%
Y-T-Y change	-9.9%	-6.4%	-9.8%	-8.6%	
Software	6,767	748	7,515	2,959	39.4%
Y-T-Y change	-10.7%	-11.5%	-10.8%	-21.4%	
Systems Hardware	2,372	131	2,503	349	13.9%
Y-T-Y change	-1.4%	23.1%	-0.4%	-10.1%	
Global Financing	454	763	1,216	674	55.4%
Y-T-Y change	-14.6%	29.7%	8.7%	28.3%	
TOTAL REPORTABLE SEGMENTS	**$ 22,015**	**$ 1,994**	**$ 24,009**	**$ 6,177**	**25.7%**
Y-T-Y change	**-8.4%**	**7.2%**	**-7.3%**	**-10.2%**	
Eliminations / Other	43	(1,994)	(1,950)	(1,078)	
TOTAL IBM CONSOLIDATED	**$ 22,059**	**$ 0**	**$ 22,059**	**$ 5,098**	**23.1%**
Y-T-Y change	**-8.5%**		**-8.5%**	**-28.1%**	

	FOURTH-QUARTER 2014				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services *	$ 8,746	$ 195	$ 8,941	$ 1,422	15.9%
Global Business Services *	4,771	127	4,897	775	15.8%
Software	7,578	845	8,422	3,765	44.7%
Systems Hardware	2,406	107	2,512	388	15.5%
Global Financing	532	588	1,119	526	47.0%
TOTAL REPORTABLE SEGMENTS	**$ 24,031**	**$ 1,860**	**$ 25,891**	**$ 6,876**	**26.6%**
Eliminations / Other	82	(1,860)	(1,778)	219	
TOTAL IBM CONSOLIDATED	**$ 24,113**	**$ 0**	**$ 24,113**	**$ 7,094**	**29.4%**

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

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	TWELVE-MONTHS 2015				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 32,017	$ 823	$ 32,840	$ 5,002	15.2%
Y-T-Y change	-9.7%	-11.9%	-9.7%	-15.7%	
Global Business Services	17,166	499	17,664	2,634	14.9%
Y-T-Y change	-12.0%	-8.1%	-11.9%	-22.7%	
Software	22,932	3,267	26,199	9,066	34.6%
Y-T-Y change	-9.8%	-6.6%	-9.4%	-15.3%	
Systems Hardware	7,581	451	8,032	604	7.5%
Y-T-Y change	-24.2%	-30.3%	-24.5%	NM	

Global Financing	1,840	2,637	4,477	2,364	52.8%
Y-T-Y change	-9.5%	6.0%	-1.0%	8.0%	
TOTAL REPORTABLE SEGMENTS	**$ 81,535**	**$ 7,676**	**$ 89,211**	**$ 19,670**	**22.0%**
Y-T-Y change	**-11.8%**	**-5.3%**	**-11.3%**	**-11.6%**	
Eliminations / Other	206	(7,676)	(7,470)	(3,726)	
TOTAL IBM CONSOLIDATED	**$ 81,741**	**$ 0**	**$ 81,741**	**$ 15,945**	**19.5%**
Y-T-Y change	**-11.9%**		**-11.9%**	**-20.2%**	

(Dollars in Millions)	TWELVE-MONTHS 2014 External	Revenue Internal	Total	Pre-tax Income (Loss)/ Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services *	$ 35,442	$ 934	$ 36,376	$ 5,931	16.3%
Global Business Services *	19,512	543	20,055	3,408	17.0%
Software	25,434	3,496	28,931	10,699	37.0%
Systems Hardware	9,996	647	10,643	34	0.3%
Global Financing	2,034	2,488	4,522	2,189	48.4%
TOTAL REPORTABLE SEGMENTS	**$ 92,418**	**$ 8,108**	**$ 100,527**	**$ 22,262**	**22.1%**
Eliminations / Other	374	(8,108)	(7,734)	(2,276)	
TOTAL IBM CONSOLIDATED	**$ 92,793**	**$ 0**	**$ 92,793**	**$ 19,986**	**21.5%**

***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)

	FOURTH-QUARTER 2015 CONTINUING OPERATIONS GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 11,407	$ 105	$ 119	$ 11,630
Gross Profit Margin	51.7%	0.5Pts	0.5Pts	52.7%
S,G&A	5,157	(95)	(88)	4,975
R,D&E	1,362		(12)	1,350
Other (Income) & Expense	(146)	0		(146)
Total Expense & Other (Income)	6,308	(95)	(100)	6,114

Pre-tax Income from Continuing Operations	5,098	199	218	5,516
Pre-tax Income Margin from Continuing Operations	23.1%	0.9Pts	1.0Pts	25.0%
Provision for Income Taxes* **	638	89	82	809
Effective Tax Rate	12.5%	1.2Pts	1.0Pts	14.7%
Income from Continuing Operations	4,460	110	137	4,707
Income Margin from Continuing Operations	20.2%	0.5Pts	0.6Pts	21.3%
Diluted Earnings Per Share:				
Continuing Operations	$ 4.59	$ 0.11	$ 0.14	$ 4.84

	FOURTH-QUARTER 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 12,862	$ 101	$ 33	$ 12,996
Gross Profit Margin	53.3%	0.4Pts	0.1Pts	53.9%
S,G&A	6,034	(94)	(95)	5,845
R,D&E	1,320		21	1,341
Other (Income) & Expense	(1,506)	(1)		(1,506)
Total Expense & Other (Income)	5,767	(95)	(74)	5,598
Pre-tax Income from Continuing Operations	7,094	196	107	7,398
Pre-tax Income Margin from Continuing Operations	29.4%	0.8Pts	0.4Pts	30.7%
Provision for Income Taxes* **	1,580	10	24	1,613
Effective Tax Rate	22.3%	-0.5Pts	0.0Pts	21.8%
Income from Continuing Operations	5,515	186	84	5,785
Income Margin from Continuing Operations	22.9%	0.8Pts	0.3Pts	24.0%
Diluted Earnings Per Share: Continuing Operations	$ 5.54	$ 0.19	$ 0.08	$ 5.81

*** 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)

	TWELVE-MONTHS 2015 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 40,684	$ 373	$ 469	$ 41,526
Gross Profit Margin	49.8%	0.5Pts	0.6Pts	50.8%
S,G&A	20,430	(324)	(533)	19,573
R,D&E	5,247		(48)	5,200
Other (Income) & Expense	(724)	(5)		(729)
Total Expense & Other (Income)	24,740	(330)	(581)	23,830
Pre-tax Income from Continuing Operations	15,945	703	1,050	17,697
Pre-tax Income Margin from Continuing Operations	19.5%	0.9Pts	1.3Pts	21.6%
Provision for Income Taxes* **	2,581	141	316	3,037
Effective Tax Rate	16.2%	0.2Pts	0.9Pts	17.2%
Income from Continuing Operations	13,364	562	734	14,659
Income Margin from Continuing Operations	16.3%	0.7Pts	0.9Pts	17.9%
Diluted Earnings Per Share:				
Continuing Operations	$ 13.60	$ 0.57	$ 0.75	$ 14.92

	TWELVE-MONTHS 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 46,407	$ 416	$ 173	$ 46,996
Gross Profit Margin	50.0%	0.4Pts	0.2Pts	50.6%
S,G&A	23,180	(385)	(257)	22,537
R,D&E	5,437		77	5,514
Other (Income) & Expense	(1,938)	(1)		(1,939)
Total Expense & Other (Income)	26,421	(386)	(180)	25,855
Pre-tax Income from Continuing Operations	19,986	803	353	21,142
Pre-tax Income Margin from Continuing Operations	21.5%	0.9Pts	0.4Pts	22.8%
Provision for Income Taxes* **	4,234	133	73	4,440
Effective Tax Rate	21.2%	-0.2Pts	0.0Pts	21.0%
Income from Continuing Operations	15,751	670	280	16,702
Income Margin from Continuing Operations	17.0%	0.7Pts	0.3Pts	18.0%
Diluted Earnings Per Share: Continuing Operations	$ 15.59	$ 0.66	$ 0.28	$ 16.53

*** 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