

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
April 16, 2014

**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: **April 16, 2014**

(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))
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**Item 2.02. Results of Operations and Financial Condition.**

The registrant's press release dated April 16, 2014, regarding its financial results for the period ended March 31, 2014, including consolidated financial statements for the period ended March 31, 2014, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Martin Schroeter's first quarter earnings presentation on April 16, 2014, 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](http://www.ibm.com)) contains a significant amount of information about IBM, including financial and other information for investors ([www.ibm.com/investor/](http://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: April 16, 2014

By: /s/ James J. Kavanaugh  
James J. Kavanaugh  
Vice President and Controller

**IBM REPORTS 2014 FIRST-QUARTER RESULTS**

- **Diluted EPS:**
- **GAAP: \$2.29, down 15 percent;**
- **Operating (non-GAAP): \$2.54, down 15 percent;**
- **Net income:**
- **GAAP: \$2.4 billion, down 21 percent;**
- **Operating (non-GAAP): \$2.6 billion, down 22 percent;**
- **Results include impact of approximately \$870 million workforce rebalancing charge and nearly \$100 million gain for the divested customer care outsourcing business;**
- **Gross profit margin:**
- **GAAP: 46.9 percent, up 130 basis points;**
- **Operating (non-GAAP): 47.6 percent, up 90 basis points;**
- **Revenue: \$22.5 billion, down 4 percent; down 1 percent adjusting for currency, excluding divested customer care outsourcing business:**
- **Software, Services and Global Financing each grew, adjusting for currency;**
- **Software up 2 percent as reported and adjusting for currency**
- **Services down 2 percent; up 2 percent adjusting for currency and excluding divested customer care outsourcing business**
- **Global Financing up 3 percent, up 6 percent adjusting for currency**
- **Systems and Technology down 23 percent as reported and adjusting for currency;**
- **Services backlog of \$138 billion, up 1 percent adjusting for currency and excluding divested customer care outsourcing business;**
- **Business analytics revenue up 5 percent, up 6 percent adjusting for currency;**
- **Cloud revenue up more than 50 percent:**

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- **For cloud delivered as a service, first-quarter annual run rate of \$2.3 billion doubled year to year;**
- **Expect full-year operating (non-GAAP) EPS of at least \$18.00.**

ARMONK, N.Y., April 16, 2014 . . . IBM (NYSE: IBM) today announced first-quarter 2014 diluted earnings of \$2.29 per share, a year-to-year decrease of 15 percent. Operating (non-GAAP) diluted earnings were \$2.54 per share, compared with operating diluted earnings of \$3.00 per share in the first quarter of 2013, a decrease of 15 percent.

First-quarter net income was \$2.4 billion, down 21 percent year-to-year. Operating (non-GAAP) net income was \$2.6 billion compared with \$3.4 billion in the first quarter of 2013, a decrease of 22 percent. The results include the impact of a charge of approximately \$870 million for workforce rebalancing and a gain of nearly \$100 million for the divestiture of the customer care outsourcing business, consistent with the company's full-year guidance in January 2014.

Total revenues for the first quarter of 2014 of \$22.5 billion were down 4 percent (down 2 percent, adjusting for currency; down 1 percent, excluding the customer care outsourcing business) from the first quarter of 2013.

In the first quarter, we continued to take actions to transform parts of the business and to shift aggressively to our strategic growth areas including cloud, big data analytics, social, mobile and security, said Ginni Rometty, IBM chairman, president and chief executive officer.

As we move through 2014, we will begin to see the benefits from these actions. Over the long term, they will position us to drive growth and higher value for our clients.

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### **First-Quarter GAAP - Operating (non-GAAP) Reconciliation**

First-quarter operating (non-GAAP) diluted earnings exclude \$0.25 per share of charges: \$0.16 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.09 per share for retirement-related charges.

### **Full-Year 2014 Expectations**

IBM expects full-year 2014 GAAP diluted earnings per share of at least \$17.00, and operating (non-GAAP) diluted earnings per share of at least \$18.00. The 2014 operating (non-GAAP) earnings expectations exclude \$1.00 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges.

### **Geographic Regions**

The Americas first-quarter revenues were \$9.6 billion, a decrease of 4 percent (down 2 percent, adjusting for currency) from the 2013 period. Revenues from Europe/Middle East/Africa were \$7.6 billion, up 4 percent (up 1 percent, adjusting for currency). Asia-Pacific revenues decreased 12 percent (down 6 percent, adjusting for currency) to \$5.0 billion. OEM revenues were \$355 million, down 17 percent compared with the 2013 first quarter.

### **Growth Markets**

Revenues from the company's growth markets decreased 11 percent (down 5 percent, adjusting for currency). Revenues in the BRIC countries Brazil, Russia, India and China decreased 11 percent (down 6 percent, adjusting for currency).

### **Services**

Global Technology Services segment revenues were down 3 percent (down 1 percent, adjusting for currency) to \$9.3 billion. Excluding the impact of the divested customer care outsourcing business, revenues were down 1 percent (up 2 percent, adjusting for currency). Global Business Services segment revenues were flat (up 2 percent, adjusting for currency) to \$4.5 billion.

Pre-tax income from Global Technology Services was down 15 percent and pre-tax margin decreased to 14.1 percent, including an impact of approximately \$0.3 billion for the workforce rebalancing charge. Global Business Services pre-tax income decreased 11 percent and pre-tax margin decreased to 13.6 percent, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

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The estimated services backlog as of March 31 was \$138 billion, up 1 percent adjusting for currency and excluding the divested customer care outsourcing business.

### Software

Revenues from the Software segment were up 2 percent to \$5.7 billion (up 2 percent, adjusting for currency) compared with the first quarter of 2013. Software pre-tax income decreased 5 percent and pre-tax margin decreased to 29.1 percent, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$3.7 billion, up 4 percent (up 5 percent, adjusting for currency) versus the first quarter of 2013. Operating systems revenues of \$519 million were down 10 percent (down 9 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from WebSphere increased 12 percent year over year. Information Management software revenues increased 1 percent. Revenues from Tivoli software increased 7 percent. Revenues from Workforce Solutions software decreased 4 percent, and Rational software increased 1 percent.

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## Financing

Global Financing segment revenues were up 3 percent (up 6 percent, adjusting for currency) in the first quarter at \$512 million. Pre-tax income for the segment increased 11 percent to \$596 million.

## Hardware

Revenues from the Systems and Technology segment totaled \$2.4 billion for the quarter, down 23 percent (down 23 percent, adjusting for currency) from the first quarter of 2013. Systems and Technology pre-tax loss increased \$0.3 billion, including an impact of approximately \$0.2 billion for the workforce rebalancing charge.

Total systems revenues decreased 24 percent (down 24 percent, adjusting for currency). Revenues from System z mainframe server products decreased 40 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 19 percent. Revenues from Power Systems were down 22 percent compared with the 2013 period. Revenues from System x were down 18 percent. Revenues from System Storage decreased 23 percent. Revenues from Microelectronics OEM decreased 16 percent.

## Gross Profit

The company's total gross profit margin was 46.9 percent in the 2014 first quarter compared with 45.6 percent in the 2013 first-quarter period. Total operating (non-GAAP) gross profit margin was 47.6 percent in the 2014 first quarter compared with 46.7 percent in the 2013 first-quarter period, with increases in both Services segments and a mix to Software, partially offset by a decline in the Systems and Technology margin.

## Expense

Total expense and other income increased to \$7.6 billion, including a workforce rebalancing charge of approximately \$870 million and a gain of nearly \$100 million from the divestiture of the customer care outsourcing business, up 7 percent compared to the prior-year period. S,G&A expense of \$6.3 billion increased 13 percent year over year. R,D&E expense of \$1.5 billion decreased 9 percent, compared with the year-ago period. Intellectual property and custom development income increased to \$207 million compared with \$183 million a year ago. Other (income) and expense was income of \$126 million compared with prior-year income of \$60 million. Interest expense increased to \$105 million compared with \$94 million in the prior year.

Total operating (non-GAAP) expense and other income increased to \$7.4 billion, including a workforce rebalancing charge of approximately \$870 million and a gain of nearly \$100 million from the divestiture of the customer care outsourcing business, up 8 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$6.1 billion increased 13 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.5 billion decreased 7 percent compared with the year-ago period.

**Pre-Tax Income**

Pre-tax income decreased 17 percent to \$3.0 billion. Pre-tax margin decreased 2.1 points to 13.3 percent. Operating (non-GAAP) pre-tax income decreased 19 percent to \$3.3 billion and pre-tax margin was 14.7 percent, down 2.7 points.

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IBM's tax rate was 20.0 percent, up 4.1 points year over year; operating (non-GAAP) tax rate was 20.0 percent, up 2.7 points compared to the year-ago period. Net income margin decreased 2.3 points to 10.6 percent. The company expects an annual effective tax rate of 20 percent for 2014, before any potential discrete tax items. Total operating (non-GAAP) net income margin decreased 2.7 points to 11.8 percent.

The weighted-average number of diluted common shares outstanding in the first-quarter 2014 was 1.04 billion compared with 1.12 billion shares in the same period of 2013. As of March 31, 2014, there were 1.01 billion basic common shares outstanding.

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Debt, including Global Financing, totaled \$44.0 billion, compared with \$39.7 billion at year-end 2013. From a management segment view, Global Financing debt totaled \$28.3 billion versus \$27.5 billion at year-end 2013, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$15.7 billion, an increase of \$3.5 billion since year-end 2013, resulting in a debt-to-capitalization ratio of 55.3 percent up from 39.0 percent.

IBM ended the first-quarter 2014 with \$9.7 billion of cash on hand and generated free cash flow of \$0.6 billion, excluding Global Financing receivables, down approximately \$1.1 billion year over year. The company returned \$9.2 billion to shareholders through \$1.0 billion in dividends and \$8.2 billion of gross share repurchases. The balance sheet remains strong, and the company is well positioned to support the business over the long term.

### **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 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;
- presenting non-global financing debt-to-capitalization ratio;

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- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- adjusting for the divestiture of the customer care outsourcing business.

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the first-quarter earnings materials. These materials are available via a link on the IBM investor relations Web site at

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[www.ibm.com/investor](http://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/1q14.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).

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

|   | Three Months Ended<br>March 31, |          | Percent<br>Change |
|---|---------------------------------|----------|-------------------|
|   | 2014                            | 2013     |                   |
| <b>REVENUE</b>                                      |                                 |          |                   |
| Global Technology Services                          | \$ 9,330                        | \$ 9,605 | -2.9%             |
| Gross profit margin                                 | 37.9%                           | 36.7%    |                   |
| Global Business Services                            | 4,483                           | 4,484    | 0.0%              |
| Gross profit margin                                 | 30.0%                           | 28.6%    |                   |
| Software  | 5,661                           | 5,572    | 1.6%              |
| Gross profit margin                                 | 87.5%                           | 87.2%    |                   |
| Systems and Technology                              | 2,391                           | 3,106    | -23.0%            |
| Gross profit margin                                 | 27.0%                           | 32.3%    |                   |
| Global Financing                                    | 512                             | 499      | 2.6%              |
| Gross profit margin                                 | 46.1%                           | 45.8%    |                   |
| Other   | 107                             | 142      | -24.4%            |
| Gross profit margin                                 | -163.7%                         | -158.5%  |                   |
| <b>TOTAL REVENUE</b>                                | 22,484                          | 23,408   | -3.9%             |
| <b>GROSS PROFIT</b>                                 | 10,543                          | 10,678   | -1.3%             |
| Gross profit margin                                 | 46.9%                           | 45.6%    |                   |
| <b>EXPENSE AND OTHER INCOME</b>                     |                                 |          |                   |
| S,G&A   | 6,289                           | 5,577    | 12.8%             |
| Expense to revenue                                  | 28.0%                           | 23.8%    |                   |
| R,D&E   | 1,501                           | 1,644    | -8.7%             |
| Expense to revenue                                  | 6.7%                            | 7.0%     |                   |
| Intellectual property and custom development income | (207)                           | (183)    | 13.1%             |
| Other (income) and expense                          | (126)                           | (60)     | 108.2%            |
| Interest expense                                    | 105                             | 94       | 11.7%             |
| <b>TOTAL EXPENSE AND OTHER INCOME</b>               | 7,563                           | 7,072    | 6.9%              |
| Expense to revenue                                  | 33.6%                           | 30.2%    |                   |
| <b>INCOME BEFORE INCOME TAXES</b>                   | 2,980                           | 3,606    | -17.3%            |
| Pre-tax margin                                      | 13.3%                           | 15.4%    |                   |
| Provision for income taxes                          | 596                             | 574      | 3.8%              |
| Effective tax rate                                  | 20.0%                           | 15.9%    |                   |

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|   |    |         |    |         |        |
|---|----|---------|----|---------|--------|
| <b>NET INCOME</b>                               | \$ | 2,384   | \$ | 3,032   | -21.4% |
| Net income margin                               |    | 10.6%   |    | 13.0%   |        |
| <b>EARNINGS PER SHARE OF COMMON STOCK:</b>      |    |         |    |         |        |
| ASSUMING DILUTION                               | \$ | 2.29    | \$ | 2.70    | -15.2% |
| BASIC   | \$ | 2.30    | \$ | 2.72    | -15.4% |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES</b> |    |         |    |         |        |
| <b>OUT- STANDING (M s):</b>                     |    |         |    |         |        |
| ASSUMING DILUTION                               |    | 1,041.8 |    | 1,124.0 |        |
| BASIC   |    | 1,035.2 |    | 1,113.7 |        |

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions)  | At<br>March 31,<br>2014 | At<br>December 31,<br>2013 |
|--|-------------------------|----------------------------|
| <b>ASSETS:</b>   |                         |                            |
| <b>Current Assets:</b>   |                         |                            |
| Cash and cash equivalents  | \$ 9,409                | \$ 10,716                  |
| Marketable securities  | 295                     | 350                        |
| Notes and accounts receivable - trade (net of allowances of \$305 in 2014 and \$291 in 2013) | 9,682                   | 10,465                     |
| Short-term financing receivables (net of allowances of \$317 in 2014 and \$308 in 2013)      | 18,329                  | 19,787                     |
| Other accounts receivable (net of allowances of \$36 in 2014 and \$36 in 2013)               | 1,650                   | 1,584                      |
| Inventories, at lower of average cost or market:   |                         |                            |
| Finished goods   | 472                     | 444                        |
| Work in process and raw materials  | 1,984                   | 1,866                      |
| Total inventories  | 2,456                   | 2,310                      |
| Deferred taxes   | 1,708                   | 1,651                      |
| Prepaid expenses and other current assets  | 4,430                   | 4,488                      |
| <b>Total Current Assets</b>  | <b>47,959</b>           | <b>51,350</b>              |
| Property, plant and equipment  | 40,478                  | 40,475                     |
| Less: Accumulated depreciation   | 26,795                  | 26,654                     |
| Property, plant and equipment - net  | 13,683                  | 13,821                     |
| Long-term financing receivables (net of allowances of \$93 in 2014 and \$80 in 2013)         | 11,918                  | 12,755                     |
| Prepaid pension assets   | 6,110                   | 5,551                      |
| Deferred taxes   | 3,034                   | 3,051                      |
| Goodwill   | 31,214                  | 31,184                     |
| Intangible assets - net  | 3,698                   | 3,871                      |
| Investments and sundry assets  | 5,030                   | 4,639                      |
| <b>Total Assets</b>  | <b>\$ 122,646</b>       | <b>\$ 126,223</b>          |
| <b>LIABILITIES:</b>  |                         |                            |
| <b>Current Liabilities:</b>  |                         |                            |
| Taxes  | \$ 2,245                | \$ 4,633                   |
| Short-term debt  | 9,312                   | 6,862                      |
| Accounts payable   | 6,865                   | 7,461                      |
| Compensation and benefits  | 3,664                   | 3,893                      |
| Deferred income  | 13,681                  | 12,557                     |
| Other accrued expenses and liabilities   | 5,292                   | 4,748                      |
| <b>Total Current Liabilities</b>   | <b>41,058</b>           | <b>40,154</b>              |
| Long-term debt   | 34,668                  | 32,856                     |
| Retirement and nonpension postretirement benefit obligations                                 | 16,031                  | 16,242                     |
| Deferred income  | 4,042                   | 4,108                      |
| Other liabilities  | 10,106                  | 9,934                      |



|   |                   |                   |
|---|-------------------|-------------------|
| <b>Total Liabilities</b>                      | <b>105,906</b>    | <b>103,294</b>    |
| <b>EQUITY:</b>                                |                   |                   |
| <b>IBM Stockholders Equity:</b>               |                   |                   |
| Common stock                                  | 51,943            | 51,594            |
| Retained earnings                             | 131,431           | 130,042           |
| Treasury stock at cost                        | (145,612)         | (137,242)         |
| Accumulated other comprehensive income/(loss) | (21,156)          | (21,602)          |
| <b>Total IBM stockholders equity</b>          | <b>16,607</b>     | <b>22,792</b>     |
| Noncontrolling interests                      | 133               | 137               |
| <b>Total Equity</b>                           | <b>16,740</b>     | <b>22,929</b>     |
| <b>Total Liabilities and Equity</b>           | <b>\$ 122,646</b> | <b>\$ 126,223</b> |

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions)  | Three Months Ended |                |           |              |
|--|--------------------|----------------|-----------|--------------|
|  |                    | 2014           | March 31, | 2013         |
| <b>Net Cash from Operating Activities per GAAP:</b>                          | \$                 | <b>3,326</b>   | \$        | <b>4,023</b> |
| Less: the change in Global Financing (GF) Receivables                        |                    | 1,807          |           | 1,597        |
| <b>Net Cash from Operating Activities</b><br>(Excluding GF Receivables)      |                    | <b>1,518</b>   |           | <b>2,425</b> |
| Capital Expenditures, Net  |                    | (887)          |           | (729)        |
| <b>Free Cash Flow</b><br>(Excluding GF Receivables)                          |                    | <b>631</b>     |           | <b>1,696</b> |
| Acquisitions   |                    | (264)          |           | (58)         |
| Divestitures   |                    | 391            |           | 10           |
| Dividends  |                    | (990)          |           | (948)        |
| Share Repurchase   |                    | (8,166)        |           | (2,593)      |
| Non-GF Debt  |                    | 3,634          |           | (717)        |
| Other (includes GF Receivables, and GF Debt)                                 |                    | 3,402          |           | 3,473        |
| <b>Change in Cash, Cash Equivalents and Short-term Marketable Securities</b> | \$                 | <b>(1,361)</b> | \$        | <b>863</b>   |

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## SEGMENT DATA

(Unaudited)

## FIRST-QUARTER 2014

| (Dollars in Millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income/<br>(Loss) | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |                              |                   |
| Global Technology Services       | \$ 9,330         | \$ 241              | \$ 9,570         | \$ 1,345                     | 14.1%             |
| Y-T-Y change                     | -2.9%            | -2.8%               | -2.9%            | -15.1%                       |                   |
| Global Business Services         | 4,483            | 141                 | 4,624            | 628                          | 13.6%             |
| Y-T-Y change                     | 0.0%             | -21.7%              | -0.9%            | -10.6%                       |                   |
| Software                         | 5,661            | 932                 | 6,593            | 1,918                        | 29.1%             |
| Y-T-Y change                     | 1.6%             | 12.2%               | 3.0%             | -4.7%                        |                   |
| Systems and Technology           | 2,391            | 168                 | 2,559            | (660)                        | -25.8%            |
| Y-T-Y change                     | -23.0%           | 40.4%               | -20.7%           | -63.1%                       |                   |
| Global Financing                 | 512              | 617                 | 1,129            | 596                          | 52.8%             |
| Y-T-Y change                     | 2.6%             | 14.1%               | 8.6%             | 10.7%                        |                   |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>\$ 22,376</b> | <b>\$ 2,099</b>     | <b>\$ 24,476</b> | <b>\$ 3,828</b>              | <b>15.6%</b>      |
| <b>Y-T-Y change</b>              | <b>-3.8%</b>     | <b>9.4%</b>         | <b>-2.8%</b>     | <b>-13.7%</b>                |                   |
| Eliminations / Other             | 107              | (2,099)             | (1,992)          | (848)                        |                   |
| <b>TOTAL IBM CONSOLIDATED</b>    | <b>\$ 22,484</b> | <b>\$ 0</b>         | <b>\$ 22,484</b> | <b>\$ 2,980</b>              | <b>13.3%</b>      |
| <b>Y-T-Y change</b>              | <b>-3.9%</b>     |                     | <b>-3.9%</b>     | <b>-17.3%</b>                |                   |

## FIRST-QUARTER 2013

| (Dollars in Millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income/<br>(Loss) | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |                              |                   |
| Global Technology Services       | \$ 9,605         | \$ 248              | \$ 9,852         | \$ 1,585                     | 16.1%             |
| Global Business Services         | 4,484            | 180                 | 4,664            | 703                          | 15.1%             |
| Software                         | 5,572            | 831                 | 6,403            | 2,014                        | 31.5%             |
| Systems and Technology           | 3,106            | 120                 | 3,226            | (405)                        | -12.5%            |
| Global Financing                 | 499              | 541                 | 1,040            | 538                          | 51.8%             |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>\$ 23,266</b> | <b>\$ 1,919</b>     | <b>\$ 25,185</b> | <b>\$ 4,435</b>              | <b>17.6%</b>      |
| Eliminations / Other             | 142              | (1,919)             | (1,777)          | (829)                        |                   |

|                               |           |               |           |          |           |               |           |              |              |
|-------------------------------|-----------|---------------|-----------|----------|-----------|---------------|-----------|--------------|--------------|
| <b>TOTAL IBM CONSOLIDATED</b> | <b>\$</b> | <b>23,408</b> | <b>\$</b> | <b>0</b> | <b>\$</b> | <b>23,408</b> | <b>\$</b> | <b>3,606</b> | <b>15.4%</b> |
|-------------------------------|-----------|---------------|-----------|----------|-----------|---------------|-----------|--------------|--------------|

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## INTERNATIONAL BUSINESS MACHINES CORPORATION

## U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

|                                | FIRST-QUARTER 2014 |   |   |                         |
|--------------------------------|--------------------|---|---|-------------------------|
|                                | GAAP               | Acquisition-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(Non-GAAP) |
| Gross Profit                   | \$ 10,543          | \$ 104                                  | \$ 52                                   | \$ 10,699               |
| Gross Profit Margin            | 46.9%              | 0.5Pts                                  | 0.2Pts                                  | 47.6%                   |
| S,G&A                          | 6,289              | (97)                                    | (87)                                    | 6,104                   |
| R,D&E                          | 1,501              | 0                                       | 17                                      | 1,518                   |
| Other (Income) & Expense       | (126)              | 0                                       | 0                                       | (126)                   |
| Total Expense & Other (Income) | 7,563              | (98)                                    | (70)                                    | 7,395                   |
| Pre-Tax Income                 | 2,980              | 201                                     | 123                                     | 3,304                   |
| Pre-Tax Income Margin          | 13.3%              | 0.9Pts                                  | 0.5Pts                                  | 14.7%                   |
| Provision for Income Taxes***  | 596                | 40                                      | 25                                      | 661                     |
| Effective Tax Rate             | 20.0%              | 0.0Pts                                  | 0.0Pts                                  | 20.0%                   |
| Net Income                     | 2,384              | 161                                     | 98                                      | 2,643                   |
| Net Income Margin              | 10.6%              | 0.7Pts                                  | 0.4Pts                                  | 11.8%                   |
| Diluted Earnings Per Share     | \$ 2.29            | \$ 0.16                                 | \$ 0.09                                 | \$ 2.54                 |

|                                | FIRST-QUARTER 2013 |   |   |                         |
|--------------------------------|--------------------|---|---|-------------------------|
|                                | GAAP               | Acquisition-<br>Related<br>Adjustments* | Retirement-<br>Related<br>Adjustments** | Operating<br>(Non-GAAP) |
| Gross Profit                   | \$ 10,678          | \$ 95                                   | \$ 164                                  | \$ 10,937               |
| Gross Profit Margin            | 45.6%              | 0.4Pts                                  | 0.7Pts                                  | 46.7%                   |
| S,G&A                          | 5,577              | (92)                                    | (104)                                   | 5,381                   |
| R,D&E                          | 1,644              | 0                                       | (16)                                    | 1,628                   |
| Other (Income) & Expense       | (60)               | (7)                                     | 0                                       | (67)                    |
| Total Expense & Other (Income) | 7,072              | (99)                                    | (120)                                   | 6,853                   |
| Pre-Tax Income                 | 3,606              | 194                                     | 283                                     | 4,084                   |
| Pre-Tax Income Margin          | 15.4%              | 0.8Pts                                  | 1.2Pts                                  | 17.4%                   |

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|                                      |         |         |         |         |
|--------------------------------------|---------|---------|---------|---------|
| <b>Provision for Income Taxes***</b> | 574     | 54      | 79      | 708     |
| <b>Effective Tax Rate</b>            | 15.9%   | 0.6Pts  | 0.9Pts  | 17.3%   |
| <b>Net Income</b>                    | 3,032   | 140     | 204     | 3,376   |
| <b>Net Income Margin</b>             | 13.0%   | 0.6Pts  | 0.9Pts  | 14.4%   |
| <b>Diluted Earnings Per Share</b>    | \$ 2.70 | \$ 0.12 | \$ 0.18 | \$ 3.00 |

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\* 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.

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