

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 20, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: **July 20, 2015**

(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)

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

The registrant's press release dated July 20, 2015, regarding its financial results for the periods ended June 30, 2015, including consolidated financial statements for the periods ended June 30, 2015, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Martin Schroeter's second quarter earnings presentation on July 20, 2015, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Schroeter's presentation. All of the information in Attachment I and II is hereby filed.

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

SIGNATURE

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

Date: July 20, 2015

By:

/s/ Stanley J. Sutula III

Stanley J. Sutula III
Vice President and Controller

IBM REPORTS 2015 SECOND-QUARTER RESULTS

Second-Quarter 2015:

- **Diluted EPS from continuing operations:**
- **Operating (non-GAAP): \$3.84, down 13 percent;**
- **GAAP: \$3.58, down 15 percent year-to-year;**
- **Net income from continuing operations:**
- **Operating (non-GAAP): \$3.8 billion, down 15 percent;**
- **GAAP: \$3.5 billion, down 17 percent;**
- **Gross profit margin from continuing operations:**
- **Operating (non-GAAP): 50.9 percent, up 20 basis points;**
- **GAAP: 49.9 percent, down 20 basis points;**
- **Revenue from continuing operations: \$20.8 billion:**
- **Down 1 percent year-to-year adjusting for currency and the divested System x business (9 points and 4 points, respectively); down 13 percent as reported;**
- **Strategic imperatives revenue up more than 30 percent adjusting for currency and the divested System x business; up more than 20 percent as reported;**
- **Cloud revenue up more than 70 percent adjusting for currency and divested businesses; up more than 50 percent as reported;**
- **For cloud delivered as a service, annual run rate of \$4.5 billion compared to \$2.8 billion in the second quarter of 2014;**
- **Business analytics revenue up more than 20 percent adjusting for currency; up more than 10 percent as reported.**

First Half 2015:

- **Revenue from continuing operations: \$40.4 billion:**
- **Flat year-to-year adjusting for currency and divested businesses (8 points and 4 points, respectively); down 13 percent as reported;**
- **Strategic imperatives revenue up more than 30 percent adjusting for currency and divested businesses; up more than 20 percent as reported;**
- **Cloud revenue up more than 70 percent adjusting for currency and divested businesses; up more than 50 percent as reported;**
- **Business analytics revenue up more than 20 percent adjusting for currency; up more than 10 percent as reported;**
- **Services backlog of \$122 billion, up more than 1 percent adjusting for currency;**
- **Free cash flow of \$4.5 billion, up \$0.8 billion year-to-year;**
- **Total shareholder return of \$4.7 billion: dividends of \$2.4 billion and gross share repurchases of \$2.3 billion.**

Full-Year Expectations:

- **Maintains operating (non-GAAP) EPS of \$15.75 to \$16.50;**
- **Now expects modest increase in free cash flow year-to-year.**

ARMONK, N.Y., July 20, 2015 . . . IBM (NYSE: IBM) today announced second-quarter 2015 diluted earnings from continuing operations of \$3.58 per share, down 15 percent year-to-year. Operating (non-GAAP) diluted earnings from continuing operations were \$3.84 per share, compared with operating diluted earnings of \$4.43 per share in the second quarter of 2014, a decrease of 13 percent.

Second-quarter net income from continuing operations was \$3.5 billion compared with \$4.3 billion in the second quarter of 2014, a decrease of 17 percent. Operating (non-GAAP) net income was \$3.8 billion compared with \$4.5 billion in the second quarter of 2014, a decrease of 15 percent, significantly impacted by currency, an increase in workforce rebalancing charges, and a year-earlier gain from the divestiture of the customer care outsourcing business.

For the second-quarter of 2015, IBM reported consolidated net income of \$3.4 billion or \$3.50 of diluted earnings per share, including operating net losses in discontinued operations related to the Microelectronics business.

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Total revenues from continuing operations for the second quarter of 2015 of \$20.8 billion were down 13 percent (down 1 percent, adjusting for currency and the divested System x business) from the second quarter of 2014.

Our results for the first half of 2015 demonstrate that we continue to transform our business to higher value and return value to shareholders. We expanded margins, continued to innovate across our portfolio and delivered strong growth in our strategic imperatives of cloud, analytics and engagement, which are becoming a significant part of our business, said Ginni Rometty, IBM chairman, president and chief executive officer.

Second-Quarter GAAP Operating (non-GAAP) Reconciliation

Second-quarter operating (non-GAAP) diluted earnings exclude \$0.26 per share of charges: \$0.14 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.12 per share for non-operating retirement-related charges driven by changes to plan assets and liabilities primarily related to past market performance.

Full-Year 2015 Expectations

IBM expects full-year 2015 GAAP diluted earnings per share of \$14.25 to \$15.00, and operating (non-GAAP) diluted earnings per share of \$15.75 to \$16.50. IBM now expects a modest increase in free cash flow, improved from its prior expectation of flat year-to-year performance. The 2015 operating (non-GAAP) earnings expectation excludes \$1.50 per share of charges for amortization of purchased intangible assets, other acquisition-related charges and retirement-related charges.

Strategic Imperatives

Revenues from the company's strategic imperatives - cloud, analytics, and engagement - increased more than 20 percent year-to-date (more than 30 percent adjusting for currency and the divested System x business). Total cloud revenues increased more than 50 percent (more than 70 percent adjusting for currency and the divested System x business) year-to-date, and is \$8.7 billion over the last 12 months, adjusted for the divested System x business. The annual run rate for cloud delivered as a service - a subset of the total cloud revenue - increased to \$4.5 billion from \$2.8 billion in the second quarter of 2014. Revenues from business analytics increased more than 10 percent (more than 20 percent adjusting for currency) year-to-date. Revenues from mobile more than quadrupled, and social revenues increased more than 30 percent (more than 40 percent adjusting for currency), both year-to-date.

Geographic Regions

The Americas' second-quarter revenues were \$9.8 billion, a decrease of 8 percent (down 2 percent adjusting for currency and the divested System x business) from the 2014 period. Revenues from Europe/Middle East/Africa were \$6.6 billion, down 17 percent (up 1 percent adjusting for currency and the divested System x business). Asia-Pacific revenues decreased 19 percent (down 1 percent adjusting for currency and the divested System x business) to \$4.3 billion. Revenues from the BRIC countries were down 35 percent as reported (down 18 percent adjusting for currency and the divested System x business). The BRIC performance had a negative two-point impact on IBM's overall revenue growth rate, adjusting for currency and the divested System x business.

Services

Global Technology Services segment revenues were down 10 percent (up 1 percent adjusting for currency and the divested System x business) to \$8.1 billion. Global Business Services segment revenues were down 12 percent (down 3 percent adjusting for currency) to \$4.3 billion.

The estimated services backlog as of June 30 was \$122 billion, up more than 1 percent year-to-year adjusting for currency.

Software

Revenues from the Software segment were down 10 percent to \$5.8 billion (down 3 percent adjusting for currency) compared with the second quarter of 2014.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were \$4.0

billion, down 7 percent (flat adjusting for currency) year-to-year. Operating systems revenues of \$0.4 billion were down 17 percent (down 9 percent adjusting for currency) year-to-year.

Hardware

Revenues from the Systems Hardware segment totaled \$2.1 billion for the quarter, down 32 percent (up 5 percent adjusting for currency and the impact of the divested System x business) year-to-year.

Revenues from z Systems mainframe server products increased 9 percent compared with the year-ago period (up 15 percent adjusting for currency). Total delivery of z Systems computing power, as measured in MIPS (millions of instructions per second), increased 24 percent. Revenues from Power Systems were down 1 percent compared with the 2014 period (up 5 percent adjusting for currency). Revenues from System Storage decreased 10 percent (down 4 percent adjusting for currency).

Financing

Global Financing segment revenues decreased 5 percent (up 7 percent, adjusting for currency) in the second quarter at \$0.5 billion.

Gross Profit

The company's total gross profit margin from continuing operations was 49.9 percent in the 2015 second quarter compared with 50.1 percent in the 2014 second quarter. Total operating (non-GAAP) gross profit margin from continuing operations was 50.9 percent in the 2015 second quarter compared with 50.7 percent in the 2014 second quarter, with an increase in Hardware and an improving segment mix partially offset by a decline in Services.

Expense

Total expense and other income from continuing operations decreased to \$6.2 billion, down 8 percent compared to the prior-year period. Year-to-year results include the impact of currency and the divested System x business, partially offset by higher workforce rebalancing charges and the year-earlier gain from the divestiture of the customer care outsourcing business. S,G&A expense of \$5.2 billion decreased 7 percent year over year. R,D&E expense of \$1.3 billion decreased 4 percent year-to-year; the related expense-to-revenue ratio increased to 6.2 percent compared with 5.7 percent in the year-ago period. Intellectual property and custom development income decreased to \$128 million compared with \$191 million a year ago. Other (income) and expense was income of \$301 million compared with prior-year income of \$202 million. Interest expense decreased to \$115 million compared with \$136 million in the prior year.

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Total operating (non-GAAP) expense and other income from continuing operations decreased to \$6.0 billion, down 9 percent compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.0 billion decreased 8 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.3 billion decreased 7 percent year-to-year, reflecting the impact of currency and the divested System x business; the related expense-to-revenue ratio increased to 6.2 percent compared with 5.7 percent in the year-ago period.

Pre-Tax Income

Pre-tax income from continuing operations decreased 21 percent to \$4.2 billion. Pre-tax margin from continuing operations decreased 1.9 points to 20.3 percent. Operating (non-GAAP) pre-tax income from continuing operations decreased 18 percent to \$4.6 billion and pre-tax margin was 22.0 percent, down 1.3 points.

IBM's tax rate from continuing operations was 16.5 percent, down 4.0 points year over year; the operating (non-GAAP) tax rate was 17.2 percent, down 3.3 points compared to the year-ago period.

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Net income margin from continuing operations decreased 0.7 points to 16.9 percent. Total operating (non-GAAP) net income margin from continuing operations decreased 0.3 points to 18.2 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2015 was 987 million compared with 1,005 million shares in the same period of 2014. As of June 30, 2015, there were 980 million basic common shares outstanding.

Debt, including Global Financing, totaled \$38.7 billion, compared with \$40.8 billion at year-end 2014. From a management segment view, Global Financing debt totaled \$26.1 billion versus \$29.1 billion at year-end 2014. The debt-to-equity ratio is 7.0 to 1. Core (non-global financing) debt totaled \$12.6 billion, an increase of \$0.9 billion since year-end 2014 and a decrease of \$4.5 billion from the second quarter of 2014. IBM ended the second-quarter 2015 with \$8.8 billion of cash on hand.

The company generated free cash flow of \$3.4 billion, excluding Global Financing receivables, up \$0.4 billion year over year. The company returned \$2.4 billion to shareholders through \$1.3 billion in dividends and \$1.1 billion of gross share repurchases. The balance sheet remains strong, and is well positioned to support the business over the long term.

Year-To-Date 2015 Results

Net income from continuing operations for the six months ended June 30, 2015 was \$5.9 billion compared with \$6.8 billion in the year-ago period, a decrease of 12 percent. Diluted earnings per share from continuing operations were \$6.01, down 9 percent compared to the 2014 period.

Consolidated net income was \$5.8 billion compared to \$6.5 billion, including operating net losses in discontinued operations related to the Microelectronics business. Consolidated diluted earnings per share were \$5.84 compared to \$6.37, down 8 percent year-to-year. Revenues from continuing operations for the six-month period totaled \$40.4 billion, a decrease of 13 percent (flat year to year, adjusting for currency and divested businesses) compared with \$46.3 billion for the first six months of 2014.

Operating (non-GAAP) net income from continuing operations for the six months ended June 30, 2015 was \$6.7 billion compared with \$7.2 billion in the year-ago period, a decrease of 8 percent. Operating (non-GAAP) diluted earnings per share from continuing operations were \$6.75 compared with \$7.08 per diluted share for the 2014 period, a decrease of 5 percent.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and client spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing

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in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions, alliances and dispositions; risks from legal proceedings; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Qs, Form 10-K and in the company's other filings with the U.S. Securities and Exchange

Commission (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

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

IBM results and expectations

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

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the second-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 4:30 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/earnings/2q15.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 June 30,			Six Months Ended June 30,		
	2015	2014*	Percent Change	2015	2014*	Percent Change
REVENUE						
Global Technology Services **	\$ 8,068	\$ 9,010	-10.5%	\$ 15,953	\$ 17,859	-10.7%
Gross profit margin	36.6%	38.9%		37.0%	38.8%	
Global Business Services **	4,345	4,938	-12.0%	8,663	9,902	-12.5%
Gross profit margin	27.4%	29.8%		27.4%	29.5%	
Software	5,830	6,488	-10.1%	11,028	12,149	-9.2%
Gross profit margin	87.8%	88.8%		87.2%	88.2%	
Systems Hardware *	2,058	3,014	-31.7%	3,717	5,157	-27.9%
Gross profit margin	48.2%	39.7%		46.5%	37.4%	
Global Financing	478	504	-5.2%	939	1,016	-7.5%
Gross profit margin	44.7%	54.8%		47.1%	50.4%	
Other	35	93	-62.3%	102	200	-49.0%
Gross profit margin	-220.2%	-179.7%		-223.1%	-171.1%	
TOTAL REVENUE	20,813	24,047	-13.5%	40,403	46,283	-12.7%
GROSS PROFIT	10,390	12,044	-13.7%	19,842	22,671	-12.5%
Gross profit margin	49.9%	50.1%		49.1%	49.0%	
EXPENSE AND OTHER INCOME						
S,G&A	5,179	5,593	-7.4%	10,541	11,865	-11.2%
Expense to revenue	24.9%	23.3%		26.1%	25.6%	
R,D&E	1,300	1,361	-4.5%	2,598	2,763	-6.0%
Expense to revenue	6.2%	5.7%		6.4%	6.0%	
Intellectual property and custom development income	(128)	(191)	-32.8%	(301)	(398)	-24.4%
Other (income) and expense	(301)	(202)	48.9%	(444)	(330)	34.8%
Interest expense	115	136	-15.0%	223	240	-7.3%
TOTAL EXPENSE AND OTHER INCOME	6,165	6,696	-7.9%	12,617	14,140	-10.8%
Expense to revenue	29.6%	27.8%		31.2%	30.6%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES						
TAXES	4,224	5,348	-21.0%	7,225	8,531	-15.3%
Pre-tax margin	20.3%	22.2%		17.9%	18.4%	
Provision for income taxes	698	1,096	-36.3%	1,283	1,749	-26.6%
Effective tax rate	16.5%	20.5%		17.8%	20.5%	
INCOME FROM CONTINUING OPERATIONS	\$ 3,526	\$ 4,251	-17.1%	\$ 5,942	\$ 6,782	-12.4%
Net margin	16.9%	17.7%		14.7%	14.7%	
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of taxes	(77)	(115)		(165)	(261)	
NET INCOME	\$ 3,449	\$ 4,137	-16.6%	\$ 5,777	\$ 6,521	-11.4%
EARNINGS PER SHARE OF COMMON STOCK:						
Assuming Dilution						
Continuing Operations	\$ 3.58	\$ 4.23	-15.4%	\$ 6.01	\$ 6.62	-9.2%
Discontinued Operations	\$ (0.08)	\$ (0.11)		\$ (0.17)	\$ (0.25)	

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TOTAL	\$	3.50	\$	4.12	-15.0%	\$	5.84	\$	6.37	-8.3%
Basic										
Continuing Operations	\$	3.59	\$	4.25	-15.5%	\$	6.03	\$	6.67	-9.6%
Discontinued Operations	\$	(0.08)	\$	(0.11)		\$	(0.17)	\$	(0.26)	
TOTAL	\$	3.51	\$	4.14	-15.2%	\$	5.86	\$	6.41	-8.6%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s):										
Assuming Dilution		986.7		1,005.1			989.5		1,023.5	
Basic		982.3		999.6			985.2		1,017.4	

* Reclassified to reflect discontinued operations presentation.

**Reclassified to conform with 2015 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At June 30, 2015	At December 31, 2014
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 8,393	\$ 8,476
Marketable securities	367	0
Notes and accounts receivable - trade (net of allowances of \$364 in 2015 and \$336 in 2014)	8,632	9,090
Short-term financing receivables (net of allowances of \$528 in 2015 and \$452 in 2014)	16,888	19,835
Other accounts receivable (net of allowances of \$52 in 2015 and \$40 in 2014)	2,390	2,906
Inventories, at lower of average cost or market:		
Finished goods	364	430
Work in process and raw materials	1,548	1,674
Total inventories	1,912	2,103
Deferred taxes	2,133	2,044
Prepaid expenses and other current assets	4,470	4,967
Total Current Assets	45,186	49,422
Property, plant and equipment	38,639	39,034
Less: Accumulated depreciation	27,936	28,263
Property, plant and equipment - net	10,702	10,771
Long-term financing receivables (net of allowances of \$122 in 2015 and \$126 in 2014)	10,339	11,109
Prepaid pension assets	3,440	2,160
Deferred taxes	4,211	4,808
Goodwill	30,535	30,556
Intangible assets - net	2,938	3,104
Investments and sundry assets	5,377	5,603
Total Assets	\$ 112,729	\$ 117,532
LIABILITIES:		
Current Liabilities:		
Taxes	\$ 3,639	\$ 5,084
Short-term debt	5,329	5,731
Accounts payable	5,943	6,864
Compensation and benefits	3,991	4,031
Deferred income	11,332	11,877
Other accrued expenses and liabilities	5,301	6,013
Total Current Liabilities	35,535	39,600
Long-term debt	33,339	35,073
Retirement and nonpension postretirement benefit obligations	17,298	18,261
Deferred income	3,892	3,691
Other liabilities	8,827	8,892
Total Liabilities	98,892	105,518
EQUITY:		
IBM Stockholders' Equity:		
Common stock	53,059	52,666
Retained earnings	141,218	137,793
Treasury stock at cost	(153,162)	(150,715)
Accumulated other comprehensive income/(loss)	(27,432)	(27,875)
Total IBM stockholders' equity	13,684	11,868
Noncontrolling interests	153	146
Total Equity	13,837	12,014

Total Liabilities and Equity	\$	112,729	\$	117,532
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INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net Cash from Operating Activities per GAAP:	\$ 3,884	\$ 3,579	\$ 7,494	\$ 6,905
Less: the change in Global Financing (GF)				
Receivables	(392)	(304)	1,214	1,503
Net Cash from Operating Activities				
(Excluding GF Receivables)	4,276	3,883	6,280	5,402
Capital Expenditures, Net	(906)	(909)	(1,830)	(1,796)
Free Cash Flow				
(Excluding GF Receivables)	3,369	2,975	4,450	3,606
Acquisitions	(560)	(339)	(708)	(603)
Divestitures	61	17	81	408
Dividends	(1,278)	(1,096)	(2,366)	(2,086)
Share Repurchase	(1,138)	(3,662)	(2,303)	(11,828)
Non-GF Debt	30	1,385	391	5,019
Other (includes GF Receivables, and GF Debt)	(528)	738	739	4,140
Change in Cash, Cash Equivalents and Short-term				
Marketable Securities	\$ (43)	\$ 17	\$ 284	\$ (1,345)

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SECOND-QUARTER 2015

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 8,068	\$ 204	\$ 8,272	\$ 1,248	15.1%
Y-T-Y change	-10.5%	-17.4%	-10.6%	-25.2%	
Global Business Services	4,345	130	4,475	656	14.7%
Y-T-Y change	-12.0%	-7.2%	-11.9%	-35.3%	
Software	5,830	770	6,600	2,272	34.4%
Y-T-Y change	-10.1%	-10.1%	-10.1%	-15.3%	
Systems Hardware	2,058	107	2,165	255	11.8%
Y-T-Y change	-31.7%	-43.6%	-32.4%	26.2%	
Global Financing	478	704	1,182	613	51.9%
Y-T-Y change	-5.2%	2.7%	-0.6%	3.5%	
TOTAL REPORTABLE SEGMENTS	\$ 20,778	\$ 1,915	\$ 22,693	\$ 5,044	22.2%
Y-T-Y change	-13.3%	-9.6%	-13.0%	-18.1%	
Eliminations / Other	35	(1,915)	(1,880)	(819)	
TOTAL IBM CONSOLIDATED	\$ 20,813	\$ 0	\$ 20,813	\$ 4,224	20.3%
Y-T-Y change	-13.5%		-13.5%	-21.0%	

SECOND-QUARTER 2014*

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services **	\$ 9,010	\$ 247	\$ 9,257	\$ 1,669	18.0%
Global Business Services **	4,938	140	5,078	1,013	20.0%
Software	6,488	857	7,345	2,683	36.5%
Systems Hardware *	3,014	190	3,204	202	6.3%
Global Financing	504	685	1,189	593	49.8%
TOTAL REPORTABLE SEGMENTS	\$ 23,955	\$ 2,119	\$ 26,074	\$ 6,160	23.6%
Eliminations / Other	93	(2,119)	(2,026)	(812)	
TOTAL IBM CONSOLIDATED	\$ 24,047	\$ 0	\$ 24,047	\$ 5,348	22.2%

* Reclassified to reflect discontinued operations presentation.

** Reclassified to conform with 2015 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SIX-MONTHS 2015

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 15,953	\$ 399	\$ 16,353	\$ 2,242	13.7%
Y-T-Y change	-10.7%	-18.1%	-10.9%	-22.3%	
Global Business Services	8,663	261	8,923	1,253	14.0%
Y-T-Y change	-12.5%	-7.2%	-12.4%	-29.3%	
Software	11,028	1,734	12,762	4,208	33.0%
Y-T-Y change	-9.2%	-3.1%	-8.4%	-8.5%	
Systems Hardware	3,717	199	3,916	279	7.1%
Y-T-Y change	-27.9%	-44.4%	-29.0%	NM	
Global Financing	939	1,290	2,229	1,128	50.6%
Y-T-Y change	-7.5%	-1.0%	-3.8%	-5.1%	
TOTAL REPORTABLE SEGMENTS	\$ 40,301	\$ 3,883	\$ 44,184	\$ 9,110	20.6%
Y-T-Y change	-12.5%	-7.9%	-12.2%	-10.6%	
Eliminations / Other	102	(3,883)	(3,781)	(1,885)	
TOTAL IBM CONSOLIDATED	\$ 40,403	\$ 0	\$ 40,403	\$ 7,225	17.9%
Y-T-Y change	-12.7%		-12.7%	-15.3%	

SIX-MONTHS 2014*

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income (Loss)/ Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services **	\$ 17,859	\$ 488	\$ 18,346	\$ 2,885	15.7%
Global Business Services **	9,902	281	10,183	1,772	17.4%
Software	12,149	1,789	13,939	4,601	33.0%
Systems Hardware *	5,157	358	5,515	(255)	-4.6%
Global Financing	1,016	1,303	2,318	1,188	51.3%
TOTAL REPORTABLE SEGMENTS	\$ 46,083	\$ 4,218	\$ 50,301	\$ 10,191	20.3%
Eliminations / Other	200	(4,218)	(4,018)	(1,660)	
TOTAL IBM CONSOLIDATED	\$ 46,283	\$ 0	\$ 46,283	\$ 8,531	18.4%

* Reclassified to reflect discontinued operations presentation.

** 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)

SECOND-QUARTER 2015 CONTINUING OPERATIONS				
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 10,390	\$ 88	\$ 112	\$ 10,590
Gross Profit Margin	49.9%	0.4Pts	0.5Pts	50.9%
S,G&A	5,179	(74)	(63)	5,042
R,D&E	1,300		(11)	1,289
Other (Income) & Expense	(301)	(5)		(306)
Total Expense & Other (Income)	6,165	(80)	(74)	6,012
Pre-tax Income from Continuing Operations	4,224	168	186	4,578
Pre-tax Income Margin from Continuing Operations	20.3%	0.8Pts	0.9Pts	22.0%
Provision for Income Taxes***	698	28	61	788
Effective Tax Rate	16.5%	0.0Pts	0.7Pts	17.2%
Income from Continuing Operations	3,526	140	124	3,790
Income Margin from Continuing Operations	16.9%	0.7Pts	0.6Pts	18.2%
Diluted Earnings Per Share:				
Continuing Operations	\$ 3.58	\$ 0.14	\$ 0.12	\$ 3.84

SECOND-QUARTER 2014**** CONTINUING OPERATIONS				
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 12,044	\$ 105	\$ 45	\$ 12,195
Gross Profit Margin	50.1%	0.4Pts	0.2Pts	50.7%
S,G&A	5,593	(98)	(27)	5,468
R,D&E	1,361		20	1,381
Other (Income) & Expense	(202)	0		(202)
Total Expense & Other (Income)	6,696	(98)	(7)	6,591
Pre-tax Income from Continuing Operations	5,348	203	52	5,603
Pre-tax Income Margin from Continuing Operations	22.2%	0.8Pts	0.2Pts	23.3%
Provision for Income Taxes***	1,096	41	10	1,147
Effective Tax Rate	20.5%	0.0Pts	0.0Pts	20.5%
Income from Continuing Operations	4,251	163	42	4,456
Income Margin from Continuing Operations	17.7%	0.7Pts	0.2Pts	18.5%
Diluted Earnings Per Share:				
Continuing Operations	\$ 4.23	\$ 0.16	\$ 0.04	\$ 4.43

* 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.

**** Reclassified to reflect discontinued operations presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

SIX-MONTHS 2015 CONTINUING OPERATIONS				
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 19,842	\$ 179	\$ 233	\$ 20,253
Gross Profit Margin	49.1%	0.4Pts	0.6Pts	50.1%
S,G&A	10,541	(154)	(371)	10,017
R,D&E	2,598		(24)	2,574
Other (Income) & Expense	(444)	(5)		(450)
Total Expense & Other (Income)	12,617	(159)	(395)	12,063
Pre-tax Income from Continuing Operations	7,225	338	627	8,190
Pre-tax Income Margin from Continuing Operations	17.9%	0.8Pts	1.6Pts	20.3%
Provision for Income Taxes***	1,283	56	170	1,510
Effective Tax Rate	17.8%	0.0Pts	0.7Pts	18.4%
Income from Continuing Operations	5,942	281	457	6,680
Income Margin from Continuing Operations	14.7%	0.7Pts	1.1Pts	16.5%
Diluted Earnings Per Share:				
Continuing Operations	\$ 6.01	\$ 0.28	\$ 0.46	\$ 6.75

SIX-MONTHS 2014**** CONTINUING OPERATIONS				
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 22,671	\$ 209	\$ 98	\$ 22,978
Gross Profit Margin	49.0%	0.5Pts	0.2Pts	49.6%
S,G&A	11,865	(196)	(114)	11,555
R,D&E	2,763		37	2,800
Other (Income) & Expense	(330)	0		(330)
Total Expense & Other (Income)	14,140	(196)	(77)	13,868
Pre-tax Income from Continuing Operations	8,531	405	175	9,110
Pre-tax Income Margin from Continuing Operations	18.4%	0.9Pts	0.4Pts	19.7%
Provision for Income Taxes***	1,749	81	35	1,865
Effective Tax Rate	20.5%	0.0Pts	0.0Pts	20.5%
Income from Continuing Operations	6,782	324	140	7,246
Income Margin from Continuing Operations	14.7%	0.7Pts	0.3Pts	15.7%
Diluted Earnings Per Share:				
Continuing Operations	\$ 6.62	\$ 0.32	\$ 0.14	\$ 7.08

* 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.

**** Reclassified to reflect discontinued operations presentation.

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