

INTERNATIONAL BUSINESS MACHINES CORP
Form 424B3
November 19, 2014

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Registration Statement No. 333-190160

The information in this prospectus supplement is not complete and may change. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion dated November 19, 2014

PROSPECTUS SUPPLEMENT
(To Prospectus dated July 26, 2013)

€

International Business Machines Corporation

% Notes due

Interest payable annually on

IBM may redeem some or all of the Notes at any time at a make-whole premium, or in whole at par if certain events occur involving changes in United States taxation, as set forth in this prospectus supplement. Application will be made to list the Notes on the New York Stock Exchange.

Per Note Total	Price to Public €	%	Underwriting Discounts and Commissions €	%	Proceeds to Company €	%
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The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

The Underwriters expect to deliver the Notes to purchasers in book-entry form only through The Depository Trust Company, Clearstream or Euroclear, as the case may be, on November , 2014.

Joint Bookrunning Managers

Barclays

Credit Suisse

Deutsche Bank

**The Royal Bank of
Scotland**

November , 2014

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We have not authorized anyone to provide any information other than that contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information. We are not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

References herein to "\$" and "dollars" are to the currency of the United States, References to "€" and "euro" are to the lawful currency of the member states of the European Monetary Union that have adopted the euro as their currency.

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The distribution of this prospectus supplement and accompanying prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See "Offering Restrictions."

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INTERNATIONAL BUSINESS MACHINES CORPORATION

International Business Machines Corporation (IBM) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological invention, and its operations and aims have been international in nature. This was signaled over 85 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on their public reference room. Our SEC filings are also available to the public at the SEC's web site at (<http://www.sec.gov>).

The SEC allows us to "incorporate by reference" into this prospectus supplement and the accompanying prospectus the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering is completed:

- i. Annual Report on Form 10-K for the year ended December 31, 2013;
- ii. Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014, June 30, 2014 and September 30, 2014; and
- iii. Current Reports on Form 8-K or filed portions of those reports, filed (but not portions of those reports which were furnished) January 21, 2014, January 22, 2014, January 23, 2014, January 31, 2014, February 10, 2014, February 11, 2014, April 16, 2014, April 17, 2014, May 2, 2014, June 2, 2014, July 17, 2014, July 18, 2014, July 29, 2014, October 20, 2014 (four filings), November 5, 2014 and November 12, 2014.

We encourage you to read our periodic and current reports. Not only do we think these items are interesting reading, we think these reports provide additional information about our company which prudent investors find important. You may request a copy of these filings at no cost, by writing to or telephoning our transfer agent at the following address:

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, Rhode Island 02940-3078
(781) 575-2727

USE OF PROCEEDS

The net proceeds from the sale of the Notes after deducting expenses to be paid by IBM are estimated to be € million and will be used for general corporate purposes.

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DESCRIPTION OF NOTES

The following description of the particular terms of the Notes supplements, and to the extent inconsistent replaces, the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.

General

The % Notes due (the "Notes") will be issued under an Indenture (the "Senior Indenture") dated as of October 1, 1993 between IBM and The Bank of New York Mellon, as Trustee, as supplemented by the First Supplemental Indenture dated as of December 15, 1995, filed as an exhibit to the Registration Statement of which the accompanying prospectus is a part. The Notes will be unsecured and will have the same rank as all of IBM's other unsecured and unsubordinated debt. The Notes will bear interest from and including November , 2014, at the rate of interest stated on the cover page of this prospectus supplement. Interest on the Notes will be payable annually in arrears on of each year, commencing , to the persons in whose names such securities are registered at the close of business on the fifteenth calendar day preceding each . Interest on the Notes will be computed on the basis of the actual number of days in the period for which interest is being calculated and the actual number of days from and including the last date on which interest was paid on the Notes (or , 2014 if no interest has been paid on the Notes), to but excluding the next scheduled interest payment date. This payment convention is referred to as ACTUAL/ACTUAL (ICMA) as defined in the rulebook of the International Capital Market Association. The Notes will mature on .

The Notes will be subject to defeasance and covenant defeasance as provided in "Description of the Debt Securities Satisfaction and Discharge; Defeasance" in the accompanying prospectus. The Notes will be issued in denominations of €100,000 and integral multiples of €1,000 in excess thereof.

IBM may, without the consent of the holders of Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes (except for the price to the public, issue date and the initial interest accrual date), provided however, that no such additional notes may be issued unless such additional notes are fungible with the Notes for U.S. federal income tax purposes. Any additional notes having such similar terms, together with the Notes, will constitute a single series of notes under the Senior Indenture. No additional notes may be issued if an event of default has occurred with respect to the Notes.

The currency of payment for the Notes is the euro. However, when interests in the Notes are held through DTC, all payments in respect of such DTC Notes will be made in U.S. dollars, unless the holder of a beneficial interest in the DTC Notes elects to receive payment in euro. See " Issuance in Euro."

Issuance in Euro

Initial holders will be required to pay for the Notes in euro. The Bank of New York Mellon, as Trustee, is prepared to arrange for the conversion of U.S. dollars into euro to facilitate payment for the Notes by U.S. purchasers. Each conversion will be made by The Bank of New York Mellon on the terms and subject to the conditions, limitations and charges as The Bank of New York Mellon may from time to time establish in accordance with regular foreign exchange practices, and subject to United States laws and regulations. All costs of conversion will be borne by the holder.

Notes which are offered and sold in the United States (the "DTC Notes") will be represented by beneficial interests in a fully registered permanent global Note (the "DTC global Note") which will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee for DTC. While

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interests in the DTC Notes are held through the DTC global Note, all payments in respect of such Notes will be made in U.S. dollars, except as otherwise provided in this section.

IBM will determine the amount of any U.S. dollar payment based on the highest firm bid quotation, expressed in U.S. dollars, that it receives at approximately 11:00 a.m., Brussels time two Business Days before the applicable payment date (if no rate is quoted on that date, IBM will use the last date on which the rate was quoted). To determine the highest quote, IBM will request quotes from three (or, if three are not available, then two) recognized foreign exchange dealers in London (which may include the Underwriters, their affiliates or the paying agent) for the purchase, and settlement on the applicable payment date, of the total amount of euro then payable. The holder will be responsible for all currency exchange costs, such amount to be deducted from the U.S. dollar payments. If no bid quotations are available, IBM will make payments in euro, unless the euro is unavailable due to the imposition of exchange controls or other circumstances beyond IBM's control. In that case, IBM will make payments as described under "Exchange Rates and Exchange Controls."

The holder of a beneficial interest in the DTC Notes may elect to receive a payment or payments in euro by notifying the DTC participant through which its Notes are held on or prior to the applicable Record Date of (1) the holder's election to receive all or a portion of the payment in euro, and (2) wire transfer instructions to a euro account located outside of the United States. DTC must be notified of an election and wire transfer instructions (1) on or prior to the third New York Business Day (as defined below) after the Record Date for any payment of interest, and (2) on or prior to the fifth New York Business Day prior to the date for any payment of principal. DTC will notify the paying agent of an election and wire transfer instructions (1) on or prior to 5:00 p.m. New York City time on the fifth New York Business Day after the Record Date for any payment of interest, and (2) on or prior to 5:00 p.m. New York City time on the third New York Business Day prior to the date for any payment of principal. If complete instructions are forwarded to DTC through DTC participants and by DTC to the paying agent on or prior to such dates, such holder will receive payment in euro outside of DTC; otherwise, only U.S. dollar payments will be made by the paying agent to DTC.

The term "Business Day" means any day other than a Saturday or Sunday that is (1) not a day on which banking institutions are authorized or required by law or executive order to close in the City of New York, and (2) a TARGET Settlement Day.

The term "New York Business Day" means any day other than a Saturday or Sunday or a day on which banking institutions in the City of New York are authorized or required by law or executive order to close.

As of December 31, 2013, the euro/U.S.\$ rate of exchange was €0.7277/U.S.\$1 and as of November 18, 2014, the euro/U.S.\$ rate of exchange was €0.7978/U.S.\$1.

Exchange Rates and Exchange Controls

An investment in the Notes by a purchaser whose home currency is not the euro entails significant risks. These risks include the possibility of significant changes in rates of exchange between the holder's home currency and the euro and the possibility of the imposition or modification of foreign exchange controls. These risks generally depend on factors over which IBM has no control, such as economic and political events and the supply of and the demand for the relevant currencies. In recent years, rates of exchange between the euro and certain currencies have been highly volatile, and each holder should be aware that volatility may occur in the future. Fluctuations in any particular exchange rate that have occurred in the past, however, are not necessarily indicative of fluctuations in the rate that may occur during the term of the Notes. Depreciation of the euro against the holder's home currency would result in a decrease in the effective yield of such Note below its coupon rate and, in certain circumstances, could result in a loss to the holder.

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If the euro is unavailable to IBM due to the imposition of exchange controls or other circumstances beyond IBM's control or the euro is no longer used by the member states of the European Monetary Union that have adopted the euro as their currency or for the settlement of transactions by public institutions of or within the international banking community, then all payments in respect of such Note will be made in U.S. dollars until such currency is again available to IBM or so used. The amount payable on any date in euro will be converted into U.S. dollars on the basis of the most recently available market exchange rate for the euro. Any payment in respect of such Note so made in U.S. dollars will not constitute an event of default under the Senior Indenture.

Applicable Law and Foreign Currency Judgments

The Notes will be governed by and construed in accordance with the internal laws of the State of New York. Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than the U.S. dollar.

Optional Redemption

The Notes will be redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders of the Notes given in accordance with "Description of the Debt Securities Notice to Holders" in the accompanying prospectus, at a redemption price equal to the greater of:

100% of the principal amount of the Notes to be redeemed; or

the Optional Redemption Price,

plus, in each case, accrued and unpaid interest on the Notes to, but excluding, the redemption date.

Notwithstanding the foregoing, installments of interest on Notes that are due and payable on interest payment dates falling on or prior to a redemption date will be payable on the interest payment date to the registered holders as of the close of business on the relevant record date according to the Notes and the Senior Indenture.

"Optional Redemption Price" means the price, expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the yield (as calculated by the trustee) on the Notes to be redeemed, if they were to be purchased at such price on the third dealing day prior to the date fixed for redemption, would be equal to the yield on such dealing day of the Reference Bond, plus $\frac{1}{4}$ basis points, on the basis of the average of four quotations of the average midmarket annual yield to maturity of the Reference Bond prevailing at 11:00 a.m. (Central European time) on such dealing day as determined by the trustee.

"Reference Bond" means, in relation to any Optional Redemption Price calculation, with respect to the Notes, the German Government DBR 1.500% due May 15, 2023 or if such bond is no longer in issue, such other European government bond as the trustee may, with the advice of three brokers of, and/or market makers in, European government bonds selected by the trustee, determine to be appropriate for determining the Optional Redemption Price.

On and after the redemption date, interest will cease to accrue on the Notes or any portion of the Notes called for redemption (unless we default in the payment of the redemption price and accrued and unpaid interest). On or before the redemption date, we will deposit with a paying agent (or the trustee) money sufficient to pay the redemption price of and accrued and unpaid interest on the Notes to be redeemed on that date. If fewer than all of the Notes are to be redeemed, the Notes to be redeemed shall be selected by the trustee by a method the trustee deems to be fair and appropriate.

The Notes are also subject to redemption prior to maturity if certain events occur involving United States taxation. If any of these special tax events do occur, the Notes will be redeemed at a redemption

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price of 100% of their principal amount plus accrued and unpaid interest to the date of redemption. See "Description of Notes Redemption for Tax Reasons."

Payments of Additional Amounts

IBM will, subject to the exceptions and limitations set forth below, pay as additional interest on the Notes such additional amounts as are necessary in order that the net payment by IBM or a paying agent of the principal of and interest on the Notes to a holder who is not a United States person (as defined below), after deduction for any present or future tax, assessment or other governmental charge of the United States or a political subdivision or taxing authority of or in the United States, imposed by withholding with respect to the payment, will not be less than the amount provided in the Notes to be then due and payable; provided, however, that the foregoing obligation to pay additional amounts shall not apply:

(1) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the holder, or a fiduciary, settlor, beneficiary, member or shareholder of the holder if the holder is an estate, trust, partnership or corporation, or a person holding a power over an estate or trust administered by a fiduciary holder, being considered as:

(a) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment in the United States;

(b) having a current or former relationship with the United States, including a relationship as a citizen or resident of the United States;

(c) being or having been a personal holding company, a passive foreign investment company or a controlled foreign corporation with respect to the United States or a corporation that has accumulated earnings to avoid United States federal income tax;

(d) being or having been a "10-percent shareholder" of IBM as defined in section 871(h)(3) of the United States Internal Revenue Code of 1986, as amended (the "Code") or any successor provision; or

(e) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;

(2) to any holder that is not the sole beneficial owner of the Notes, or a portion of the Notes, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;

(3) to any tax, assessment or other governmental charge that is imposed otherwise or withheld solely by reason of a failure of the holder or any other person to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of the Notes, if compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;

(4) to any tax, assessment or other governmental charge that is imposed otherwise than by withholding by us or a paying agent from the payment;

(5) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of a change in law, regulation or administrative or judicial interpretation that becomes

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effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(6) to any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or similar tax, assessment or other governmental charge;

(7) to any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of or interest on any Notes, if such payment can be made without such withholding by any other paying agent;

(8) to any Notes where such withholding is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

(9) to any Notes presented for payment by, or on behalf of, a holder or beneficial owner who would have been able to avoid such withholding or deduction by presenting the relevant Notes to another paying agent in a member state of the European Union;

(10) any taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the Code (or any amended or successor version of such Sections), any Treasury regulations promulgated thereunder, any official interpretations thereof or any agreements entered into in connection with the implementation thereof;

(11) with respect to any payment to the extent such payment could have been made without such deduction or withholding if the holder or beneficial owner of the Notes had presented the Notes for payment (where presentation is permitted or required for payment) within 30 days after the date on which such payment became due and payable or date on which payment thereof is duly provided for, whichever is later, except for Additional Amounts with respect to taxes that would have been imposed had the Holder or beneficial owner presented the Notes for payment within such 30-day period; and

(12) in the case of any combination of items (1), (2), (3), (4), (5), (6), (7), (8), (9), (10) and (11).

The Notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable to the Notes. Except as specifically provided under this heading " Payments of Additional Amounts" and under the heading " Redemption for Tax Reasons," IBM shall not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any government or a political subdivision or taxing authority of, or in any government or political subdivision.

As used under this heading " Payments of Additional Amounts" and under the heading " Redemption for Tax Reasons", the term "United States" means the United States of America (including the states and the District of Columbia) and its territories, possessions and other areas subject to its jurisdiction, and the term "United States person" means any individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state of the United States or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), or any estate or trust the income of which is subject to United States federal income taxation regardless of its source.

Redemption for Tax Reasons

If, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated under the laws) of the United States (or any political subdivision or taxing authority of or

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in the United States), or any change in, or amendments to, an official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of this prospectus supplement, IBM becomes, or based upon a written opinion of independent counsel selected by IBM, will become obligated to pay additional amounts as described herein under the heading " Payments of Additional Amounts" with respect to the Notes, then IBM may at its option redeem, in whole, but not in part, the Notes on not less than 30 nor more than 60 days prior notice, at a redemption price equal to 100% of their principal amount, together with interest accrued but unpaid on those Notes to the date fixed for redemption.

Book-Entry System

Notes which are offered and sold outside the United States (the "international Notes") will be represented by beneficial interests in a fully registered permanent global note (the "international global note") without interest coupons attached, which will be registered in the name of, and shall be deposited on or about November , 2014 with a common depository for, and in respect of interests held through, Euroclear Bank, S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, societe anoyme ("Clearstream").

Notes which are offered and sold in the United States (the "DTC Notes" and, together with the international Notes, the "Notes") will be represented by beneficial interests in a fully registered permanent global Note (the "DTC global Note" and, together with the international global Note, the "global Notes"), without interest coupons attached, which will be deposited on or about November , 2014 with The Bank of New York Mellon, as custodian for, and registered in the name of Cede & Co., as nominee for, The Depository Trust Company.

Together, the Notes represented by the global Notes will equal the aggregate principal amount of the Notes outstanding at any time. The amount of Notes represented by each of the DTC global Note and the international global Note is evidenced by the register maintained for that purpose by the registrar. Beneficial interests in the global Notes will be shown on, and transfers thereof will be affected only through, records maintained by DTC, Euroclear and Clearstream and their participants. Except as described herein, individual registered certificates will not be issued in exchange for beneficial interests in the global Notes.

A holder of DTC Notes will receive all payments under the DTC Notes in U.S. dollars, unless such holder makes an election as described herein for payment in euro. The amount payable in U.S. dollars will be equal to the amount of euro otherwise payable exchanged into U.S. dollars at the euro/U.S.\$ rate of exchange prevailing two Business Days prior to the relevant payment date. See " Issuance in Euro" herein.

Euroclear advises that it was created in 1968 to hold securities for its participants ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear is operated by Euroclear Bank (the "Euroclear Operator"). Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in

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Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in any of 36 currencies, including United States Dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier, "CSSF", which supervises Luxembourg banks. Clearstream's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Clearstream's U.S. customers are limited to securities brokers and dealers, and banks. Currently, Clearstream has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream. Clearstream has established an electronic bridge with the Euroclear Operator to facilitate settlement of trades between Clearstream and Euroclear.

Distributions with respect to the Notes held beneficially through Clearstream will be credited to cash accounts of Clearstream participants in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream.

Individual certificates in respect of Notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If Euroclear, Clearstream or DTC notifies us that it is unwilling or unable to continue as a clearing system in connection with a Global Note or, in the case of DTC only, DTC ceases to be a clearing agency registered under the Exchange Act, and in each case we do not appoint a successor clearing system within 90 days after receiving such notice from Euroclear, Clearstream or DTC or on becoming aware that DTC is no longer so registered, we will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the Notes represented by such Global Notes upon delivery of such Global Notes for cancellation.

If individual certificates are issued, an owner of a beneficial interest in the Global Notes will be entitled to physical delivery in definitive form of Notes represented by the Global Notes equal in principal amount to its beneficial interest and to have those Notes registered in its name. Notes issued in definitive form will be issued as registered Notes in denominations of €100,000 and multiples of €1,000 in addition thereto. It is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denominations. If definitive Notes are required to be issued in relation to such Notes in accordance with the provisions of the relevant global Notes, a holder who does not have the minimum denomination or an integral multiple of €1,000 in excess thereof in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of definitive Notes unless and until such time as its holding satisfies the minimum denomination requirement. You may transfer the definitive Notes by presenting them for registration to the registrar at its New York office. Notes presented for registration must be duly

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endorsed by you or your attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer in form satisfactory to us or the trustee duly executed by you or your attorney duly authorized in writing. We may require you to pay a sum sufficient to cover any tax or other government charge that may be imposed in connection with any exchange or registration of transfer of definitive Notes.

In the case of a transfer of part of a holding of Notes represented by one certificate, a new certificate shall be issued to the transferee in respect of the part transferred and a further new certificate in respect of the balance of the holding not transferred shall be issued to the transferor. Any new certificates shall be obtained at the specified office of the registrar within three business days of receipt by the registrar. For the purposes of this paragraph, "business day" means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the registrar.

If IBM issues definitive Notes, IBM will do so at the office of The Bank of New York Mellon, the paying agent and registrar for the Notes, including any successor paying agent and registrar for the notes, currently located at 101 Barclay Street, Floor 7 West, New York, New York 10286.

We may pay interest on definitive Notes, other than interest at maturity or upon redemption, by mailing a check to the address of the person entitled to the interest as it appears on the security register at the close of business on the record date corresponding to the relevant interest payment date.

Notwithstanding the foregoing, the common depositary, as holder of the Notes, may require the paying agent to make payments of interest, other than interest due at maturity or upon redemption, by wire transfer of immediately available funds into an account maintained in euro by the common depositary, by sending appropriate wire transfer instructions. The paying agent must receive these instructions not less than ten days prior to the applicable interest payment date.

The paying agent will pay the principal and interest payable at maturity or upon redemption by wire transfer of immediately available funds against presentation of a Note at the office of the paying agent.

Title to book-entry interests in the Notes will pass by book-entry registration of the transfer within the records of Euroclear, Clearstream or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within Euroclear and within Clearstream and between Euroclear and Clearstream in accordance with procedures established for these purposes by Euroclear and Clearstream. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the Notes between Euroclear and Clearstream and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream, Luxembourg and DTC.

Euroclear, Clearstream and DTC Arrangements

So long as DTC or its nominee or Euroclear, Clearstream or the nominee of their common depositary is the registered holder of the global Notes, DTC, Euroclear, Clearstream or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such global notes for all purposes under the Senior Indenture and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the global Notes will be made to DTC, Euroclear, Clearstream or such nominee, as the case may be, as the registered holder thereof. None of IBM, any agent or any underwriter or any affiliate of any of the above or any person by whom any of the above is controlled (as such term is defined in the United States Securities Act of 1933, as amended), have any responsibility or liability for any aspect of the records relating to or payments made on account of

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beneficial ownership interests in the global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Distributions with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by Euroclear or Clearstream for the paying agent, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the paying agent, all distributions with respect to book-entry interests in the Notes from the paying agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest on redemption) will be paid to the holder shown on the register on the applicable record date. Trading between the DTC global Note and the international global Note will therefore be net of accrued interest from the record date to the relevant interest payment date.

Because DTC, Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the global Notes to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes through Euroclear, Clearstream and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the registrar will adjust the amounts of the Notes on the register for the accounts of (i) the common depository for Euroclear and Clearstream and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear and Clearstream, and DTC, respectively.

Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream and DTC. Interests in the global Notes will be in uncertificated book-entry form.

Secondary Market Trading in Relation to Registered Global Notes

Trading between Euroclear and/or Clearstream Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream to purchasers of book-entry interests in the international Notes through Euroclear or Clearstream will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the DTC Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations if payment is effected in U.S. dollars, or free of payment if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream Purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a DTC global Note to the account of a Euroclear or Clearstream account holder wishing to purchase a beneficial interest in an international global Note, the DTC

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participant will deliver instructions for delivery to the relevant Euroclear or Clearstream accountholder to DTC by 12:00 noon, New York City time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream accountholder. On the settlement date, the custodian will instruct the registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the DTC global Note and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by the international global Note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date but for value on the settlement date.

Trading between Euroclear/Clearstream Seller and DTC Purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream accountholder to the account of a DTC participant wishing to purchase a beneficial interest in the DTC global Note, the Euroclear or Clearstream participant must send to Euroclear or Clearstream delivery free of payment instructions by 7:45 p.m., Luxembourg/Brussels time as the case may be, one business day prior to the settlement date. Euroclear or Clearstream, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear and Clearstream accountholder, as the case may be.

On the settlement date, the common depository for Euroclear and Clearstream will (a) transmit appropriate instructions to the custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the registrar to (i) decrease the amount of the Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream and evidenced by the international global Notes and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the DTC global Note.

Although the foregoing sets out the procedures of Euroclear, Clearstream and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Clearstream and Euroclear, none of Euroclear, Clearstream or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither IBM, the registrar, the Trustee, any paying agent, any underwriter or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the United States Securities Act of 1933, as amended, will have any responsibility for the performance by DTC, Euroclear and Clearstream or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described above.

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UNITED STATES TAXATION

General

This section summarizes the material U.S. federal tax consequences to holders of Notes. It represents the views of our tax counsel, Cravath, Swaine & Moore LLP. However, the discussion is limited in the following ways:

The discussion only covers you if you buy your Notes in the initial offering at the initial offering price to the public.

The discussion only covers you if you hold your Notes as a capital asset (that is, for investment purposes), and if you do not have a special tax status.

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of Notes.

The discussion is based on current law. Changes in the law may change the tax treatment of the Notes.

The discussion does not cover state, local or foreign law.

The discussion does not apply to you if you are a Non-U.S. Holder of Notes (as defined below) and if you (a) own, actually or constructively, 10% or more of the voting stock of the Company, (b) are a "controlled foreign corporation" related, directly or indirectly, to the Company through stock ownership, or (c) are a bank making a loan in the ordinary course of its business.

We have not requested a ruling from the Internal Revenue Service (the "IRS") on the tax consequences of owning the Notes. As a result, the IRS could disagree with portions of this discussion.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, changes to any of which subsequent to the date of this Prospectus Supplement may affect the tax consequences described herein. If you are considering buying Notes, we suggest that you consult your tax advisor about the tax consequences of holding the Notes in your particular situation.

Tax Consequences to U.S. Holders

This section applies to you if you are a "U.S. Holder". A "U.S. Holder" is:

an individual U.S. citizen or resident alien;

a corporation, or entity taxable as a corporation, that was created under U.S. law (federal, or state or the District of Columbia); or

an estate or trust whose world-wide income is subject to U.S. federal income tax.

If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding Notes, we suggest that you consult your tax advisor.

Interest

All holders of Notes will be taxable on the U.S. dollar value of euro payable as interest on the Notes, whether or not they elect to receive payments in euro. If you receive interest in the form of U.S. dollars, you will be considered to have received interest in the form of euro and to have sold those euro for U.S. dollars.

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If you are a cash method taxpayer (including most individual holders), you will be taxed on the value of the euro when it is received by you (if you receive euro) or when it is deemed received by you (if you receive U.S. dollars). The value of the euro will be determined using a "spot rate" in effect at such time. "Spot rate" generally means a currency exchange rate that reflects a market exchange rate available to the public for euro.

If you are an accrual method taxpayer, you will be taxed on the value of the euro payable as interest as the interest accrues on the Notes. In determining the value of the euro for this purpose, you may use the average foreign currency exchange rate during the relevant interest accrual period (or, if that period spans two taxable years, during the portion of the interest accrual period in the relevant taxable year). The average rate for an accrual period (or partial period) is the simple average of the spot rates for each business day of such period, or other average exchange rate for the period reasonably derived and consistently applied by you. When interest is actually paid, you will generally also recognize exchange gain or loss, taxable as ordinary income or loss, equal to the difference between (a) the value of the euro received as interest, as translated into U.S. dollars using the spot rate on the date of receipt, and (b) the U.S. dollar amount previously included in income with respect to such payment. If you receive interest in the form of U.S. dollars, clause (a) will be calculated on the basis of the value of the euro you would have received instead of U.S. dollars. If you do not wish to accrue interest income using the average exchange rate, certain alternative elections may be available.

Your tax basis in the euro you receive (or are considered to receive) as interest will be the aggregate amount reported by you as income with respect to the receipt of the euro.

Sale, Redemption or Retirement of Notes

On the sale, redemption or retirement of your Note:

If you receive the principal payment on your Note in the form of U.S. dollars, you will be considered to have received the principal in the form of euro and to have sold those euro for U.S. dollars.

You will have taxable gain or loss equal to the difference between the amount received or deemed received by you and your tax basis in the Note. Upon your receipt (or deemed receipt) of euro, those euro are valued for this purpose at the spot rate of the euro. In case of a redemption or retirement of the Note, the spot rate is determined as of the date of the redemption or retirement. In case of a sale on an established securities market, the spot rate is determined as of (i) the settlement date of the sale for a cash basis taxpayer (or, upon election, an accrual basis taxpayer) or (ii) the trade date of the sale for a non-electing accrual basis taxpayer. Your tax basis in the Note is the U.S. dollar value of the euro amount paid for the Note, determined on the date of purchase.

Any such gain or loss (except to the extent attributable to foreign currency gain or loss) will be capital gain or loss, and will be long term capital gain or loss if you held the Note for more than one year.

You will realize foreign currency gain or loss on the Note to the extent the U.S. dollar value of the euro paid for the Note, based on the spot rate on the applicable disposition date referred to above, is greater or less than the U.S. dollar value of the euro paid for the Note, based on the spot rate at the time you acquired the Note. Any resulting foreign currency gain or loss will be ordinary income or loss. You will only recognize such foreign currency gain or loss to the extent you have gain or loss, respectively, on the overall sale or retirement of the Note. A non-electing accrual basis taxpayer selling the Notes on an established securities market will also realize foreign currency gain or loss on the receipt of euro to the extent (i) the U.S. dollar value of the

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euro determined at the spot rate on the settlement date of the sale differs from (ii) the U.S. dollar value of the euro determined at the spot rate on the trade date of the sale.

If you sell a Note between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the Note but has not yet been paid by the sale date. That amount is treated as ordinary interest income and not as sale proceeds.

Your tax basis in the euro you receive (or are considered to receive) on sale or retirement of the Note will be the U.S. dollar value of euro reported by you as received on the sale or retirement of the Note (or, in the case of non-electing accrual basis taxpayer that sells the Notes on an established securities market, on the receipt of such euro, as explained above).

Sale of Euro

If you receive (or are considered to receive) euro as principal or interest on a Note, and you later sell (or are considered to sell) those euro for U.S. dollars, you will have taxable gain or loss equal to the difference between the amount of U.S. dollars received and your tax basis in the euro. In addition, when you purchase a Note in euro, you will have taxable gain or loss if your tax basis in the euro is different from the U.S. dollar value of the euro on the date of purchase. Any such gain or loss is foreign currency gain or loss taxable as ordinary income or loss.

Foreign Currency Loss

In general, any foreign currency loss claimed by you from a sale, redemption or retirement of your Note or foreign currency received in respect of such Note will be treated as a "reportable transaction" for U.S. federal income tax purposes to the extent that the amount of the loss equals or exceeds certain threshold amounts. You should consult your own tax advisors concerning the application of the reportable transaction regulations to your investment in the Notes, including any requirement to file IRS Form 8886 with your tax return.

Information Reporting and Backup Withholding

Under U.S. federal tax rules concerning information reporting to the IRS:

Assuming you hold your Notes through a broker or other securities intermediary, the intermediary must provide information to the IRS concerning interest and sale or retirement proceeds on your Notes, unless an exemption applies.

Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

If you are subject to these requirements but do not comply, the intermediary must withhold at a rate currently equal to 28% on all amounts payable to you on the Notes (including principal payments). If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.

All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

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Tax Consequences to Non-U.S. Holders

This section applies to you if you are a "Non-U.S. Holder." A "Non-U.S. Holder" is:

an individual who is a nonresident alien;

a corporation organized or created under non-U.S. law; or

an estate or trust that is not taxable in the United States on its worldwide income.

Withholding Taxes

Generally, payments of principal and interest on the Notes will not be subject to U.S. withholding taxes.

However, for the exemption from withholding taxes on interest to apply to you, you must meet one of the following requirements:

You provide a completed IRS Form W-8BEN or Form W-8BEN-E, as applicable, (or substitute form) to the bank, broker or other intermediary through which you hold your Notes. The Form W-8BEN or Form W-8BEN-E, as applicable, contains your name, address and a statement that you are the beneficial owner of the Notes and that you are not a U.S. Holder.

You hold your Notes directly through a "qualified intermediary", and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. Holder. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. tax withholding rules under specified procedures.

You are entitled to an exemption from withholding tax on interest under a tax treaty between the United States and your country of residence. To claim this exemption, you generally must complete Form W-8BEN or Form W-8BEN-E, as applicable, and fill out Part III of the form to state your claim for treaty benefits. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.

The interest income on the Notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI.

Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.

The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.

An intermediary through which you hold the Notes fails to comply with the procedures necessary to avoid withholding taxes on the Notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN or Form W-8BEN-E, as applicable, (or other documentary information concerning your status) to the withholding agent for the Notes. However, if you hold your Notes through a qualified intermediary or if there is a qualified intermediary in the chain of title between you and the withholding agent for the Notes the qualified intermediary will not generally forward this

information to the withholding agent.

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We suggest that you consult your tax advisor about the specific methods for satisfying these requirements.

Sales or Retirement of Notes

If you sell a Note or it is redeemed, you will not be subject to U.S. federal income tax on any gain unless one of the following applies:

The gain is connected with a trade or business that you conduct in the United States.

You are an individual, you are present in the United States for at least 183 days during the year in which you dispose of the Note, and certain other conditions are satisfied.

The gain represents accrued interest, in which case the rules for interest would apply.

U.S. Trade or Business

If you hold your Note in connection with a trade or business that you are conducting in the United States:

Any interest on the Note, and any gain from disposing of the Note, generally will be subject to income tax as if you were a U.S. Holder.

If you are a corporation, you may be subject to an additional "branch profits tax" on your earnings that are connected with your U.S. trade or business, including earnings from the Note. This tax is 30%, but may be reduced or eliminated by an applicable income tax treaty.

Estate Taxes

If you are an individual, your Notes will not be subject to U.S. estate tax when you die. However, this rule only applies if, at your death, payments on the Notes were not subject to U.S. federal withholding tax and not connected to a trade or business that you were conducting in the United States.

Information Reporting and Backup Withholding

U.S. federal income tax rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. Holders as follows:

Principal and interest payments you receive will be automatically exempt from the usual rules if you provide the tax certifications needed to avoid withholding tax on interest, as described above. The exemption does not apply if the recipient of the applicable form knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, interest payments made to you will generally be reported to the IRS on Form 1042-S.

Sale proceeds you receive on a sale of your Notes through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup reporting may apply if you use the United States office of a broker, and information reporting (but not generally backup withholding) may apply if you use the foreign office of a broker that has certain connections to the United States.

In general, you may file Form W-8BEN or Form W-8BEN-E, as applicable, to claim an exemption from information reporting and backup withholding. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale of your Notes.

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European Union Tax Reporting and Withholding

Directive 2003/48/EC (the "Directive") of the Council of the European Union relating to the taxation of savings income, became effective on July 1, 2005. Under the Directive, if a paying agent for interest on a debt claim is resident in one member state of the European Union and an individual who is the beneficial owner of the interest is a resident of another member state, then the former member state is required to provide information (including the identity of the recipient) to authorities of the latter member state. "Paying agent" is defined broadly for this purpose and generally includes any agent of either payor or payee. Luxembourg and Austria have opted instead to withhold tax on the interest during a transitional period (currently at a rate of 35%), subject to the ability of the individual to avoid withholding taxes through voluntary disclosure of the investment to the individual's member state.

The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-members of the European Union to the exchange of information relating to such payments. In addition, certain non-members of the European Union (Switzerland, Liechtenstein, Andorra, Monaco and San Marino), as well as dependent and associated territories of the United Kingdom and the Netherlands, have adopted equivalent measures effective on the same date, and some (including Switzerland) have exercised the option to apply withholding taxes as described above. In addition, the member states have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in a member state to an individual beneficial owner resident in one of those territories.

FATCA

Legislation referred to as the Foreign Account Tax Compliance Act ("FATCA") may impose a new U.S. federal withholding tax of 30% on payments of interest or, for a disposition (including a retirement or redemption) of a debt instrument occurring after December 31, 2016, on the gross proceeds from such disposition paid to certain non-U.S. entities (whether or not such non-U.S. entity is a beneficial owner or an intermediary), including certain foreign financial institutions, unless such non-U.S. entity complies with certain reporting and disclosure obligations under FATCA. You should consult your own tax advisor regarding the possible implications of FATCA on your investment in the Notes.

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Barclays Bank PLC, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch and The Royal Bank of Scotland plc are acting as joint bookrunning managers of the offering, and as representatives of the underwriters named below.

Subject to terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and IBM has agreed to sell to that underwriter, the principal amount of Notes set forth opposite the underwriter's name.

Underwriter	Principal Amount of Notes
Barclays Bank PLC	€
Credit Suisse Securities (Europe) Limited	
Deutsche Bank AG, London Branch	
The Royal Bank of Scotland plc	
Total	€

The underwriting agreement provides that the obligation of the several underwriters to pay for and accept delivery of the Notes is subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the Notes if any are taken.

IBM has been advised by the underwriters that the underwriters propose to offer the Notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement. After the initial offering of the Notes to the public, the representatives may change the public offering price. The offering of the Notes by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The following table shows the underwriting discounts and commissions that IBM is to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the Notes).

Paid by IBM	%
Per Note	

The Notes are a new issue of securities with no established trading market. The underwriters have informed IBM that they intend to make a market in the Notes but are under no obligation to do so and such market making may be terminated at any time without notice.

IBM intends to apply to list the Notes on the New York Stock Exchange. It is not possible to predict whether the application will be approved for listing or, if approved, whether the application will be approved prior to the settlement date. Settlement of the Notes is not conditional on obtaining the listing, and we are not required to maintain the listing.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "Stabilizing Manager") (or persons acting on behalf of the Stabilizing Manager) may overallocate Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of the Stabilizing Manager) will undertake stabilization action. Any stabilization action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any

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stabilization action or overallotment must be conducted by the Stabilizing Manager (or person(s) acting on behalf of the Stabilizing Manager) in accordance with all applicable laws and rules.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing, brokerage and corporate trust activities. The underwriters and certain of their affiliates and associates may engage in transactions with, and/or perform services, including investment banking, general financing and banking and corporate trust services for, IBM and its subsidiaries in the ordinary course of business. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of IBM. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

IBM has agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act of 1933, or contribute to payments which the underwriters may be required to make in respect thereof.

IBM will deliver the Notes to the underwriters at the closing of this offering when the underwriters pay IBM the purchase price of the Notes. The underwriting agreement provides that the closing will occur on November 10, 2014, which is five business days after the date of this prospectus supplement. Rule 15c6-1 under the Securities Exchange Act of 1934 generally requires that securities trades in the secondary market settle in three business days, unless the parties to a trade expressly agree otherwise.

Expenses payable by IBM are estimated at \$ _____, excluding underwriting discounts and commissions.

OFFERING RESTRICTIONS

Any underwriter that is not a broker-dealer registered with the SEC will only make sales of Notes in the United States through one or more SEC-registered broker-dealers in compliance with applicable securities laws and the rules of the Financial Industry Regulatory Authority, Inc.

The Notes are offered for sale in the United States and in jurisdictions outside the United States, subject to applicable law.

Each of the underwriters has agreed that it will not offer, sell, or deliver any of the Notes, directly or indirectly, or distribute this prospectus supplement or prospectus or any other offering material relating to the Notes, in or from any jurisdiction except under circumstances that will, to the best of the underwriters' knowledge and belief, result in compliance with the applicable laws and regulations and which will not impose any obligations on IBM except as set forth in the underwriting agreement.

Noteholders may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country in which the Notes were purchased. These taxes and charges are in addition to the issue price set forth on the cover page.

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European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require IBM or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC as amended, including by Directive 2010/73/EU, and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to IBM; and
- (b) it has complied with, and will comply with, all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

LEGAL OPINIONS

The validity of the Notes offered hereby will be passed upon for IBM by Stuart S. Moskowitz, Senior Counsel of IBM, and for the underwriters by Davis Polk & Wardwell LLP, New York, New York. Mr. Moskowitz, together with members of his family, owns, has options to purchase and has other interests in shares of common stock of IBM. Davis Polk & Wardwell LLP provides legal services to IBM from time to time.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the Annual Report on Form 10-K of IBM for the year ended December 31, 2013 have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

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PROSPECTUS

International Business Machines Corporation

**DEBT SECURITIES
PREFERRED STOCK
DEPOSITARY SHARES
CAPITAL STOCK
WARRANTS**

We will provide specific terms of these securities in supplements to this prospectus.

You should read this prospectus and any supplement carefully before you invest.

IBM's capital stock is traded on The New York Stock Exchange under the trading symbol "IBM".

The mailing address of our principal executive office is One New Orchard Road, Armonk, NY 10504. Our telephone number is (914) 499-1900.

These securities have not been approved by the Securities and Exchange Commission (SEC) or any state securities commission, nor have these organizations determined that this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 26, 2013.

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SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the terms of our securities, you should carefully read this document with the attached prospectus supplement. Together these documents will give the specific terms of the securities we are offering. You should also read the documents we have incorporated by reference into this prospectus for information on us and our financial statements. Certain capitalized terms used in this summary are defined elsewhere in this prospectus.

About this Prospectus

This prospectus is part of a registration statement we have filed with the U.S. Securities and Exchange Commission using a "shelf" registration process. Using this process we may offer securities or any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement and, if applicable, a pricing supplement that will describe the specific terms of the offering. The prospectus supplement and any pricing supplement may also add to, update or change the information contained in this prospectus. Please carefully read this prospectus, the prospectus supplement and any applicable pricing supplement, in addition to the information contained in the documents we refer to under the heading "Summary Where You Can Find More Information."

About International Business Machines Corporation

International Business Machines Corporation (IBM) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological invention, and its operations and aims have been international in nature. This was signaled over 85 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing. The mailing address of our principal executive office is One New Orchard Road, Armonk, NY 10504. Our telephone number is (914) 499-1900.

Debt Securities

We may offer unsecured general obligations of our company, which may be senior or subordinated. The senior debt securities and the subordinated debt securities are together referred to in this prospectus as the "debt securities". The senior debt securities will have the same rank as all of our other unsecured, unsubordinated debt. The subordinated debt securities will be entitled to payment only after payment on our senior indebtedness. Senior indebtedness includes all indebtedness for money borrowed by us, except indebtedness that is stated to be not superior to, or to have the same rank as, the subordinated debt securities. In addition, the senior and subordinated debt securities will be effectively subordinated to creditors of our subsidiaries.

The senior debt securities will be issued under an indenture between us and The Bank of New York Mellon, as the trustee. The subordinated debt securities will be issued under an indenture between us and the trustee we name in the prospectus supplement. We have summarized general features of the debt securities from the indentures. We encourage you to read the indentures which are

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exhibits to the registration statement and our recent periodic and current reports that we file with the SEC.

General Indenture Provisions That Apply to Senior and Subordinated Debt Securities

Neither indenture limits the amount of debt that we may issue. In addition, neither indenture provides holders any protection should there be a recapitalization or restructuring involving our company.

The indentures allow us to merge or consolidate with another company, or to sell all or most of our assets to another company. If these events occur, the other company will be required to assume our responsibilities relating to the debt securities, and we will be released from all liabilities and obligations.

The indentures provide that holders of a majority of the outstanding principal amount of any series of debt securities may vote to change our obligations or your rights concerning that series. However, to change the amount or timing of principal, interest or other payments under the debt securities, every holder in the series must consent.

We may discharge our obligations under the indentures by depositing with the trustee sufficient funds or government obligations to pay the debt securities when due.

Events of default. Each indenture provides that the following are events of default in connection with any series of debt securities:

If we do not pay interest for 30 days after its due date.

If we do not pay principal or premium when due.

If we do not make any sinking fund payment for 30 days after its due date.

If we continue to breach a covenant for 90 days after notice.

If we enter bankruptcy or become insolvent.

If an event of default occurs under any series of debt securities, the trustee or holders of 25% of the outstanding principal amount of that series may declare the principal amount of the series immediately payable. However, holders of a majority of the principal amount of a series may rescind this action.

General Indenture Provisions That Apply Only to Senior Debt Securities

The indenture relating to the senior debt securities contains covenants restricting our ability to incur secured indebtedness and enter into sale and leaseback transactions.

General Indenture Provisions That Apply Only to Subordinated Debt Securities

The subordinated debt securities will be subordinated to all senior indebtedness. In addition, claims of our subsidiaries' creditors generally will have priority with respect to the subsidiaries' assets and earnings over the claims of our creditors, including holders of the subordinated debt securities. The subordinated debt securities, therefore, will be effectively subordinated to creditors of our subsidiaries.

The indenture relating to the subordinated debt securities does not provide holders any protection in the event of a highly leveraged transaction.

Table of Contents**Preferred Stock and Depositary Shares**

We may issue our preferred stock, par value \$0.01 per share, in one or more series. Our Board of Directors will determine the dividend, voting, conversion and other rights of the series being offered and the terms and conditions relating to its offering and sale at the time of the offer and sale. We may also issue fractional shares of preferred stock that will be represented by depositary shares and depositary receipts.

Capital Stock

We may issue our capital stock, par value \$0.20 per share. Holders of capital stock are entitled to receive dividends if and when those dividends are declared by our Board of Directors, subject to rights of preferred stockholders. Each holder of capital stock is entitled to one vote per share. The holders of capital stock have no preemptive rights or cumulative voting rights.

Warrants

We may issue warrants for the purchase of debt securities, preferred stock or capital stock. We may issue warrants independently or together with other securities.

Ratio of Earnings From Continuing Operations to Fixed Charges

We compute the ratio of earnings from continuing operations to fixed charges by dividing earnings from continuing operations before income taxes (which excludes (a) amortization of capitalized interest and (b) IBM's share in the income and losses of less than 50% owned affiliates) and fixed charges (excluding capitalized interest) by fixed charges. Fixed charges consist of interest expense, capitalized interest and that portion of rental expense deemed to be representative of interest.

	Three months ended	Years Ended December 31,				
	March 31, 2013	2012	2011	2010	2009	2008
Ratio of earnings from continuing operations to fixed charges	10.4	14.6	14.3	14.1	11.8	9.2

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on their public reference room. Our SEC filings are also available to the public at the SEC's web site at (<http://www.sec.gov>).

The SEC allows us to "incorporate by reference" into this prospectus the information we file with it. This means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until our offering is completed:

- i. Annual Report on Form 10-K for the year ended December 31, 2012;
- ii. Quarterly Report on Form 10-Q for the quarter ended March 31, 2013; and
- iii. Current Reports on Form 8-K, or filed portions of those reports, filed (but not portions of those reports which were furnished) January 4, 2013, January 22, 2013, January 23, 2013,

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February 1, 2013, February 7, 2013, April 18, 2013, April 19, 2013, May 3, 2013, May 6, 2013, July 17, 2013 and July 18, 2013.

We encourage you to read our periodic and current reports. Not only do we think these items are interesting reading, we think these reports provide additional information about our company which prudent investors find important. You may request a copy of these filings at no cost, by writing to or telephoning our transfer agent at the following address:

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, Rhode Island 02940-3078
(781) 575-2727

We have not authorized anyone else to provide you with any information other than that contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. We take no responsibility for, and can provide no assurance as to the reliability of, any other information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of the document.

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USE OF PROCEEDS

Unless we otherwise specify in the applicable prospectus supplement, the net proceeds we receive from the sale of the securities offered by this prospectus and the accompanying prospectus supplement will be used for general corporate purposes. General corporate purposes may include the repayment of debt, investments in or extensions of credit to our subsidiaries, redemption of any preferred stock we may issue, or the financing of possible acquisitions or business expansion. The net proceeds may be invested temporarily or applied to repay short-term debt until they are used for their stated purpose.

DESCRIPTION OF THE DEBT SECURITIES

The following description of the terms of the debt securities sets forth general terms that may apply to the debt securities. The particular terms of any debt securities will be described in the prospectus supplement relating to those debt securities.

The debt securities will be either our senior debt securities or our subordinated debt securities. The senior debt securities will be issued under an indenture dated as of October 1, 1993, as supplemented on December 15, 1995, between us and The Bank of New York Mellon, as trustee. This indenture is referred to as the "senior indenture". The subordinated debt securities will be issued under an indenture to be entered into between us and the trustee named in a prospectus supplement. This indenture is referred to as the "subordinated indenture". The senior indenture and the subordinated indenture are together called the "indentures".

The following is a summary of some of the important provisions of the indentures. Copies of the entire indentures are exhibits to the registration statement of which this prospectus is a part. Section references below are to the section in the applicable indenture. The referenced sections of the indentures are incorporated by reference. We encourage you to read our indentures.

General

Neither indenture limits the amount of debt securities that we may issue. Each indenture provides that debt securities may be issued up to the principal amount authorized by us from time to time. The senior debt securities will be unsecured and will have the same rank as all of our other unsecured and unsubordinated debt. The subordinated debt securities will be unsecured and will be subordinated and junior to all senior indebtedness. The debt securities may be issued in one or more separate series of senior debt securities and/or subordinated debt securities. The prospectus supplement relating to the particular series of debt securities being offered will specify the particular amounts, prices and terms of those debt securities. These terms may include:

the title of the debt securities;

any limit upon the aggregate principal amount of the debt securities;

the maturity date or dates, or the method of determining the maturity dates;

the interest rate or rates, or the method of determining those rates;

the interest payment dates and, for debt securities in registered form, the regular record dates;

the places where payments may be made;

any mandatory or optional redemption provisions;

any sinking fund or analogous provisions;

any conversion or exchange provisions;

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any terms for the attachment to the debt securities of warrants, options or other rights to purchase or sell our securities;

the portion of principal amount of the debt security payable upon acceleration of maturity if other than the full principal amount;

any deletions of, or changes or additions to, the events of default or covenants;

if other than U.S. dollars, the currency, currencies or composite currencies, in which payments on the debt securities will be payable and whether the holder may elect payment to be made in a different currency;

the method of determining the amount of any payments on the debt securities which are linked to an index;

whether the debt securities will be issued in fully registered form without coupons or in bearer form, with or without coupons, or any combination of these, and whether they will be issued in the form of one or more global securities in temporary or definitive form;

any terms relating to the delivery of the debt securities if they are to be issued upon the exercise of warrants;

whether and on what terms we will pay additional amounts to holders of the debt securities that are not U.S. persons for any tax, assessment or governmental charge withheld or deducted and, if so, whether and on what terms we will have the option to redeem the debt securities rather than pay the additional amounts; and

any other specific terms of the debt securities. (Sections 202 and 301)

Unless we otherwise specify in the prospectus supplement:

the debt securities will be registered debt securities;

registered debt securities denominated in U.S. dollars will be issued in denominations of \$1,000 or an integral multiple of \$1,000; and

bearer debt securities denominated in U.S. dollars will be issued in denominations of \$5,000.

Debt securities may bear legends required by U.S. Federal tax law and regulations. (Section 401)

If any of the debt securities are sold for any foreign currency or currency unit, or if any payments on the debt securities are payable in any foreign currency or currency unit, the prospectus supplement will contain any restrictions, elections, tax consequences, specific terms and other information relating to the debt securities and the foreign currency or currency unit.

Some of the debt securities may be issued as original issue discount debt securities. Original issue discount securities bear no interest or bear interest at below-market rates. These are sold at a discount below their stated principal amount. If we issue these securities, the prospectus supplement will describe any special tax, accounting or other information which we think is important. We encourage you to consult with your own competent tax and financial advisors on these important matters.

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IBM may in the future, without the consent of the holders, increase the outstanding principal amount of any series of debt securities on the same terms and conditions and with the same CUSIP numbers as debt securities of that series previously issued. Any such additional debt securities will vote together with all other debt securities of the same series for purposes of amendments, waivers and all other matters with respect to such series.

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Exchange, Registration and Transfer

Debt securities may be transferred or exchanged at the corporate trust office of the security registrar or at any other office or agency which is maintained for these purposes. No service charge will be payable upon the transfer or exchange, except for any applicable tax or governmental charge.

The designated security registrar in the United States for the senior debt securities is The Bank of New York Mellon, located at 101 Barclay Street, Floor 8 West, New York, New York 10286. The security registrar for the subordinated debt securities will be designated in a prospectus supplement.

If debt securities are issuable in both registered and bearer form, the bearer securities will be exchangeable for registered securities. If a bearer security with related coupons is surrendered in exchange for a registered security between a record date and the date set for the payment of interest, the bearer security will be surrendered without the coupon relating to that interest payment. That interest payment will be made only to the holder of the coupon when due.

We will not be required to:

issue, register the transfer of, or exchange, debt securities of any series between the opening of business 15 business days before any selection of debt securities of that series to be redeemed and the close of business on:

the day of mailing of the relevant notice of redemption (if debt securities of the series are issuable only in registered form), and

the day of the first publication of the relevant notice of redemption (if the debt securities of the series are issuable in bearer form) or,

the day of mailing of the relevant notice of redemption (if the debt securities of the series are issuable in bearer and registered form) and there is no publication;

register the transfer of, or exchange, any registered security selected for redemption, in whole or in part, except the unredeemed portion of any registered security being redeemed in part; or

exchange any bearer security selected for redemption, except to exchange it for a registered security which is simultaneously surrendered for redemption. (Section 404)

Payment and Paying Agent

We will pay principal, interest and any premium on fully registered securities in the designated currency or currency unit at the office of the paying agent. Payment of interest on fully registered securities may be made by check mailed to the persons in whose names the debt securities are registered on days specified in the indentures or any prospectus supplement. (Sections 406 and 410)

We will pay principal, interest and any premium on bearer securities in the designated currency or currency unit at the office of the paying agent or agents outside of the United States. Payments will be made at the offices of the paying agent in the United States only if the designated currency is U.S. dollars and payment outside of the United States is illegal or effectively precluded. (Sections 410 and 1102)

If any amount payable on any debt security or coupon remains unclaimed at the end of two years after the amount became due and payable, the paying agent will release any unclaimed amounts to us. (Section 1103)

Our paying agent in the United States for the senior debt securities is The Bank of New York Mellon, located at 101 Barclay Street, Floor 8 West, New York, New York 10286. If and when we issue subordinated debt securities, we'll designate the paying agent for those subordinated debt securities in the applicable prospectus supplement.

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Global Securities

The debt securities of a series may be issued in whole or in part in the form of one or more global certificates. Those certificates will be deposited with a depository that we will identify in a prospectus supplement. Global debt securities may be issued in either registered or bearer form and can be in either temporary or definitive form. All global securities in bearer form will be deposited with a depository outside of the United States. We will describe the specific terms of the depository arrangement relating to a series of debt securities in the prospectus supplement.

Other than for payments, we can treat a person having a beneficial interest in a definitive global security as the holder of the principal amount of outstanding debt securities represented by the global security. For these purposes, we can rely upon a written statement delivered to the trustee by the holder of the definitive global security, or, in the case of a definitive global security in bearer form, by the operator of the Euroclear System or Clearstream Banking, societe anonyme (Clearstream). (Section 411)

Neither we, the trustee nor any of our respective agents will be responsible for any aspect of the records relating to or payments made on account of beneficial ownership interests in a global security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. (Section 411)

Temporary Global Securities

All or any portion of the debt securities of a series that are issuable in bearer form initially may be represented by one or more temporary global securities, without interest coupons. The temporary global securities will be deposited with a depository in London for Euroclear and Clearstream for credit to the accounts of the beneficial owners of the debt securities or to such other accounts as they may direct.

On and after an exchange date provided in the applicable prospectus supplement, each temporary global security will be exchangeable for definitive debt securities in bearer form, registered form, definitive global bearer form or a combination of these, as will be specified in the prospectus supplement.

No bearer security delivered in exchange for a portion of a temporary global security will be mailed or delivered to any location in the United States. (Sections 402 and 403)

Interest on a temporary global bearer security will be paid to Euroclear and/or Clearstream for the portion held for its account only after a certificate is delivered to the trustee stating that the portion:

is not beneficially owned by a United States person;

has not been acquired by or on behalf of a United States person or for offer to resell or for resale to a United States person or any person inside the United States; or

if a beneficial interest has been acquired by a United States person, that:

such person is a financial institution (as defined in the Internal Revenue Code), purchasing for its own account or has acquired the debt security through a financial institution; and

the debt securities are held by a financial institution that has agreed in writing to comply with the requirements of Section 165(j)(3)(A), (B) or (C) of the Internal Revenue Code and the regulations thereunder, and that it did not purchase for resale inside the United States.

The certificate must be based on statements provided by the beneficial owners of interests in the temporary global security. Each of Euroclear and Clearstream will credit the interest received by it to

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the accounts of the beneficial owners of the debt security, or to other accounts as they may direct. (Section 403)

Definitive Global Securities

Bearer securities. The applicable prospectus supplement will describe the exchange provisions, if any, of debt securities issuable in definitive global bearer form. We will not deliver any bearer securities in exchange for a portion of a definitive global security to any location in the United States. (Section 404)

U.S. Book-entry securities. Debt securities of a series represented by a definitive global registered security and deposited with or on behalf of a depository in the United States will be registered in the name of the depository or its nominee. These securities are referred to as "book-entry securities".

When a global security is issued and deposited with the depository, the depository will credit, on its book-entry registration and transfer system, the respective principal amounts represented by that global security to the accounts of institutions that have accounts with the depository or its nominee. Institutions that have accounts with the depository or its nominee are referred to as "participants".

The accounts to be credited shall be designated by the underwriters or agents for the sale of such book-entry securities or by us, if we offer and sell those securities directly.

Ownership of book-entry securities are limited to participants or persons that may hold interests through participants. In addition, ownership of these securities will be evidenced only by, and the transfer of that ownership will be effected only through, records maintained by the depository or its nominee or by participants or persons that hold through other participants.

So long as the depository, or its nominee, is the registered owner of a global security, that depository or nominee will be considered the sole owner or holder of the book-entry securities represented by the global security for all purposes under the indenture. Payments of principal, interest and premium on those securities will be made to the depository or its nominee as the registered owner or the holder of the global security.

Owners of book-entry securities:

will not be entitled to have the debt securities registered in their names;

will not be entitled to receive physical delivery of the debt securities in definitive form; and

will not be considered the owners or holders of those debt securities under the indenture.

The laws of some jurisdictions require that purchasers of securities take physical delivery of the securities in definitive form. These laws may impair the ability to purchase or transfer book-entry securities.

We expect that the depository for book-entry securities of a series will immediately credit participants' accounts with payments received by the depository or nominee in amounts proportionate to the participants' beneficial interests as shown on the records of such depository.

We also expect that payments by participants to owners of beneficial interests in a global security held through the participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name". The payments by participants to the owners of beneficial interests will be the responsibility of those participants.

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Practical Implications of Holding Debt Securities in Street Name

Investors who hold debt securities in accounts at banks or brokers will not generally be recognized by us as the legal holders of debt securities. Since we recognize as the holder the bank or broker, or the financial institution the bank or broker uses to hold its debt securities, it is the responsibility of these intermediary banks, brokers and other financial institutions to pass along principal, interest and other payments on the debt securities, either because they agree to do so in their agreements with their customers, or because they are legally required to do so. If you hold debt securities in street name, you really ought to check with your own institution to find out:

How it handles securities payments and notices;

Whether it imposes additional fees or charges;

How it would handle voting and related issues if ever required;

How it would pursue or enforce rights under the debt securities if there were a default or other event triggering the need for direct holders to act to protect their interests; and

Whether and how it would react on other matters which are important to persons who hold debt securities in "street name".

Covenants

Limitation on merger, consolidation and certain sales of assets. We may, without the consent of the holders of the debt securities, merge into or consolidate with any other corporation, or convey or transfer all or substantially all of our properties and assets to another person provided that:

the successor is a U.S. corporation;

the successor assumes on the same terms and conditions all the obligations under the debt securities and the indentures; and

immediately after giving effect to the transaction, there is no default under the applicable indenture. (Section 901)

The remaining or acquiring corporation will take over all of our rights and obligations under the indentures. (Section 902)

Satisfaction and Discharge; Defeasance

We may be discharged from our obligations on the debt securities of any series that have matured or will mature or be redeemed within one year if we deposit with the trustee enough cash to pay all the principal, interest and any premium due to the stated maturity date or redemption date of the debt securities. (Section 501)

Each indenture contains a provision that permits us to elect:

1. to be discharged after 90 days from all of our obligations (subject to limited exceptions) with respect to any series of debt securities then outstanding; and/or
2. to be released from our obligations under the following covenants and from the consequences of an event of default or cross-default resulting from a breach of these covenants:

- a. the limitations on mergers, consolidations and sale of assets,
- b. the limitations on sale and leaseback transactions under the senior indenture, and
- c. the limitations on secured indebtedness under the senior indenture.

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To make either of the above elections, we must deposit in trust with the trustee enough money to pay in full the principal, interest and premium on the debt securities. This amount may be made in cash and/or U.S. government obligations, if the debt securities are denominated in U.S. dollars. This amount may be made in cash, and/or foreign government securities if the debt securities are denominated in a foreign currency. As a condition to either of the above elections, we must deliver to the trustee an opinion of counsel that the holders of the debt securities will not recognize income, gain or loss for U.S. Federal income tax purposes as a result of the action. (Section 503)

If either of the above events occur, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated debt securities. (Sections 501 and 503)

Events of Default, Notice and Waiver

If an event of default for any series of debt securities occurs and continues, the trustee or the holders of at least 25% in principal amount of the debt securities of the series may declare the entire principal amount of all the debt securities of that series to be due and payable immediately.

The declaration may be annulled and past defaults may be waived by the holders of a majority of the principal amount of the debt securities of that series. However, payment defaults that are not cured may only be waived by all holders of the debt securities. (Sections 602 and 613)

Each indenture defines an event of default in connection with any series of debt securities as one or more of the following events:

we fail to pay interest on any debt security of the series for 30 days when due;

we fail to pay the principal or any premium on any debt securities of the series when due;

we fail to make any sinking fund payment for 30 days when due;

we fail to perform any other covenant in the debt securities of the series or in the applicable indenture relating to debt securities of that series for 90 days after being given notice; and

we enter into bankruptcy or become insolvent.

An event of default for one series of debt securities is not necessarily an event of default for any other series of debt securities. (Section 601)

Each indenture requires the trustee to give the holders of a series of debt securities notice of a default for that series within 90 days unless the default is cured or waived. However, the trustee may withhold this notice if it determines in good faith that it is in the interest of those holders. The trustee may not, however, withhold this notice in the case of a payment default. (Section 702)

Other than the duty to act with the required standard of care during an event of default, a trustee is not obligated to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of debt securities, unless the holders have offered to the trustee reasonable indemnification. (Section 703)

Generally, the holders of a majority in principal amount of outstanding debt securities of any series may direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or other power conferred on the trustee. (Section 612)

Each indenture includes a covenant that we will file annually with the trustee a certificate of no default, or specifying any default that exists. (Section 1106)

Street name and other indirect holders should consult their banks and brokers for information on their requirements for giving notice or taking other actions upon a default.

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Modification of the Indentures

Together with the trustee, we may modify the indentures without the consent of the holders for limited purposes, including adding to our covenants or events of default, establishing forms or terms of debt securities, curing ambiguities and other purposes which do not adversely affect the holders in any material respect. (Section 1001)

Together with the trustee, we may also make modifications and amendments to each indenture with the consent of the holders of a majority in principal amount of the outstanding debt securities of all affected series. However, without the consent of each affected holder, no modification may:

change the stated maturity of any debt security;

reduce the principal, premium (if any) or rate of interest on any debt security;

change any place of payment or the currency in which any debt security is payable;

impair the right to enforce any payment after the stated maturity or redemption date;

adversely affect the terms of any conversion right;

reduce the percentage of holders of outstanding debt securities of any series required to consent to any modification, amendment or waiver under the indenture;

change any of our obligations for any outstanding series of debt securities to maintain an office or agency in the places and for the purposes specified in the indenture for that series; or

change the provisions in the indenture that relate to its modification or amendment. (Section 1002)

Meetings

The indentures contain provisions for convening meetings of the holders of debt securities of a series. (Section 1401)

A meeting may be called at any time by the trustee, upon request by us or upon request by the holders of at least 10% in principal amount of the outstanding debt securities of the series. In each case, notice will be given to the holders of debt securities of the series. (Section 1402)

Persons holding a majority in principal amount of the outstanding debt securities of a series will constitute a quorum at a meeting. A meeting called by us or the trustee that did not have a quorum may be adjourned for not less than 10 days, and if there is not a quorum at the adjourned meeting, the meeting may be further adjourned for not less than 10 days.

Generally, any resolution presented at a meeting at which a quorum is present may be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding debt securities of that series. However, to change the amount or timing of payments under the debt securities, every holder in the series must consent.

In addition, if the indenture provides that an action may be taken by the holders of a specified percentage in principal amount of outstanding debt securities of a series, that action may be taken at a meeting at which a quorum is present by the affirmative vote of the holders of such specified percentage in principal amount of the outstanding debt securities of that series. Any resolution passed or decision taken at any meeting of holders of debt securities of any series duly held in accordance with an indenture will be binding on all holders of debt securities of that series and the related coupons. (Section 1404)

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Notices to Holders

In most instances, notices to holders of bearer securities will be given by publication at least once in a daily newspaper in The City of New York and in London. Notices may also be published in another city or cities as may be specified in the securities. In addition, notices to holders of bearer securities will be mailed to those persons whose names and addresses were previously filed with the applicable trustee. Notice to holders of registered securities will be given by mail to the addresses of the holders as they appear in the security register. (Section 106)

Title

Title to any bearer securities and any related coupons will pass by delivery. We, the trustee and any agent of ours or the trustee may treat the holder of any bearer security or related coupon as the absolute owner of that security for all purposes. We may also treat the registered owner of any registered security as the absolute owner of that security for all purposes. (Section 407)

Replacement of Securities and Coupons

We think it's very important for you to keep your securities safe. If you don't, you'll have to follow these procedures. We'll replace debt securities or coupons that have been mutilated, but you'll have to pay for the replacement, and you'll have to surrender the mutilated debt security or coupon to the security registrar first. Debt securities or coupons that become destroyed, stolen or lost will only be replaced by us, again at your expense, upon your providing evidence of destruction, loss or theft which we and the security registrar are willing to accept. In the case of a destroyed, lost or stolen debt security or coupon, we may also require you, as the holder of the debt security or coupon, to indemnify the security registrar and us before we'll go about issuing any replacement debt security or coupon. (Section 405)

Governing Law

The indentures, the debt securities and the coupons will be governed by, and construed under, the laws of the State of New York.

Our Relationship with the Trustee

We may from time to time maintain lines of credit, and have other customary banking relationships, with the trustee under the senior indenture or the trustee under the subordinated indenture.

Senior Debt Securities

The senior debt securities will be unsecured and will rank equally with all of our other unsecured and non-subordinated debt.

Covenants in the Senior Indenture

Limitation on secured indebtedness. Neither we nor any Restricted Subsidiary will create, assume, incur or guarantee any Secured Indebtedness without securing the senior debt securities equally and ratably with, or prior to, that Secured Indebtedness, *unless* the sum of the following amounts would not exceed 10% of Consolidated Net Tangible Assets:

the total amount of all Secured Indebtedness that the senior debt securities are not secured equally and ratably with, and

the discounted present value of all net rentals payable under leases entered into in connection with sale and leaseback transactions entered into after July 15, 1985.

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You should note that we don't include in this calculation any leases entered into by a Restricted Subsidiary before the time it became a Restricted Subsidiary. (Section 1104 of senior indenture)

Limitation on sale and leaseback transactions. Neither we nor any Restricted Subsidiary will enter into any lease longer than three years covering any Principal Property that is sold to any other person in connection with that lease unless either:

1.

the sum of the following amounts does not exceed 10% of Consolidated Net Tangible Assets:

the discounted present value of all net rentals payable under all these leases entered into after July 15, 1985; and

the total amount of all Secured Indebtedness that the senior debt securities are not secured equally and ratably with.

We don't include in this calculation any leases entered into by a Restricted Subsidiary before the time it became a Restricted Subsidiary.

or

2.

an amount equal to the greater of the following amounts is applied within 180 days to the retirement of our long-term debt or the debt of a Restricted Subsidiary:

the net proceeds to us or a Restricted Subsidiary from the sale; and

the discounted present value of all net rentals payable under the lease.

Amounts applied to debt which is subordinated to the senior debt securities or which is owing to us or a Restricted Subsidiary will not be included in this calculation. (Section 1105 of senior indenture)

We think it's important for you to be aware that this limitation on sale and leaseback transactions won't apply to any leases that we may enter into relating to newly acquired, improved or constructed property.

We think it's also important for you to note that the holders of a majority in principal amount of all affected series of outstanding debt securities may waive compliance with each of the above covenants. (Section 1107 of senior indenture)

Definitions

"*Secured Indebtedness*" means our indebtedness or indebtedness of a Restricted Subsidiary for borrowed money secured by any lien on, or any conditional sale or other title retention agreement covering, any Principal Property or any stock or indebtedness of a Restricted Subsidiary. Excluded from this definition is all indebtedness:

outstanding on July 15, 1985, secured by liens, or arising from conditional sale or other title retention agreements, existing on that date;

incurred after July 15, 1985 to finance the acquisition, improvement or construction of property, and either secured by purchase money mortgages or liens placed on the property within 180 days of acquisition, improvement or construction or arising from conditional sale or other title retention agreements;

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secured by liens on Principal Property or on the stock or indebtedness of Restricted Subsidiaries, and, in either case, existing at the time of its acquisition;

owing to us or any Restricted Subsidiary;

secured by liens, or conditional sale or other title retention devices, existing at the time a corporation became or becomes a Restricted Subsidiary after July 15, 1985;

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constituting our guarantees of Secured Indebtedness and Attributable Debt of any Restricted Subsidiaries and guarantees by a Restricted Subsidiary of Secured Indebtedness and Attributable Debt of ours and any other Restricted Subsidiaries.

arising from any sale and leaseback transaction;

incurred to finance the acquisition or construction of property secured by liens in favor of any country or any political subdivision; and

constituting any replacement, extension or renewal of any indebtedness to the extent the amount of indebtedness is not increased.

"*Principal Property*" means land, land improvements, buildings and associated factory, laboratory and office equipment constituting a manufacturing, development, warehouse, service or office facility owned by or leased to us or a Restricted Subsidiary which is located within the United States and which has an acquisition cost plus capitalized improvements in excess of 0.15% of Consolidated Net Tangible Assets as of the date of such determination. Principal Property does not include:

products marketed by us or our subsidiaries;

any property financed through the issuance of tax-exempt governmental obligations;

any property which our Board of Directors determines is not of material importance to us and our Restricted Subsidiaries taken as a whole; or

any property in which the interest of us and all of our subsidiaries does not exceed 50%.

"*Consolidated Net Tangible Assets*" means the total assets of us and our subsidiaries, less current liabilities and intangible assets. We include in intangible assets the balance sheet value of:

all trade names, trademarks, licenses, patents, copyrights and goodwill;

organizational and development costs;

deferred charges other than prepaid items such as insurance, taxes, interest, commissions, rents and similar items and tangible items we are amortizing; and

unamortized debt discount and expense minus unamortized premium.

We don't include in intangible assets any program products.

"*Attributable Debt*" means the discounted present value of a lessee's obligation for rental payments under a sale and leaseback transaction of Principal Property, reduced by amounts owed by any sublessee for rental obligations during the remaining term of that transaction. The discount rate we use for the Attributable Debt is called the "*Attributable Interest Rate*." We compute the Attributable Interest Rate as the weighted average of the interest rates of all securities then issued and outstanding under the senior indenture.

"*Restricted Subsidiary*" means:

1. any of our subsidiaries:
 - a. which has substantially all its property in the United States;
 - b. which owns or is a lessee of any Principal Property; and,
 - c. in which our investment and the investment of our subsidiaries exceeds 0.15% of Consolidated Net Tangible Assets as of the date of such determination; and
2. any other subsidiary the Board of Directors may designate as a Restricted Subsidiary.

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"*Restricted Subsidiary*" doesn't include financing subsidiaries and subsidiaries formed or acquired after July 15, 1985 for the purpose of acquiring the stock, business or assets of another person and that have not and do not acquire all or any substantial part of our business or assets or the business or assets of any Restricted Subsidiary. (Section 101 of senior indenture)

Subordinated Debt Securities

The subordinated debt securities will be unsecured. The subordinated debt securities will be subordinate in right of payment to all senior indebtedness. (Section 1501 of subordinated indenture)

In addition, claims of our subsidiaries' creditors generally will have priority with respect to the assets and earnings of the subsidiaries over the claims of our creditors, including holders of the subordinated debt securities, even though those obligations may not constitute senior indebtedness. The subordinated debt securities, therefore, will be effectively subordinated to creditors, including trade creditors of our subsidiaries.

The subordinated indenture defines "*senior indebtedness*" to mean the principal of, premium, if any, and interest on:

all indebtedness for money borrowed or guaranteed by us other than the subordinated debt securities, unless the indebtedness expressly states to have the same rank as, or to rank junior to, the subordinated debt securities; and

any deferrals, renewals or extensions of any senior indebtedness.

However, the term "*senior indebtedness*" will not include:

any of our obligations to our subsidiaries;

any liability for Federal, state, local or other taxes owed or owing by us;

any accounts payable or other liability to trade creditors arising in the ordinary course of business, including guarantees of instruments evidencing those liabilities;

any indebtedness, guarantee or obligation of ours which is expressly subordinate or junior in right of payment in any respect to any other indebtedness, guarantee or obligation of ours, including any senior subordinated indebtedness and any subordinated obligations;

any obligations with respect to any capital stock; or

any indebtedness incurred in violation of the subordinated indenture.

There is no limitation on our ability to issue additional senior indebtedness. The senior debt securities constitute senior indebtedness under the subordinated indenture. The subordinated debt securities will rank equally with our other subordinated indebtedness.

Under the subordinated indenture, no payment may be made on the subordinated debt securities and no purchase, redemption or retirement of any subordinated debt securities may be made in the event:

any senior indebtedness is not paid when due, or

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the maturity of any senior indebtedness is accelerated as a result of a default, unless the default has been cured or waived and the acceleration has been rescinded or that senior indebtedness has been paid in full.

We may, however, pay the subordinated debt securities without regard to the above restriction if the representatives of the holders of the applicable senior indebtedness approve the payment in writing to us and the trustee.

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The representatives of the holders of senior indebtedness may notify us and the trustee in writing of a default which can result in the acceleration of that senior indebtedness' maturity without further notice or the expiration of any grace periods. In this event, we may not pay the subordinated debt securities for 179 days after receipt of that notice. If the holders of senior indebtedness or their representatives have not accelerated the maturity of the senior indebtedness at the end of the 179 day period, we may resume payments on the subordinated debt securities. Not more than one such notice may be given in any consecutive 360-day period, irrespective of the number of defaults with respect to senior indebtedness during that period. (Section 1503 of subordinated indenture)

In the event we pay or distribute our assets to creditors upon a total or partial liquidation, dissolution or reorganization of us or our property, the holders of senior indebtedness will be entitled to receive payment in full of the senior indebtedness before the holders of subordinated debt securities are entitled to receive any payment. Until the senior indebtedness is paid in full, any payment or distribution to which holders of subordinated debt securities would be entitled but for the subordination provisions of the subordinated indenture will be made to holders of the senior indebtedness. (Section 1502 of subordinated indenture)

If a distribution is made to holders of subordinated debt securities that, due to the subordination provisions, should not have been made to them, those holders of subordinated debt securities are required to hold it in trust for the holders of senior indebtedness, and pay it over to them as their interests may appear. (Section 1505 of subordinated indenture)

If payment of the subordinated debt securities is accelerated because of an event of default, either we or the trustee will promptly notify the holders of senior indebtedness or their representatives of the acceleration. We may not pay the subordinated debt securities until five business days after the holders of senior indebtedness or their representatives receive notice of the acceleration. Thereafter, we may pay the subordinated debt securities only if the subordination provisions of the subordinated indenture otherwise permit payment at that time. (Section 1504 of subordinated indenture)

As a result of the subordination provisions contained in the subordinated indenture, in the event of insolvency, our creditors who are holders of senior indebtedness may recover more, ratably, than the holders of subordinated debt securities. In addition, our creditors who are not holders of senior indebtedness may recover less, ratably, than holders of senior indebtedness and may recover more, ratably, than the holders of subordinated indebtedness. It's important to keep this in mind if you decide to hold our subordinated debt securities.

DESCRIPTION OF THE PREFERRED STOCK

The following is a description of general terms and provisions of the preferred stock. The particular terms of any series of preferred stock will be described in the applicable prospectus supplement.

All of the terms of the preferred stock are, or will be, contained in our Certificate of Incorporation and the certificate of amendment relating to each series of the preferred stock, which will be filed with the Securities and Exchange Commission at or before the time we issue a series of the preferred stock.

We are authorized to issue up to 150,000,000 shares of preferred stock, par value \$0.01 per share. As of the date of this Prospectus, we have no shares of preferred stock outstanding. Subject to limitations prescribed by law, the Board of Directors is authorized at any time to:

issue one or more series of preferred stock;

determine the designation for any series by number, letter or title that shall distinguish the series from any other series of preferred stock; and

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determine the number of shares in any series.

The Board of Directors is authorized to determine, for each series of preferred stock, and the prospectus supplement will set forth with respect to the series the following information:

whether dividends on that series of preferred stock will be cumulative, noncumulative or partially cumulative;

the dividend rate (or method for determining the rate);

the liquidation preference per share of that series of preferred stock, if any;

any conversion provisions applicable to that series of preferred stock;

any redemption or sinking fund provisions applicable to that series of preferred stock;

83,936

81,475

Stockholders' Equity

Common stock (\$1 par value, 14,000,000,000 authorized at September 30, 2013 and

December 31, 2012: issued 6,495,231,088 at September 30, 2013 and December 31, 2012)

6,495

6,495

Additional paid-in capital

	91,021
Retained earnings	91,038
	26,648
Treasury stock (1,214,987,626 at September 30, 2013 and 913,836,325	22,481
at December 31, 2012, at cost)	(43,731)
Accumulated other comprehensive income	(32,888)
	5,282
Noncontrolling interest	5,236
	415
Total stockholders' equity	333
	86,130
Total Liabilities and Stockholders' Equity	92,695
\$	274,599
\$	272,315
See Notes to Consolidated Financial Statements.	

AT&T INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in millions
(Unaudited)

	2013	Nine months ended September 30,	2012
Operating Activities			
Net income	\$	11,558	\$ 11,318
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		13,715	13,571
Undistributed earnings from investments in equity affiliates		(232)	(483)
Provision for uncollectible accounts		653	835
Deferred income tax expense and noncurrent unrecognized tax benefits		2,389	3,441
Net (gain) loss from sale of investments, net of impairments		(272)	(27)
Changes in operating assets and liabilities:			
Accounts receivable		(440)	(571)
Other current assets		520	1,581
Accounts payable and accrued liabilities		(420)	(156)
Retirement benefit funding		(175)	-
Other - net		(417)	(853)
Total adjustments		15,321	17,338
Net Cash Provided by Operating Activities		26,879	28,656
Investing Activities			
Construction and capital expenditures:			
Capital expenditures		(15,565)	(13,619)
Interest during construction		(213)	(197)
Acquisitions, net of cash acquired		(4,025)	(551)
Dispositions		846	807
Sales (purchases) of securities, net		-	311
Return of advances to and investments in equity affiliates		301	-
Other		(4)	(2)
Net Cash Used in Investing Activities		(18,660)	(13,251)
Financing Activities			
Net change in short-term borrowings with original maturities of three months or less			
		1,851	-
Issuance of other short-term borrowings		1,476	-
Repayment of other short-term borrowings		(1,476)	-
Issuance of long-term debt		6,416	6,935
Repayment of long-term debt		(2,131)	(8,042)
Purchase of treasury stock		(11,134)	(8,374)
Issuance of treasury stock		108	460

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Dividends paid	(7,325)		(7,738)
Other	499		98
Net Cash Used in Financing Activities	(11,716)		(16,661)
Net decrease in cash and cash equivalents	(3,497)		(1,256)
Cash and cash equivalents beginning of year	4,868		3,045
Cash and Cash Equivalents End of Period	\$ 1,371	\$	1,789
Cash paid during the nine months ended September 30 for:			
Interest	\$ 2,980	\$	3,214
Income taxes, net of refunds	\$ 1,573	\$	390

See Notes to Consolidated Financial Statements.

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AT&T INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Dollars and shares in millions except per share amounts

(Unaudited)

	September 30, 2013	
	Shares	Amount
Common Stock		
Balance at beginning of year	6,495	\$ 6,495
Issuance of stock	-	-
Balance at end of period	6,495	\$ 6,495
Additional Paid-In Capital		
Balance at beginning of year		\$ 91,038
Issuance of treasury stock		(8)
Share-based payments		(9)
Balance at end of period		\$ 91,021
Retained Earnings		
Balance at beginning of year		\$ 22,481
Net income attributable to AT&T (\$2.09 per diluted share)		11,336
Dividends to stockholders (\$1.35 per share)		(7,169)
Balance at end of period		\$ 26,648
Treasury Stock		
Balance at beginning of year	(914)	\$ (32,888)
Repurchase of common stock	(312)	(11,134)
Issuance of treasury stock	11	291
Balance at end of period	(1,215)	\$ (43,731)
Accumulated Other Comprehensive Income		
Attributable to AT&T, net of tax		
Balance at beginning of year		\$ 5,236
Other comprehensive income attributable to AT&T		46
Balance at end of period		\$ 5,282
Noncontrolling Interest		
Balance at beginning of year		\$ 333
Net income attributable to noncontrolling interest		222
Distributions		(161)
Acquisitions of noncontrolling interests		23
Translation adjustments attributable to noncontrolling interest, net of taxes		(2)
Balance at end of period		\$ 415
Total Stockholders' Equity at beginning of year		\$ 92,695
Total Stockholders' Equity at end of period		\$ 86,130

See Notes to Consolidated Financial Statements.

AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Dollars in millions except per share amounts

NOTE 1. PREPARATION OF INTERIM FINANCIAL STATEMENTS

Basis of Presentation Throughout this document, AT&T Inc. is referred to as “AT&T,” “we” or the “Company.” We believe that these consolidated financial statements include all adjustments, consisting only of normal recurring accruals, that are necessary to present fairly the results for the presented interim periods. The results for the interim periods are not necessarily indicative of those for the full year. You should read this document in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2012.

The consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries and affiliates. Our subsidiaries and affiliates operate in the communications services industry both domestically and internationally, providing wireless communications services, traditional wireline voice services, data/broadband and Internet services, video services, telecommunications equipment, managed networking and wholesale services.

All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships and less than majority-owned subsidiaries where we have significant influence are accounted for under the equity method. Earnings from certain foreign equity investments accounted for using the equity method are included for periods ended within up to one month of our period end. We also record our proportionate share of our equity method investees’ other comprehensive income (OCI) items, including actuarial gains and losses on pension and other postretirement benefit obligations.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates. Certain amounts have been reclassified to conform to the current period’s presentation.

Stock Repurchase Program In May 2013, we completed a repurchase authorization that was approved by our Board of Directors in July 2012. In March 2013, our Board of Directors authorized the repurchase of up to an additional 300 million shares of our common stock. During the first nine months of 2013, we repurchased 312 million shares for \$11,134 under these authorizations. At September 30, 2013, we had 216 million shares remaining under the March 2013 authorization. The authorization has no expiration date.

AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 2. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for net income attributable to AT&T for the three and nine months ended September 30, 2013 and 2012, is shown in the table below:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Numerators				
Numerator for basic earnings per share:				
Net income	\$ 3,905	\$ 3,701	\$ 11,558	\$ 11,318
Net income attributable to noncontrolling interest	(91)	(66)	(222)	(197)
Net income attributable to AT&T	3,814	3,635	11,336	11,121
Dilutive potential common shares:				
Share-based payment	3	3	9	9
Numerator for diluted earnings per share	\$ 3,817	\$ 3,638	\$ 11,345	\$ 11,130
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	5,315	5,771	5,402	5,848
Dilutive potential common shares:				
Share-based payment	16	21	17	21
Denominator for diluted earnings per share	5,331	5,792	5,419	5,869
Basic earnings per share attributable to AT&T	\$ 0.72	\$ 0.63	\$ 2.10	\$ 1.90
Diluted earnings per share attributable to AT&T	\$ 0.72	\$ 0.63	\$ 2.09	\$ 1.90

At September 30, 2013 and 2012, we had issued and outstanding options to purchase approximately 12 million and 18 million shares of AT&T common stock. For the quarter ended September 30, 2013 and 2012, the exercise prices of 3 million and 2 million shares were above the market price of AT&T stock for the respective periods. Accordingly, we did not include these amounts in determining the dilutive potential common shares. At September 30, 2013 and 2012, the exercise prices of 9 million and 16 million vested stock options were below market price.

AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 3. OTHER COMPREHENSIVE INCOME

Changes in the balances of each component included in accumulated OCI for the nine months ended September 30, 2013, are presented below. All amounts are net of tax and exclude noncontrolling interest.

At September 30, 2013 and
for the period ended:

	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Net Unrealized Gains (Losses) on Cash Flow Hedges	Defined Benefit Postretirement Plans	Accumulated Other Comprehensive Income
Balance as of January 1, 2013	\$ (284)	\$ 272	\$ (110)	\$ 5,358	\$ 5,236
Other comprehensive income (loss) before reclassifications	(153)	155	526	-	528
Amounts reclassified from accumulated OCI	34 1	(13)2	22 3	(525)4	(482)
Net other comprehensive income (loss)	(119)	142	548	(525)	46
Balance as of September 30, 2013	\$ (403)	\$ 414	\$ 438	\$ 4,833	\$ 5,282

1 Pre-tax translation loss reclassifications are included in Other income (expense) - net in the consolidated statements of income.

2 Realized gains are included in Other income (expense) - net in the consolidated statements of income. Realized (gains) losses are included in interest expense in the consolidated statements of income. See

3 Note 6 for additional information.

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The amortization of prior service credits associated with postretirement benefits, net of amounts capitalized as part of construction labor, are included in Cost of services and sales and Selling, general and administrative in the consolidated statements of income (see Note 5). Actuarial loss reclassifications related to our equity method investees are included in Other income (expense) - net in the consolidated statements of income.

NOTE 4. SEGMENT INFORMATION

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on the strategic needs of the business, needs of the network (wireless or wireline) provided services, and demands to provide emerging services to our customers. Actuarial gains and losses from pension and other postretirement benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. Therefore, these items are not included in each reportable segment's results. The customers and long-lived assets of our reportable segments are predominantly in the United States. We have three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included our Advertising Solutions segment, which was subsequently sold.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment includes our portion of the results from our mobile payment joint venture marketed as the Isis Mobile Wallet™ (ISIS), which is accounted for as an equity method investment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with data and voice communications services, AT&T U-verse® high-speed broadband, video and voice services and managed networking to business customers. Additionally, commissions on sales of satellite television services offered through our agency arrangements are included in the segment.

The Other segment includes our portion of the results from our international equity investment, our equity interest in YP Holdings LLC (YP Holdings), and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

In the following tables, we show how our segment results are reconciled to our consolidated results reported.

For the three months ended
September 30, 2013

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$ 5,509	\$ 8,457	\$ -	\$ -	\$ -	\$ 13,966
Voice, text and other	9,951	5,023	-	-	-	14,974
Equipment and other	2,020	1,190	-	8	-	3,218
Total segment operating revenues	17,480	14,670	-	8	-	32,158
Operations and support expenses	10,982	10,385	-	(12)	-	21,355
Depreciation and amortization expenses	1,875	2,736	-	4	-	4,615
Total segment operating expenses	12,857	13,121	-	(8)	-	25,970
Segment operating income (loss)	4,623	1,549	-	16	-	6,188
Interest expense	-	-	-	-	829	829
Equity in net income (loss) of affiliates	(18)	-	-	109	-	91
Other income (expense) – net	-	-	-	-	50	50
Segment income (loss) before income taxes	\$ 4,605	\$ 1,549	\$ -	\$ 125	\$ (779)	\$ 5,500

For the nine months ended
September 30, 2013

	Wireless	Wireline	Advertising Solutions	Other	Consolidations	Consolidated Results
Data	\$ 15,990	\$ 25,019	\$ -	\$ -	\$ -	\$ 41,009
Voice, text and other	29,902	15,470	-	-	-	45,372
Equipment and other	5,570	3,609	-	29	-	9,208
Total segment operating revenues	51,462	44,098	-	29	-	95,589
Operations and support expenses	31,932	31,137	-	564	-	63,633

Depreciation and amortization expenses	5,553	8,146	-	16	-	13,715
Total segment operating expenses	37,485	39,283	-	580	-	77,348
Segment operating income (loss)	13,977	4,815	-	(551)	-	18,241
Interest expense	-	-	-	-	2,481	2,481
Equity in net income (loss) of affiliates	(55)	1	-	548	-	494
Other income (expense) – net	-	-	-	-	370	370
Segment income (loss) before income taxes	\$ 13,922	\$ 4,816	\$ -	\$ (3)	\$ (2,111)	\$ 16,624

AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

For the three months ended

	September 30, 2012		Advertising Solutions	Other	Consolidations	Consolidated Results
	Wireless	Wireline				
Data	\$ 4,686	\$ 7,987	\$ -	\$ -	\$ -	\$ 12,673
Voice, text and other	10,220	5,563	-	-	-	15,783
Equipment and other	1,726	1,264	-	13	-	3,003
Total segment operating revenues	16,632	14,814	-	13	-	31,459
Operations and support expenses	10,432	10,246	-	232	-	20,910
Depreciation and amortization expenses	1,730	2,774	-	8	-	4,512
Total segment operating expenses	12,162	13,020	-	240	-	25,422
Segment operating income (loss)	4,470	1,794	-	(227)	-	6,037
Interest expense	-	-	-	-	824	824
Equity in net income (loss) of affiliates	(17)	-	-	199	-	182
Other income (expense) – net	-	-	-	-	47	47
Segment income (loss) before income taxes	\$ 4,453	\$ 1,794	\$ -	\$ (28)	\$ (777)	\$ 5,442

For the nine months ended

	September 30, 2012		Advertising Solutions	Other	Consolidations	Consolidated Results
	Wireless	Wireline				
Data	\$ 13,392	\$ 23,722	\$ -	\$ -	\$ -	\$ 37,114
Voice, text and other	30,845	17,151	-	-	-	47,996
Equipment and other	4,884	3,777	1,049	36	-	9,746
Total segment operating revenues	49,121	44,650	1,049	36	-	94,856
Operations and support expenses	30,000	30,849	773	708	-	62,330
Depreciation and amortization	5,092	8,348	106	25	-	13,571

expenses						
Total segment operating expenses	35,092	39,197	879	733	-	75,901
Segment operating income (loss)	14,029	5,453	170	(697)	-	18,955
Interest expense	-	-	-	-	2,624	2,624
Equity in net income (loss) of affiliates	(45)	(1)	-	583	-	537
Other income (expense) – net	-	-	-	-	122	122
Segment income (loss) before income taxes	\$ 13,984	\$ 5,452	\$ 170	\$ (114)	\$ (2,502)	\$ 16,990

NOTE 5. PENSION AND POSTRETIREMENT BENEFITS

Substantially all of our employees are covered by one of our noncontributory pension plans. We also provide certain medical, dental, life insurance, and death benefits to certain retired employees under various plans and accrue actuarially determined postretirement benefit costs as active employees earn these benefits. Our objective in funding these plans, in combination with the standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), is to accumulate assets sufficient to meet the plans' obligations to provide benefits to employees upon their retirement.

On September 9, 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest had a value of \$9,104 on the contribution date. The trust is entitled to receive cumulative cash distributions of \$560 per annum, which will be distributed quarterly in equal amounts and will be accounted for as contributions. This preferred equity is a plan asset under ERISA and is recognized as such in the plan's separate financial statements. However, because the preferred equity interest is not unconditionally transferable to an unrelated party, it is not included in plan assets in our consolidated financial statements. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of \$175 and have agreed to annual cash contributions of \$175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. These contributions combined with our existing pension assets, are essentially equivalent to the expected pension obligation at year-end.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

We recognize actuarial gains and losses on pension and postretirement plan assets in our operating results at our annual measurement date of December 31, unless earlier remeasurements are required. The following table details pension and postretirement benefit costs included in operating expenses in the accompanying consolidated statements of income, expense credits are denoted with parentheses. A portion of these costs is capitalized as part of internal construction projects, providing a small reduction in the net expense recorded.

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Pension cost:				
Service cost – benefits earned during the period	\$ 331	\$ 301	\$ 991	\$ 915
Interest cost on projected benefit obligation	608	700	1,822	2,100
Expected return on assets	(828)	(880)	(2,484)	(2,640)
Amortization of prior service (credit)	(25)	(3)	(71)	(11)
Net pension cost	\$ 86	\$ 118	\$ 258	\$ 364
Postretirement cost:				
Service cost – benefits earned during the period	\$ 95	\$ 81	\$ 286	\$ 247
Interest cost on accumulated postretirement benefit obligation	389	446	1,168	1,340
Expected return on assets	(177)	(200)	(533)	(601)
Amortization of prior service (credit)	(263)	(215)	(788)	(647)
Net postretirement cost	\$ 44	\$ 112	\$ 133	\$ 339
Combined net pension and postretirement cost	\$ 130	\$ 230	\$ 391	\$ 703

Our combined net pension and postretirement cost decreased \$100 in the third quarter and \$312 for the first nine months of 2013. The decrease is driven by lower interest costs, which reflect the declining bond rates used when valued at the beginning of the year and higher amortization of prior service credits due to plan changes, including changes to retiree costs for continued healthcare coverage. This decrease is partially offset by lower expected long-term return on plan assets reflecting each plan's asset mix and continued uncertainty in the securities markets and the U.S. economy.

We also provide senior- and middle-management employees with nonqualified, unfunded supplemental retirement and savings plans. Net supplemental retirement pension benefits cost, which is not included in the table above, was \$27 in the third quarter of 2013, of which \$25 was interest cost, and \$82 for the first nine months, of which \$76 was interest cost. In 2012, net supplemental retirement pension benefits cost was \$31 in the third quarter, of which \$29 was interest cost, and \$94 for the first nine months, of which \$87 was interest cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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NOTE 6. FAIR VALUE MEASUREMENTS AND DISCLOSURE

The Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy that gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that we have the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets and liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted market prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

- Fair value is often based on developed models in which there are few, if any, external observations.

The fair value measurements level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described above may produce a fair value calculation that may not be indicative of future net realizable value or reflective of future fair values. We believe our valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used since December 31, 2012.

Long-Term Debt and Other Financial Instruments

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows:

	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes and debentures	\$ 74,103	\$ 79,156	\$ 69,578	\$ 81,310
Commercial paper	1,851	1,851	-	-
Bank borrowings	1	1	1	1
Investment securities	2,525	2,525	2,218	2,218

The carrying value of debt with an original maturity of less than one year approximates market value. The fair value measurements used for notes and debentures are considered Level 2.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

Investment Securities

Our investment securities include equities, fixed income bonds and other securities. A substantial portion of the fair values of our available-for-sale securities was estimated based on quoted market prices. Investments in securities not traded on a national securities exchange are valued using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Realized gains and losses on securities are included in "Other income (expense) – net" in the consolidated statements of income using the specific identification method. Unrealized gains and losses, net of tax, on available-for-sale securities are recorded in accumulated OCI. Unrealized losses that are considered other than temporary are recorded in "Other income (expense) – net" with the corresponding reduction to the carrying basis of the investment. Fixed income investments of \$109 have maturities of less than one year, \$279 within one to three years, \$175 within three to five years, and \$252 for five or more years.

Our short-term investments (including money market securities) and customer deposits are recorded at amortized cost, and the respective carrying amounts approximate fair values. Our investment securities are recorded in "Other Assets" on the consolidated balance sheets.

Following is the fair value leveling for available-for-sale securities and derivatives as of September 30, 2013 and December 31, 2012:

	September 30, 2013			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$ 1,065	\$ -	\$ -	\$ 1,065
International equities	583	-	-	583
Fixed income bonds	-	815	-	815
Asset Derivatives¹				
Interest rate swaps	-	216	-	216
Cross-currency swaps	-	1,657	-	1,657
Liability Derivatives¹				
Interest rate swaps	-	(4)	-	(4)
Cross-currency swaps	-	(557)	-	(557)

	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Available-for-Sale Securities				
Domestic equities	\$ 873	\$ -	\$ -	\$ 873
International equities	469	-	-	469
Fixed income bonds	-	837	-	837
Asset Derivatives¹				
Interest rate swaps	-	287	-	287
Cross-currency swaps	-	752	-	752
Foreign exchange contracts	-	1	-	1
Liability Derivatives¹				

	Cross-currency swaps	-	(672)	-	(672)
1	Derivatives designated as hedging instruments are reflected as Other assets, Other noncurrent liabilities and, for a portion of interest rate swaps, Other current assets.				

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

Derivative Financial Instruments

We employ derivatives to manage certain market risks, primarily interest rate risk and foreign currency exchange risk. This includes the use of interest rate swaps, interest rate locks, foreign exchange forward contracts and combined interest rate foreign exchange contracts (cross-currency swaps). We do not use derivatives for trading or speculative purposes. We record derivatives on our consolidated balance sheets at fair value that is derived from observable market data, including yield curves and foreign exchange rates (all of our derivatives are Level 2). Cash flows associated with derivative instruments are presented in the same category on the consolidated statements of cash flows as the item being hedged.

The majority of our derivatives are designated either as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), or as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

Fair Value Hedging We designate our fixed-to-floating interest rate swaps as fair value hedges. The purpose of these swaps is to manage interest rate risk by managing our mix of fixed-rate and floating-rate debt. These swaps involve the receipt of fixed-rate amounts for floating interest rate payments over the life of the swaps without exchange of the underlying principal amount. Accrued and realized gains or losses from interest rate swaps impact interest expense on the consolidated statements of income. Unrealized gains on interest rate swaps are recorded at fair market value as assets, and unrealized losses on interest rate swaps are recorded at fair market value as liabilities. Changes in the fair value of the interest rate swaps offset changes in the fair value of the fixed-rate notes payable they hedge due to changes in the designated benchmark interest rate and are recognized in interest expense. Gains or losses realized upon early termination of our fair value hedges are recognized in interest expense. In the nine months ended September 30, 2013 and September 30, 2012, no ineffectiveness was measured.

Cash Flow Hedging Unrealized gains on derivatives designated as cash flow hedges are recorded at fair value as assets, and unrealized losses on derivatives designated as cash flow hedges are recorded at fair value as liabilities, both for the period they are outstanding. For derivative instruments designated as cash flow hedges, the effective portion is reported as a component of accumulated OCI until reclassified into interest expense in the same period the hedged transaction affects earnings. The gain or loss on the ineffective portion is recognized as other income or expense in each period.

We designate our cross-currency swaps as cash flow hedges. We have entered into multiple cross-currency swaps to hedge our exposure to variability in expected future cash flows that are attributable to foreign currency risk generated from the issuance of our Euro and British pound sterling denominated debt. These agreements include initial and final exchanges of principal from fixed foreign denominations to fixed U.S. denominated amounts, to be exchanged at a specified rate, which was determined by the market spot rate upon issuance. They also include an interest rate swap of a fixed foreign-denominated rate to a fixed U.S. denominated interest rate. We evaluate the effectiveness of our cross-currency swaps each quarter. In the nine months ended September 30, 2013 and September 30, 2012, no ineffectiveness was measured.

Periodically, we enter into and designate interest rate locks to partially hedge the risk of changes in interest payments attributable to increases in the benchmark interest rate during the period leading up to the probable issuance of fixed-rate debt. We designate our interest rate locks as cash flow hedges. Gains and losses when we settle our interest rate locks are amortized into income over the life of the related debt, except where a material amount is deemed to be ineffective, which would be immediately reclassified to “Other income (expense) – net” in the consolidated statements of income. Over the next 12 months, we expect to reclassify \$45 from accumulated OCI to interest expense due to the amortization of net losses on historical interest rate locks.

We may hedge a portion of the exchange risk involved in anticipation of highly probable foreign currency-denominated transactions. In anticipation of these transactions, we often enter into foreign exchange contracts to provide currency at a fixed rate. Some of these instruments are designated as cash flow hedges while others remain nondesignated, largely based on size and duration. Gains and losses are amortized into income in the same period the hedged transaction affects earnings, except where an amount is deemed to be ineffective, which would be immediately reclassified to “Other income (expense) – net” in the consolidated statements of income. In the nine months ended September 30, 2013 and September 30, 2012, no ineffectiveness was measured.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

Collateral and Credit-Risk Contingency We have entered into agreements with our derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. At September 30, 2013, we had posted collateral of \$17 (a deposit asset) and held collateral of \$1,190 (a receipt liability). Under the agreements, if our credit rating had been downgraded one rating level by Moody's Investors Service and Standards & Poor's and two rating levels by Fitch, Inc., before the final collateral exchange in September, we would have been required to post additional collateral of \$55. At December 31, 2012, we had posted collateral of \$22 (a deposit asset) and held collateral of \$543 (a receipt liability). We do not offset the fair value of collateral, whether the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), against the fair value of the derivative instruments.

Following is the notional amount of our outstanding derivative positions:

	September 30, 2013	December 31, 2012
Interest rate swaps	\$4,750	\$3,000
Cross-currency swaps	14,136	12,071
Foreign exchange contracts	4	51
Total	\$18,890	\$15,122

Following is the related hedged items affecting our financial position and performance:

Effect of Derivatives on the Consolidated Statements of Income

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Fair Value Hedging Relationships				
Interest rate swaps (Interest expense):				
Gain (Loss) on interest rate swaps	\$9	\$(21)	\$(78)	\$(158)
Gain (Loss) on long-term debt	(9)) 21	78	158

In addition, the net swap settlements that accrued and settled in the quarters ended September 30 were offset against interest expense.

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Cash Flow Hedging Relationships				
Cross-currency swaps:				
Gain (Loss) recognized in accumulated OCI	\$482	\$355	\$807	\$190
Interest rate locks:				
Interest income (expense) reclassified from	(11)) (12)	(34)) (32)

accumulated OCI into income

Foreign exchange contracts:

Gain (Loss) recognized in accumulated OCI	5	3	5	3
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AT&T INC.
SEPTEMBER 30, 2013

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Dollars in millions except per share amounts

NOTE 7. ACQUISITIONS, DISPOSITIONS AND OTHER ADJUSTMENTS

Acquisitions

Atlantic Tele-Network, Inc. In September 2013, we acquired Atlantic Tele-Network, Inc.'s U.S. retail wireless operations, operated under the Alltel brand, for \$806 in cash, which includes closing adjustments. Under the terms of the agreement, we acquired wireless properties, with a preliminary value of \$322 in licenses and \$239 of goodwill.

700 MHz Spectrum In September 2013, we acquired spectrum in the 700 MHz B band from Verizon Wireless for \$1,900 in cash and an assignment of Advanced Wireless Service (AWS) spectrum licenses in five markets. The 700 MHz licenses acquired by AT&T cover 42 million people in 18 states. We recognized a gain of approximately \$293 on this and other spectrum transactions.

Pending Acquisitions

Leap In July 2013, we announced an agreement to acquire Leap Wireless International, Inc. (Leap), a provider of prepaid wireless service, for fifteen dollars per outstanding share of Leap's common stock, or approximately \$1,260, plus one non-transferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band Federal Communications Commission (FCC) license held by Leap. As of June 30, 2013, Leap had approximately \$2,700 of debt, net of cash. Under the terms of the agreement, we will acquire all of Leap's stock and, thereby, acquire all of its wireless properties, including spectrum licenses, network assets, retail stores and approximately 5 million subscribers. Leap's spectrum licenses include Personal Communications Services (PCS) and AWS bands and are largely complementary to our licenses. Leap's network covers approximately 96 million people in 35 states and consists of a 3G CDMA network and an LTE network covering approximately 21 million people.

The agreement was approved by Leap's stockholders on October 30, 2013. The transaction is subject to review by the FCC and Department of Justice (DOJ). The review process is underway at both agencies. The transaction is expected to close in the first quarter of 2014. The agreement provides both parties with certain termination rights if the transaction does not close by July 11, 2014, which can be extended until January 11, 2015, if certain conditions have not been met by that date. Under certain circumstances, Leap may be required to pay a termination fee or AT&T may be required to provide Leap with a three-year roaming agreement for LTE data coverage in certain Leap markets lacking LTE coverage, if the transaction does not close. If Leap enters into the roaming agreement, AT&T will then have the option within 30 days after entry into the roaming agreement to purchase certain specified Leap spectrum assets. If AT&T does not exercise its right to purchase all of the specified Leap spectrum assets, Leap can then within 60 days after expiration of AT&T's option require AT&T to purchase all of the specified spectrum assets.

NOTE 8. SUBSEQUENT EVENTS

On October 20, 2013, we announced an agreement with Crown Castle International Corp. (Crown Castle) in which Crown Castle will have the exclusive rights to lease and operate approximately 9,100 and purchase approximately 600 of our wireless towers for \$4,850. Under the terms of the leases, Crown Castle will have

exclusive rights to lease and operate the towers over an average term of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately \$4,200, based on their estimated fair market values at the end of the lease terms. We will sublease capacity on the towers from Crown Castle for a minimum of 10 years at current market rates, with options to renew. We plan to account for the proceeds as a financing obligation and expect this transaction to close by year-end 2013, subject to standard closing conditions.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in millions except per share amounts

RESULTS OF OPERATIONS

For ease of reading, AT&T Inc. is referred to as "we," "AT&T" or the "Company" throughout this document, and the names of the particular subsidiaries and affiliates providing the services generally have been omitted. AT&T is a holding company whose subsidiaries and affiliates operate in the communications services industry both in the United States and internationally, providing wireless and wireline telecommunication services and equipment. You should read this discussion in conjunction with the consolidated financial statements, accompanying notes and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2012. A reference to a "Note" in this section refers to the accompanying Notes to Consolidated Financial Statements. In the tables throughout this section, percentage increases and decreases that are not considered meaningful are denoted with a dash. Certain amounts have been reclassified to conform to the current period's presentation.

Consolidated Results Our financial results in the third quarter and for the first nine months of 2013 and 2012 are summarized as follows:

	Third Quarter			Nine-Month Period			
	2013	2012	Percent Change	2013	2012	Percent Change	
Operating Revenues	\$32,158	\$31,459	2.2 %	\$95,589	\$94,856	0.8 %	
Operating expenses							
Cost of services and sales	13,403	12,602	6.4	39,227	37,673	4.1	
Selling, general and administrative	7,952	8,308	(4.3)	24,406	24,657	(1.0)	
Depreciation and amortization	4,615	4,512	2.3	13,715	13,571	1.1	
Total Operating Expenses	25,970	25,422	2.2	77,348	75,901	1.9	
Operating Income	6,188	6,037	2.5	18,241	18,955	(3.8)	
Income Before Income Taxes							
Taxes	5,500	5,442	1.1	16,624	16,990	(2.2)	
Net Income	3,905	3,701	5.5	11,558	11,318	2.1	
Net Income Attributable to AT&T	\$3,814	\$3,635	4.9 %	\$11,336	\$11,121	1.9 %	

Overview

Operating income increased \$151, or 2.5%, in the third quarter and decreased \$714, or 3.8%, for the first nine months of 2013. Both operating revenues and expenses in the first nine months of 2012 include results for our sold Advertising Solutions segment, which had a negative impact on comparisons to operating income for the first nine months of 2013. Operating income increased in the third quarter reflecting continued growth in wireless data and equipment revenues, increased revenues from AT&T U-verse® (U-verse) and strategic services, and gains realized on spectrum transactions. These increases were partially offset by continued declines in our traditional voice and data services, higher wireless equipment costs, increased expenses for new product development as well as increased expenses supporting U-verse subscriber growth. Operating

income for the first nine months was driven by the same factors as for the quarter; however it was also impacted by higher wireless commission expenses and the sale of our Advertising Solutions segment. Our operating income margin in the third quarter was 19.2% in both 2012 and 2013 and for the first nine months decreased from 20.0% in 2012 to 19.1% in 2013.

Operating revenues increased \$699, or 2.2%, in the third quarter and \$733, or 0.8%, for the first nine months of 2013. Wireless data and equipment revenues increased, reflecting the increasing percentage of wireless subscribers choosing smartphones. Continued growth in U-verse services from residential customers and strategic services also contributed to higher operating revenues. The revenue increases were partially offset by continued declines in wireline voice and wireless voice and text revenues. The sale of our Advertising Solutions segment also contributed to lower revenues for the first nine months.

As the telecommunications industry continues to evolve from voice-oriented services into an industry driven by data-based services, technology, and efficiencies, our products, services and plans have also changed as we transition from traditional voice and basic data services to sophisticated, high-speed, IP-based alternatives. This transition of our offerings will result in continued growth in our wireless and wireline IP-based data revenues as we bundle and price plans with greater focus on the data services that our customers desire, provide new products and services, and transition customers from their current traditional services. We expect continued declines in voice revenues and our basic wireline data services as customers choose these next-generation services.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
Dollars in millions except per share amounts

Cost of services and sales expenses increased \$801, or 6.4%, in the third quarter and \$1,554, or 4.1%, for the first nine months of 2013. The increases were primarily due to increased wireless equipment costs related to device sales, increased wireline costs attributable to U-verse subscriber growth and wireless network costs. The increases were partially offset by decreased wireless interconnect and long-distance costs, and lower costs associated with Universal Service Fund (USF) fees. For the first nine months offsets also included the sale of the Advertising Solutions segment.

Selling, general and administrative expenses decreased \$356, or 4.3%, in the third quarter and \$251, or 1.0%, for the first nine months of 2013. The decreases were primarily due to gains on spectrum transactions, decreased wireline employee related expenses and lower financing-related costs associated with our pension and postretirement benefits (referred to as Pension/OPEB expenses) and, for the first nine months, the sale of the Advertising Solutions segment. These lower expenses were partially offset by increased commissions related to smartphone upgrades, wireless selling and administrative expenses and higher wireline contract service expenses.

Depreciation and amortization expenses increased \$103, or 2.3%, in the third quarter and \$144, or 1.1%, for the first nine months of 2013. Expenses increased due to ongoing capital spending for network upgrades and expansion, partially offset by fully depreciated assets and lower amortization of intangibles for customer lists related to acquisitions. The sale of our Advertising Solutions segment also contributed to lower depreciation and amortization expenses for the first nine months.

Interest expense increased \$5, or 0.6%, in the third quarter and decreased \$143, or 5.4%, for the first nine months of 2013. The increase in the third quarter was due to higher average debt balances offset by lower average interest rates. The decrease for the first nine months reflects our prior-year debt refinancing activity, which contributed to lower average interest rates in 2013 and one-time charges associated with the early redemption of debt in 2012. These decreases were partially offset by higher average debt balances.

Equity in net income of affiliates decreased \$91, or 50.0%, in the third quarter and \$43, or 8.0% for the first nine months of 2013. Decreased equity in net income of affiliates in the third quarter was primarily due to decreased earnings at América Móvil, S.A. de C.V. (América Móvil) and YP Holdings LLC (YP Holdings). Decreased equity in net income of affiliates for the first nine months was primarily due to foreign exchange impacts at América Móvil, partially offset by earnings from YP Holdings.

Other income (expense) – net We had other income of \$50 in the third quarter and \$370 for the first nine months of 2013, compared to other income of \$47 in the third quarter and \$122 for the first nine months of 2012. Results in the third quarter and for the first nine months of 2013 included interest and dividend income of \$14 and \$54 and leveraged lease income of \$6 and \$21, respectively. Income for the first nine months of 2013 also included a net gain on the sale of América Móvil shares and other investments of \$272.

Other income in the third quarter and for the first nine months of 2012 included interest and dividend income of \$17 and \$51 and leveraged lease income of \$5 and \$46 and a net gain on the sale of investments of \$83 and \$82, respectively. This income was partially offset by a third-quarter investment impairment of \$55.

Income taxes decreased \$146, or 8.4%, in the third quarter and \$606, or 10.7%, for the first nine months of 2013. Our effective tax rate was 29.0% for the third quarter and 30.5% for the first nine months of 2013, as compared to 32.0% for the third quarter and 33.4% for the first nine months of 2012. The decrease in effective tax rate for both the third quarter and the first nine months was primarily due to recognition of benefits related to tax audit settlements and prior-year asset sales.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
Dollars in millions except per share amounts

Selected Financial and Operating Data

	September 30,	
	2013	2012
Wireless subscribers (000)	109,460	105,871
Network access lines in service (000)	25,680	30,443
Total wireline broadband connections (000)	16,427	16,392
Debt ratio ¹	46.9%	38.6%
Ratio of earnings to fixed charges ²	5.43	5.36
Number of AT&T employees	246,740	241,130

¹ Debt ratios are calculated by dividing total debt (debt maturing within one year plus long-term debt) by total capital (total debt plus total stockholders' equity) and do not consider cash available to pay down debt. See our "Liquidity and Capital Resources" section for discussion.

² See exhibit 12.

Segment Results

Our segments are strategic business units that offer different products and services over various technology platforms and are managed accordingly. Our operating segment results presented in Note 4 and discussed below for each segment follow our internal management reporting. We analyze our operating segments based on segment income before income taxes. We make our capital allocation decisions based on the strategic needs of the business, needs of the network (wireless or wireline) provided services, and demands to provide emerging services to our customers. Actuarial gains and losses from pension and other postemployment benefits, interest expense and other income (expense) – net, are managed only on a total company basis and are, accordingly, reflected only in consolidated results. We have three reportable segments: (1) Wireless, (2) Wireline and (3) Other. Our operating results prior to May 9, 2012, also included Advertising Solutions, which was previously a reportable segment.

The Wireless segment uses our nationwide network to provide consumer and business customers with wireless data and voice communications services. This segment includes our portion of the results from our mobile payment joint venture marketed as the ISIS Mobile Wallet™ (ISIS), which is accounted for as an equity method investment.

The Wireline segment uses our regional, national and global network to provide consumer and business customers with data and voice communications services, U-verse high-speed broadband, video, voice services, and managed networking to business customers. Additionally, commissions on sales of satellite television services offered through our agency arrangements are included in the segment.

The Advertising Solutions segment included our directory operations, which published Yellow and White Pages directories and sold directory advertising, Internet-based advertising and local search through May 8, 2012.

The Other segment includes our portion of the results from our international equity investment, our equity interest in YP Holdings, and costs to support corporate-driven activities and operations. Also included in the

Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

The following sections discuss our operating results by segment. Operations and support expenses include certain network planning and engineering expenses; information technology; our repair technicians and repair services; property taxes; bad debt expense; advertising costs; sales and marketing functions, including customer service centers; real estate costs, including maintenance and utilities on all buildings; credit and collection functions; and corporate support costs, such as finance, legal, human resources and external affairs. Pension and postretirement service costs, net of amounts capitalized as part of construction labor, are also included to the extent that they are associated with employees who perform these functions.

We discuss capital expenditures for each segment in “Liquidity and Capital Resources.”

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Wireless
Segment Results

	Third Quarter			Nine-Month Period			
	2013	2012	Percent Change	2013	2012	Percent Change	
Segment operating revenues							
Data	\$5,509	\$4,686	17.6	% \$15,990	\$13,392	19.4	%
Voice, text and other service	9,951	10,220	(2.6)	29,902	30,845	(3.1)	
Equipment	2,020	1,726	17.0	5,570	4,884	14.0	
Total Segment Operating Revenues	17,480	16,632	5.1	51,462	49,121	4.8	
Segment operating expenses							
Operations and support	10,982	10,432	5.3	31,932	30,000	6.4	
Depreciation and amortization	1,875	1,730	8.4	5,553	5,092	9.1	
Total Segment Operating Expenses	12,857	12,162	5.7	37,485	35,092	6.8	
Segment Operating Income	4,623	4,470	3.4	13,977	14,029	(0.4)	
Equity in Net Income (Loss) of							
Affiliates	(18)	(17)	(5.9)	(55)	(45)	(22.2)	
Segment Income	\$4,605	\$4,453	3.4	% \$13,922	\$13,984	(0.4)	%

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The following table highlights other key measures of performance for the Wireless segment:

(Subscribers in 000s)	Third Quarter			Nine-Month Period		
	2013	2012	Percent Change	2013	2012	Percent Change
Wireless Subscribers ¹				109,460	105,871	3.4 %
Gross Subscriber Additions ²	5,251	4,914	6.9 %	14,978	15,162	(1.2)
Net Subscriber Additions ²	989	678	45.9	1,912	2,670	(28.4)
Total Churn ³	1.31 %	1.34 %	(3) BP	1.35 %	1.33 %	2 BP
Postpaid Smartphone Subscribers				50,637	44,528	13.7 %
Postpaid Data-Centric Device and Other Phone Subscribers				21,395	25,219	(15.2)
Total Postpaid Subscribers				72,032	69,747	3.3
Net Postpaid Subscriber Additions ²	363	151	-	1,210	658	83.9
Postpaid Churn ³	1.07 %	1.08 %	(1) BP	1.04 %	1.05 %	(1) BP
Prepaid Subscribers				7,425	7,545	(1.6) %
Net Prepaid Subscriber Additions ²	192	77	-	19	294	(93.5)
Reseller Subscribers				14,089	14,573	(3.3) %
Net Reseller Subscriber Additions ²	(285)	137	-	(951)	793	-
Connected Device Subscribers ⁴				15,914	14,006	13.6 %
Net Connected Device Subscriber Additions	719	313	-	1,634	925	76.6

1 Represents 100% of AT&T Mobility wireless subscribers.

- 2 Excludes merger and acquisition-related additions during the period.
Calculated by dividing the aggregate number of wireless subscribers who canceled service during a period divided by the total number of wireless subscribers at the beginning of that period. The churn
- 3 rate for the period is equal to the average of the churn rate for each month of that period.
Includes data-centric devices such as eReaders, automobile monitoring systems, and fleet
- 4 management - excludes tablet subscribers, which are primarily reflected in our postpaid subscriber category, with the remainder in prepaid.

Wireless Subscriber Relationships

As the wireless industry continues to mature, we believe that future wireless growth will increasingly depend on our ability to offer innovative services and devices and a wireless network that has sufficient spectrum and capacity to support these innovations and make them available to more subscribers. To attract and retain subscribers, we offer a broad handset line and a wide variety of service plans.

As technology evolves, rapid changes are occurring in the handset and device industry with the continual introduction of new models or significant revisions of existing models. We believe a broad offering of a wide variety of smartphones reduces dependence on any single operating system or manufacturer as these products continue to evolve in terms of technology and subscriber appeal. In the first nine months of 2013, we continued to see increasing use of smartphones by our postpaid subscribers. Of our total postpaid phone subscriber base, 74.7% (or 50.6 million subscribers) use smartphones, up from 66.1% (or 44.5 million subscribers) a year earlier. As is common in the industry, most of our subscribers' phones are designed to work only with our wireless technology, requiring subscribers who desire to move to a new carrier with a different technology to purchase a new device.

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Our postpaid subscribers typically sign a two-year contract, which includes discounted handsets and early termination fees. About 90% of our postpaid smartphone subscribers are on FamilyTalk® Plans (family plans), Mobile Share plans or business plans, which provide for service on multiple devices at reduced rates, and such subscribers tend to have higher retention and lower churn rates. We offer our Mobile to Any Mobile feature, which enables our subscribers on these and other qualifying plans to make unlimited mobile calls to any mobile number in the United States, subject to certain conditions. We also offer data plans at different price levels (usage-based data plans) to attract a wide variety of subscribers and to differentiate us from our competitors. Our postpaid subscribers on data plans increased 12.0% year over year. A growing percentage of our postpaid smartphone subscribers are on usage-based data plans, with 72.0% (or 36.4 million) on these plans as of September 30, 2013, up from 63.9% (or 28.5 million) as of September 30, 2012. About 80% of subscribers on usage-based data plans have chosen the higher-priced plans. We recently expanded our Mobile Share data plans to include additional, larger usage levels, and we have introduced a program allowing subscribers to more frequently upgrade handsets using an installment payment plan. Participation in these plans continues to increase. Such offerings are intended to encourage existing subscribers to upgrade their current services and/or add connected devices, attract subscribers from other providers, and minimize subscriber churn.

As of September 30, 2013, about 70% of our postpaid smartphone subscribers use a 4G-capable device (i.e., a device that would operate on our HSPA+ or LTE network), and about 42% of our postpaid smartphone subscribers use an LTE device. Due to substantial increases in the demand for wireless service in the United States, AT&T is facing significant spectrum and capacity constraints on its wireless network in certain markets. We expect such constraints to increase and expand to additional markets in the coming years. While we are continuing to invest significant capital in expanding our network capacity, our capacity constraints could affect the quality of existing voice and data services and our ability to launch new, advanced wireless broadband services, unless we are able to obtain more spectrum. Any long-term spectrum solution will require that the Federal Communications Commission (FCC) make new or existing spectrum available to the wireless industry to meet the expanding needs of our subscribers. We will continue to attempt to address spectrum and capacity constraints on a market-by-market basis.

Wireless Metrics

Subscriber Additions As of September 30, 2013, we served 109.5 million wireless subscribers, an increase of 3.4% when compared to the prior year. Gross subscriber additions (gross additions) in the third quarter were 6.9% higher than in the third quarter of 2012, primarily due to increased smartphone sales and growth in the connected device subscriber base. Gross additions for the first nine months of 2013 were 1.2% lower than the comparable period of the prior year, reflecting competition in the wireless industry and market saturation, which we expect will continue to limit the rate of growth in the industry's subscriber base. Higher net subscriber additions (net additions) in the third quarter were primarily due to growth in smartphone sales and the connected device subscriber base. Lower net subscriber additions (net additions) for the first nine months of 2013 were primarily attributable to losses in reseller low-revenue accounts.

The increases in net postpaid additions reflect the migration of prepaid tablet subscribers to our postpaid plans, contributing to an increase in postpaid tablet subscribers of 388,000 in the third quarter and 1,151,000 for the first nine months of 2013. The introduction of LTE-capable GoPhones and new pricing plans

contributed to the increase in net prepaid additions when compared to the third quarter of 2012.

Average service revenue per user (ARPU) – Postpaid increased 1.5% in the third quarter and 1.4% for the first nine months of 2013. Postpaid data services ARPU increased 16.6% in the third quarter and 17.4% for the first nine months of 2013, reflecting greater use of smartphones and data-centric devices by our subscribers.

The growth in postpaid data services ARPU was partially offset by a 5.1% decrease in postpaid voice, text and other service ARPU in the third quarter and 5.3% decrease for the first nine months of 2013. Voice, text and other service ARPU declined due to lower access and airtime charges, triggered in part by postpaid subscribers on our discount plans and lower roaming revenues.

ARPU – Total increased 0.9% in the third quarter and 0.7% for the first nine months of 2013, reflecting growth in data services as more subscribers are using smartphones and tablets and choosing higher-priced usage-based data plans. Data services ARPU increased 14.3% in the third quarter and 15.9% for the first nine months of 2013. Voice, text and other service ARPU declined 5.3% in the third quarter and 5.9% for the first nine months of 2013 primarily due to voice access and usage trends and a shift toward a greater percentage of data-centric devices, as well as lower regulatory fees. We expect continued growth in data services ARPU as more subscribers use smartphones and data-centric devices and continue to choose higher-priced usage-based data plans. As technology and devices evolve, we also expect continued pressure on voice, text and other service ARPU.

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Churn The effective management of subscriber churn is critical to our ability to maximize revenue growth and to maintain and improve margins. The total churn rate was lower in the third quarter with higher net postpaid additions and improvements in net connected device additions. A higher total churn rate for the first nine months of 2013 was primarily associated with the disconnection of reseller low-revenue accounts. The postpaid churn rate was slightly lower in the third quarter and for the first nine months of 2013.

Operating Results

Our Wireless segment operating income margin in the third quarter decreased from 26.9% in 2012 to 26.4% in 2013 and for the first nine months decreased from 28.6% in 2012 to 27.2% in 2013. Wireless segment operating income increased \$153, or 3.4%, in the third quarter and decreased \$52, or 0.4%, for the first nine months of 2013. The decreases in operating margin and year-to-date operating income reflected higher costs associated with upgrade activity and subsidies associated with growing smartphone sales, partially offset by continued data revenue growth. The increase in third-quarter operating income reflected continued data growth and higher smartphone sales and upgrades, partially offset by the costs of higher smartphone sales and upgrade activity.

Voice, text and other service revenues decreased \$269, or 2.6%, in the third quarter and \$943, or 3.1%, for the first nine months of 2013. While we had a 3.4% year-over-year increase in the number of wireless subscribers, these revenues continue to decline due to lower access and airtime charges.

Data service revenues increased \$823, or 17.6%, in the third quarter and \$2,598, or 19.4%, for the first nine months of 2013. The increases were primarily due to the increased number of subscribers using smartphones and data-centric devices, such as tablets, eReaders, and mobile navigation devices. Data service revenues accounted for 34.8% of our wireless service revenues for the first nine months of 2013, compared to 30.3% last year.

Equipment revenues increased \$294, or 17.0%, in the third quarter and \$686, or 14.0%, for the first nine months of 2013 due to year-over-year increases in smartphone sales as a percentage of total device sales to postpaid subscribers and higher device upgrades.

Operations and support expenses increased \$550, or 5.3%, in the third quarter and \$1,932, or 6.4%, for the first nine months of 2013. The increases in the third quarter and for the first nine months were primarily due to the following:

- Equipment costs increased \$521 and \$1,526 reflecting an increase in upgrade activity and total device sales, as well as the sales of more expensive smartphones.
- Commission expenses increased \$105 and \$316 due primarily to higher upgrade activity and total device sales and a year-over-year increase in smartphone sales as a percentage of total device sales.
- Selling expenses (other than commissions) and administrative expenses increased \$36 and \$377 due primarily to increases of: \$35 and \$197 in employee-related costs; \$138 in advertising costs for the first nine months of 2013; and \$40 and \$148 in information technology costs in conjunction with ongoing support systems development. Partially offsetting these increases were bad debt expense declines of \$36 and \$138.
-

Network system costs increased \$32 and \$187 due to higher personnel-related network support costs and cell site related costs in conjunction with our network enhancement efforts.

Partially offsetting these increases were the following:

- Interconnect and long-distance costs decreased \$114 and \$326 due to third-party credits and lower usage costs in the current period.
- USF fees decreased \$4 and \$102 primarily due to federal rate decreases, which are offset by lower USF revenues.

Depreciation and amortization expenses increased \$145, or 8.4%, in the third quarter and \$461, or 9.1%, for the first nine months of 2013. Depreciation expense increased \$213, or 13.2%, in the third quarter and \$670, or 14.3%, for the first nine months primarily due to ongoing capital spending for network upgrades and expansion. Amortization expense decreased \$68, or 59.1%, in the third quarter and \$209, or 52.8%, for the first nine months primarily due to lower amortization of intangibles for customer lists related to acquisitions.

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Wireline
Segment Results

	Third Quarter			Nine-Month Period		
	2013	2012	Percent Change	2013	2012	Percent Change
Segment operating revenues						
Data	\$8,457	\$ 7,987	5.9 %	\$ 25,019	\$ 23,722	5.5 %
Voice	5,023	5,563	(9.7)	15,470	17,151	(9.8)
Other	1,190	1,264	(5.9)	3,609	3,777	(4.4)
Total Segment Operating Revenues	14,670	14,814	(1.0)	44,098	44,650	(1.2)
Segment operating expenses						
Operations and support	10,385	10,246	1.4	31,137	30,849	0.9
Depreciation and amortization	2,736	2,774	(1.4)	8,146	8,348	(2.4)
Total Segment Operating Expenses	13,121	13,020	0.8	39,283	39,197	0.2
Segment Operating Income	1,549	1,794	(13.7)	4,815	5,453	(11.7)
Equity in Net Income (Loss) of Affiliates	-	-	-	1	(1)	-
Segment Income	\$ 1,549	\$ 1,794	(13.7) %	\$ 4,816	\$ 5,452	(11.7) %

Operating Results

Our Wireline segment operating income margin in the third quarter decreased from 12.1% in 2012 to 10.6% in 2013, and for the first nine months decreased from 12.2% in 2012 to 10.9% in 2013. Segment operating income decreased \$245, or 13.7%, in the third quarter and \$638, or 11.7%, for the first nine months of 2013. The decrease in operating margins and income was driven primarily by lower voice revenue and higher operations and support expense, partially offset by data revenue growth and lower depreciation and amortization expenses.

Data revenues increased \$470, or 5.9%, in the third quarter and \$1,297, or 5.5%, for the first nine months of 2013. Data revenues accounted for approximately 57% of wireline operating revenues for the first nine months of 2013 and 53% for the first nine months of 2012. Data revenue includes IP, strategic business and traditional data services.

- IP data revenues (excluding strategic business services below) increased \$428, or 11.5%, in the third quarter and \$1,237, or 11.4%, for the first nine months of 2013 primarily driven by higher U-verse penetration, customer additions, and migration from our legacy voice and DSL services. In the third quarter and for the first nine months U-verse revenue from consumer customers increased \$318 and \$957 for high

speed Internet access, \$244 and \$736 for video and \$76 and \$198 for voice, respectively. These increases were partially offset by a decrease of \$191 and \$557 in DSL revenue as customers continue to shift to our U-verse or competitors' high speed Internet access offerings. We expect DSL revenue to continue to decline as a percentage of our overall data revenues.

- Strategic business services, which include VPNs, Ethernet, hosting, IP conferencing, VoIP, Ethernet-access to Managed Internet Service (EaMIS), security services, and U-verse services provided to business customers, increased \$293, or 15.7%, in the third quarter and \$772, or 14.1%, for the first nine months of 2013 primarily driven by migration from our legacy services. In the third quarter and for the first nine months revenue from Ethernet increased \$76 and \$215, VPN increased by \$116 and \$251, U-verse services increased \$32 and \$103, VoIP increased \$27 and \$78 and EaMIS increased \$22 and \$78, respectively.
- Traditional data revenues, which include circuit-based and packet-switched data services, decreased \$251, or 10.5%, in the third quarter and \$719, or 9.7%, for the first nine months of 2013. This decrease was primarily due to lower demand as customers continue to shift to more advanced IP-based technology such as Ethernet, VPN, U-verse High Speed Internet access and managed Internet services. We expect these traditional services to continue to decline as a percentage of our overall data revenues.

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Voice revenues decreased \$540, or 9.7%, in the third quarter and \$1,681, or 9.8%, for the first nine months of 2013 primarily due to declining demand for traditional voice services by our consumer and business customers. Included in voice revenues are revenues from local voice, long-distance (including international) and local wholesale services. Voice revenues do not include VoIP revenues, which are included in data revenues.

- Local voice revenues decreased \$341, or 9.9%, in the third quarter and \$1,051, or 9.9%, for the first nine months of 2013. The decrease was driven primarily by a 15.6% decline in total switched access lines. We expect our local voice revenue to continue to be negatively affected by competition from alternative technologies, primarily wireless and VoIP.
- Long-distance revenues decreased \$192, or 10.3%, in the third quarter and \$617, or 10.7%, for the first nine months of 2013. Lower demand for long-distance service from our business and consumer customers decreased revenues \$158 in the third quarter and \$514 for the first nine months of 2013. Additionally, expected declines in the number of our national mass-market customers decreased revenues \$33 in the third quarter and \$103 for the first nine months of 2013.

Other operating revenues decreased \$74, or 5.9%, in the third quarter and \$168, or 4.4%, for the first nine months of 2013. Major items included in other operating revenues are integration services and customer premises equipment, government-related services and outsourcing, which account for approximately 60% of total other revenue for the periods reported.

Operations and support expenses increased \$139, or 1.4%, in the third quarter and \$288, or 0.9%, for the first nine months of 2013. Operations and support expenses consist of costs incurred to provide our products and services, including costs of operating and maintaining our networks and personnel costs, such as compensation and benefits.

The increase in the third quarter of 2013 was primarily due to increased cost of sales of \$167, primarily related to U-verse related expenses, contract services of \$56, and materials and supplies expense of \$32. These increases were partially offset by lower employee related expenses of \$138.

The increase for the first nine months of 2013 was primarily due to increased cost of sales of \$533, primarily related to U-verse related expenses, contract services of \$166, and advertising expense of \$131. These increases were partially offset by lower employee related expenses of \$382 and USF fees of \$122, which are offset by lower USF revenue.

Depreciation and amortization expenses decreased \$38, or 1.4%, in the third quarter and \$202, or 2.4%, for the first nine months of 2013. The decrease was primarily related to lower amortization of intangibles for customer lists associated with acquisitions and lower depreciation as assets become fully depreciated.

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Supplemental Information

Wireline Broadband, Telephone and Video Connections Summary

Our broadband, switched access lines and other services provided at September 30, 2013 and 2012 are shown below and trends are addressed throughout the preceding segment discussion.

(in 000s)	September 30, 2013	September 30, 2012	Percent Change	
U-verse High Speed Internet	9,745	7,108	37.1	%
DSL and Other Broadband Connections	6,682	9,284	(28.0))
Total Wireline Broadband Connections ¹	16,427	16,392	0.2	
Total U-verse Video Connections	5,266	4,344	21.2	
Retail Consumer Switched Access Lines	13,133	16,486	(20.3))
U-verse Consumer VoIP Connections	3,616	2,733	32.3	
Total Retail Consumer Voice Connections	16,749	19,219	(12.9))
Switched Access Lines				
Retail Consumer	13,133	16,486	(20.3))
Retail Business	10,633	11,784	(9.8))
Retail Subtotal	23,766	28,270	(15.9))
Wholesale Subtotal	1,654	1,848	(10.5))
Total Switched Access Lines ²	25,680	30,443	(15.6)) %

¹Total wireline broadband connections include DSL, U-verse High Speed Internet and satellite broadband.

²Total switched access lines includes access lines provided to national mass markets and private payphone service providers of 260 at September 30, 2013 and 325 at September 30, 2012.

Advertising Solutions
Segment Results

	Third Quarter			Nine-Month Period		
	2013	2012	Percent Change	2013	2012	Percent Change
Total Segment						
Operating Revenues	\$ -	\$ -	-	\$ -	\$ 1,049	-
Segment operating expenses						
Operations and support	-	-	-	-	773	-
	-	-	-	-	106	-

Depreciation and
amortization

Total Segment

Operating Expenses	-	-	-	-	879	-
Segment Income	\$ -	\$ -	-	\$ -	\$ 170	-

On May 8, 2012, we completed the sale of our Advertising Solutions segment to an affiliate of Cerberus Capital Management, L.P.

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Other
Segment Results

	Third Quarter			Nine-Month Period		
	2013	2012	Percent Change	2013	2012	Percent Change
Total Segment Operating Revenues	\$ 8	\$ 13	(38.5) %	\$ 29	\$ 36	(19.4) %
Total Segment Operating Expenses	(8)	240	-	580	733	(20.9)
Segment Operating Income (Loss)	16	(227)	-	(551)	(697)	20.9
Equity in Net Income of Affiliates	109	199	(45.2)	548	583	(6.0)
Segment Income (Loss)	\$ 125	\$ (28)	-	\$ (3)	\$ (114)	97.4 %

The Other segment includes our portion of the results from América Móvil, our equity interest in YP Holdings, and costs to support corporate-driven activities and operations. Also included in the Other segment are impacts of corporate-wide decisions for which the individual operating segments are not being evaluated, including interest costs and expected return on plan assets for our pension and postretirement benefit plans.

Segment operating revenues decreased \$5, or 38.5%, in the third quarter and \$7, or 19.4%, for the first nine months of 2013. Operating revenues are from leased equipment programs.

Segment operating expenses decreased \$248 in the third quarter and \$153, or 20.9%, for the first nine months of 2013. Operating expenses in the third quarter and for the first nine months of 2013 include gains of \$293 associated with the transfers of Advanced Wireless Service (AWS) licenses as part of our 700 MHz spectrum acquisitions. Lower operating expenses were also due to lower Pension/OPEB financing costs, which were partially offset by higher new product development expenses and higher corporate support and capital leasing operations costs.

Equity in net income of affiliates decreased \$90, or 45.2%, in the third quarter and \$35, or 6.0%, for the first nine months of 2013. Decreased equity in net income of affiliates in the third quarter was primarily due to reduced earnings from América Móvil and YP Holdings. The decrease for the first nine months was primarily due to foreign exchange impacts at América Móvil, partially offset by earnings from YP Holdings.

Our equity in net income of affiliates by major investment is listed below:

	Third Quarter		Nine-Month Period	
	2013	2012	2013	2012

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América Móvil	\$	85	\$	126	\$	410	\$	490
YP Holdings		23		75		138		94
Other		1		(2)		-		(1)
Other Segment Equity in Net Income of Affiliates	\$	109	\$	199	\$	548	\$	583

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OTHER BUSINESS MATTERS

U-verse Services As of September 30, 2013, we are marketing U-verse services to approximately 26.0 million customer locations (locations eligible to receive U-verse service). As of September 30, 2013, we had 10.0 million total U-verse subscribers (high-speed Internet and video), including 9.7 million Internet and 5.3 million video subscribers (subscribers to both services are only counted once in the total). As part of Project Velocity IP (VIP), we plan to expand our U-verse services to a total of approximately 33 million customer locations and expect to be essentially complete by year-end 2015.

We believe that our U-verse TV service is a "video service" under the Federal Communications Act. However, some cable providers and municipalities have claimed that certain IP services should be treated as a traditional cable service and therefore subject to the applicable state and local cable regulation. Petitions have been filed at the FCC alleging that the manner in which we provision "public, educational and governmental" (PEG) programming over our U-verse TV service conflicts with federal law, and a lawsuit has been filed in a California state superior court raising similar allegations under California law. If courts having jurisdiction where we have significant deployments of our U-verse services were to decide that federal, state and/or local cable regulation were applicable to our U-verse services, or if the FCC, state agencies or the courts were to rule that we must deliver PEG programming in a manner substantially different from the way we do today or in ways that are inconsistent with our current network architecture, it could have a material adverse effect on the cost and extent of our U-verse offerings.

Atlantic Tele-Network, Inc. Transaction In September 2013, we acquired Atlantic Tele-Network, Inc.'s U.S. retail wireless operations, operated under the Alltel brand, for \$806 in cash, which includes closing adjustments. Under the terms of the agreement, we acquired wireless properties, including licenses, network assets, retail stores and approximately 550,000 subscribers.

Spectrum Acquisitions In September 2013, we acquired spectrum in the 700 MHz B band from Verizon Wireless for \$1,900 in cash and an assignment of AWS spectrum licenses in five markets. The 700 MHz licenses acquired by AT&T cover 42 million people in 18 states.

Leap Acquisition In July 2013, we announced an agreement to acquire Leap Wireless International, Inc. (Leap), a provider of prepaid wireless service, for fifteen dollars per outstanding share of Leap's common stock, or approximately \$1,260, plus one non-transferable contingent value right (CVR) per share. The CVR will entitle each Leap stockholder to a pro rata share of the net proceeds of the future sale of the Chicago 700 MHz A-band FCC license held by Leap. As of June 30, 2013, Leap had approximately \$2,700 of debt, net of cash. Under the terms of the agreement, we will acquire all of Leap's stock and, thereby, acquire all of its wireless properties, including spectrum licenses, network assets, retail stores and approximately 5 million subscribers. Leap's spectrum licenses include Personal Communications Services (PCS) and AWS bands and are largely complementary to our licenses. Leap's network covers approximately 96 million people in 35 states and consists of a 3G CDMA network and an LTE network covering approximately 21 million people.

The agreement was approved by more than 99 percent of votes cast by Leap's stockholders on October 30, 2013. The transaction is subject to review by the FCC and Department of Justice (DOJ). The review process is

underway at both agencies. The transaction is expected to close in the first quarter of 2014. The agreement provides both parties with certain termination rights if the transaction does not close by July 11, 2014, which can be extended until January 11, 2015 if certain conditions have not been met by that date. Under certain circumstances, Leap may be required to pay a termination fee or AT&T may be required to provide Leap with a three-year roaming agreement for LTE data coverage in certain Leap markets lacking LTE coverage, if the transaction does not close. If Leap enters into the roaming agreement, AT&T will then have the option within 30 days after entry into the roaming agreement to purchase certain specified Leap spectrum assets. If AT&T does not exercise its right to purchase all of the specified Leap spectrum assets, Leap can then within 60 days after expiration of AT&T's option require AT&T to purchase all of the specified spectrum assets.

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Tower Transaction On October 20, 2013, we announced an agreement with Crown Castle International Corp. (Crown Castle) in which Crown Castle will have the exclusive rights to lease and operate approximately 9,100 and purchase approximately 600 of our wireless towers for \$4,850. Under the terms of the leases, Crown Castle will have exclusive rights to lease and operate the towers over an average term of approximately 28 years. As the leases expire, Crown Castle will have fixed price purchase options for these towers totaling approximately \$4,200, based on their estimated fair market values at the end of the lease terms. We will sublease capacity on the towers from Crown Castle for a minimum of 10 years at current market rates, with options to renew. We plan to account for the proceeds as a financing obligation and expect this transaction to close by year-end 2013, subject to standard closing conditions.

COMPETITIVE AND REGULATORY ENVIRONMENT

Overview AT&T subsidiaries operating within the United States are subject to federal and state regulatory authorities. AT&T subsidiaries operating outside the United States are subject to the jurisdiction of national and supranational regulatory authorities in the markets where service is provided, and regulation is generally limited to operational licensing authority for the provision of services to enterprise customers.

In the Telecommunications Act of 1996 (Telecom Act), Congress established a national policy framework intended to bring the benefits of competition and investment in advanced telecommunications facilities and services to all Americans by opening all telecommunications markets to competition and reducing or eliminating regulatory burdens that harm consumers. However, since the Telecom Act was passed, the FCC and some state regulatory commissions have maintained or expanded certain regulatory requirements that were imposed decades ago on our traditional wireline subsidiaries when they operated as legal monopolies. We are pursuing, at both the state and federal levels, additional legislative and regulatory measures to reduce regulatory burdens that are no longer appropriate in a competitive telecommunications market and that inhibit our ability to compete more effectively and offer services wanted and needed by our customers, including initiatives to transition services from traditional networks to all IP-based networks. At the same time, we also seek to ensure that legacy regulations are not extended to broadband or wireless services, which are subject to vigorous competition.

In addition, states representing a majority of our local service access lines have adopted legislation that enables new video entrants to acquire a single statewide or state-approved franchise (as opposed to the need to acquire hundreds or even thousands of municipal-approved franchises) to offer competitive video services. We also are supporting efforts to update and improve regulatory treatment for retail services. Regulatory reform and passage of legislation is uncertain and depends on many factors.

We provide wireless services in robustly competitive markets, but those services are subject to substantial and increasing governmental regulation. Wireless communications providers must obtain licenses from the FCC to provide communications services at specified spectrum frequencies within specified geographic areas and must comply with the FCC rules and policies governing the use of the spectrum. The FCC has recognized that the explosive growth of bandwidth-intensive wireless data services requires the U.S. Government to make more spectrum available. In February 2012, Congress set forth specific spectrum blocks to be auctioned and licensed by February 2015, and also authorized the FCC to conduct an "incentive auction," to make available for

wireless broadband use certain spectrum that is currently used by broadcast television licensees. The FCC has initiated proceedings to establish rules that would govern this process. It also initiated a separate proceeding to review its policies governing mobile spectrum holdings and consider whether there should be limits on the amount of spectrum a wireless service provider may possess. We seek to ensure that we have the opportunity, through the incentive auction and otherwise, to obtain the spectrum we need to provide our customers with high-quality service. While wireless communications providers' prices and service offerings are generally not subject to state regulation, states sometimes attempt to regulate or legislate various aspects of wireless services, such as in the area of consumer protection.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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Intercarrier Compensation/Universal Service In October 2011, the FCC adopted an order fundamentally overhauling its high-cost universal service program, through which it disburses approximately \$4,500 per year to carriers providing telephone service in high-cost areas, and its existing intercarrier compensation (ICC) rules, which govern payments between carriers for the exchange of traffic. The order adopted rules to immediately address certain practices that artificially increase ICC payments, as well as other practices to avoid such payments. The order also established a new ICC regime that will result in the elimination of virtually all terminating switched access charges and reciprocal compensation payments over a six-year transition. In the order, the FCC also repurposed its high-cost universal service program to encourage providers to deploy broadband facilities in unserved areas. To accomplish this goal, the FCC will transition support amounts disbursed through its existing high-cost program to its new Connect America Fund, which eventually will award targeted high-cost support amounts to providers through a competitive process. We support many aspects of the order and new rules. AT&T and other parties have filed appeals of the FCC's rules, which are pending in the Tenth Circuit Court of Appeals. Our appeal challenges only certain, narrow aspects of the order; AT&T intervened in support of the broad framework adopted by the order. Oral argument on the appeal will take place November 19, 2013. We do not expect the FCC's rules to have a material impact on our operating results.

Transition to IP-Based Network In November 2012, we announced plans to significantly expand and enhance our wireless and wireline broadband networks to support future IP data growth and new services (referred to as Project VIP). In conjunction with Project VIP, we filed a petition with the FCC asking it to open a proceeding to facilitate the "telephone" industry's transition from traditional transmission platforms and services to all IP-based networks and services. Our petition asks the FCC to conduct trial runs of the transition to next-generation services, including the upgrading of traditional telephone facilities and offerings and their replacement with IP-based alternatives. The objective of the trials is to inform policymakers and other stakeholders regarding the technological and policy dimensions of the IP transition and, in the process, identify the regulatory reforms needed to promote consumer interests and preserve private incentives to upgrade America's broadband infrastructure. In May 2013, the FCC's Technology Transition Task Force sought comment on potential trials to obtain data to assist the FCC in managing the transition to next-generation networks. We expect to transition wireline customers to an all IP-based network by 2020.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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LIQUIDITY AND CAPITAL RESOURCES

We had \$1,371 in cash and cash equivalents available at September 30, 2013. Cash and cash equivalents included cash of \$490 and money market funds and other cash equivalents of \$881. In the first nine months of 2013, cash outflows were primarily used to meet the needs of the business, including, but not limited to, payment of operating expenses, funding capital expenditures, and the acquisition of wireless spectrum. Cash flows were also used to return value to stockholders through dividends and stock repurchases. We discuss many of these factors in detail below.

Cash Provided by or Used in Operating Activities

During the first nine months of 2013, cash provided by operating activities was \$26,879, compared to \$28,656 for the first nine months of 2012. Lower operating cash flows reflected increased income tax payments of approximately \$1,183 in 2013.

Cash Used in or Provided by Investing Activities

For the first nine months of 2013, cash used in investing activities totaled \$18,660, which consisted primarily of \$15,565 for capital expenditures (excluding interest during construction), and wireless spectrum and operations acquisitions of \$3,984. These expenditures were partially offset by cash receipts of approximately \$771 from the sale of a portion of our shares in América Móvil, \$200 from the repayment of advances to YP Holdings and \$101 from the return of investment in YP Holdings.

Virtually all of our capital expenditures are spent on our wireless and wireline networks, our U-verse services, and support systems for our communications services. Capital spending in our Wireless segment of \$8,231 represented 53% of our total spending and increased 14% in the first nine months. Wireless expenditures were primarily used for network capacity expansion, integration and the deployment of LTE equipment upgrades and our High-Speed Downlink Packet Access network. The Wireline segment, which includes U-verse services, represented 47% of total capital expenditures and increased 15% in the first nine months, primarily reflecting our implementation of Project VIP.

We continue to expect our capital expenditures during 2013 to be in the \$21,000 range and expect capital expenditures for 2014 and 2015 to each be in the \$20,000 range.

Cash Used in or Provided by Financing Activities

For the first nine months of 2013, our financing activities included proceeds of \$6,416 from the following long term debt issuances:

- February 2013 issuance of \$1,000 of 0.900% global notes due 2016 and \$1,250 of floating rate notes due 2016. The floating rate for the note is based upon the three-month London Interbank Offered Rate (LIBOR), reset quarterly, plus 38.5 basis points.
 - March 2013 issuance of \$500 of 1.400% global notes due 2017.
 - March 2013 issuance of €1,250 of 2.500% global notes due 2023 (equivalent to \$1,626 when issued) and €400 of 3.550% global notes due 2032 (equivalent to \$520 when issued).
- May 2013 issuance of £1,000 of 4.250% global notes due 2043 (equivalent to approximately \$1,560 when issued).

In March 2013, we repaid €1,250 of 4.375% notes (equivalent to \$1,641 when repaid) and \$147 of 6.5% notes. In July 2013, we repaid \$300 of 7.375% notes. Additionally, in August 2013, we announced the redemption of \$550 of 6.625% notes, which was completed in October 2013.

In May 2013, we completed a repurchase authorization that was approved by our Board of Directors in July 2012. In March 2013, our Board of Directors authorized the repurchase of an additional 300 million shares of our common stock. During the first nine months of 2013, we repurchased 312 million shares for \$11,134 under these authorizations. At the end of the third quarter, we had 216 million shares remaining on the March 2013 authorization. We expect to make future repurchases opportunistically.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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We paid dividends of \$7,325 during the first nine months of 2013, compared with \$7,738 for the first nine months of 2012, primarily reflecting the decline in shares outstanding due to our repurchases during the year, which offset the increase in the quarterly dividend approved by our Board of Directors in November 2012. Dividends declared by our Board of Directors totaled \$0.45 per share in the third quarter of 2013 and \$1.35 per share for the first nine months of 2013 and \$0.44 per share in the third quarter and \$1.32 per share for the first nine months of 2012. Our dividend policy considers the expectations and requirements of stockholders, internal requirements of AT&T and long-term growth opportunities. It is our intent to provide the financial flexibility to allow our Board of Directors to consider dividend growth and to recommend an increase in dividends to be paid in future periods. All dividends remain subject to declaration by our Board of Directors.

At September 30, 2013, we had \$7,873 of debt maturing within one year, \$5,999 of which were long-term debt issuances. Debt maturing within one year includes the following notes that may be put back to us by the holders:

- \$1,000 of annual put reset securities issued by BellSouth Corporation (BellSouth) that may be put back to us each April until maturity in 2021.
- An accreting zero-coupon note that may be redeemed each May until maturity in 2022. If the zero-coupon note (issued for principal of \$500 in 2007) is held to maturity, the redemption amount will be \$1,030.

We have two revolving credit agreements with a syndicate of banks: a \$5,000 agreement expiring in December 2016 and a \$3,000 agreement expiring in December 2017. Advances under either agreement may be used for general corporate purposes. Advances are not conditioned on the absence of a material adverse change. All advances must be repaid no later than the date on which lenders are no longer obligated to make any advances under each agreement. Under each agreement, we can terminate, in whole or in part, amounts committed by the lenders in excess of any outstanding advances; however, we cannot reinstate any such terminated commitments. Under each agreement, we must maintain a debt-to-EBITDA, including modifications described in the agreement, ratio of not more than three-to-one as of the last day of each fiscal quarter for the four quarters then ended. Both agreements also contain a negative pledge covenant, which generally provides that if we pledge assets or permit liens on our property, then any advances must also be secured. At September 30, 2013, we had no advances outstanding under either agreement and were in compliance with all covenants under each agreement.

Other

Our total capital consists of debt (long-term debt and debt maturing within one year) and stockholders' equity. Our capital structure does not include debt issued by América Móvil or YP Holdings. At September 30, 2013, our debt ratio was 46.9%, compared to 38.6% at September 30, 2012, and 43.0% at December 31, 2012. The debt ratio is affected by the same factors that affect total capital, and reflects our recent debt issuances.

In September 2013, we made a voluntary contribution of a preferred equity interest in AT&T Mobility II LLC (Mobility), the holding company for our wireless business, to the trust used to pay pension benefits under our qualified pension plans. The preferred equity interest, preliminarily valued between \$9,200 and \$9,500, had a value of \$9,104 on the contribution date, does not have any voting rights and has a liquidation value of \$8,000. The trust is entitled to receive cumulative cash distributions of \$560 per annum, which will be distributed quarterly in equal amounts. So long as we make the distributions, we will have no limitations on

our ability to declare a dividend, or repurchase shares. At the time of the contribution of the preferred equity interest, we made an additional cash contribution of \$175 and have agreed to annual cash contributions of \$175 no later than the due date for our federal income tax return for each of 2014, 2015 and 2016. These contributions, combined with our existing pension assets, are essentially equivalent to the expected pension obligation at year-end.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued
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The preferred equity interest is not transferable by the trust except through its put and call features. After a period of five years from the contribution or, if earlier, the date upon which the pension plan trust is fully funded as determined under Employee Retirement Income Security Act of 1974, as amended (ERISA), AT&T has a right to purchase from the pension plan trust some or all the preferred equity interests at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends. In addition, AT&T will have the right to purchase the preferred equity interests in the event AT&T's ownership of Mobility is less than fifty percent (50%) or there is a transaction that results in the transfer of 50% or more of the pension plan trust's assets to an entity not under common control with AT&T (collectively, a change of control). The pension plan trust has the right to require AT&T to purchase the preferred equity interests at the greater of their fair market value or minimum liquidation value plus any unpaid cumulative dividends, and in installments, as specified in the contribution agreement upon the occurrence of any of the following: (1) at any time if the ratio of debt to total capitalization of Mobility exceeds that of AT&T, (2) the date on which AT&T Inc. is rated below investment grade for two consecutive calendar quarters, (3) upon a change of control if AT&T does not exercise its purchase option, or (4) at any time after a seven-year period from the contribution date. In the event AT&T elects or is required to purchase the preferred equity interests, AT&T may elect to settle the purchase price in shares of AT&T common stock.

On September 9, 2013, the DOL published a proposed exemption that authorizes retroactive approval of this voluntary contribution. The proposal is open for public comment for 55 days from the publication date. Our retirement benefit plans, including required contributions, are subject to the provisions of ERISA.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk
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At September 30, 2013, we had interest rate swaps with a notional value of \$4,750 and a fair value of \$212.

We have fixed-to-fixed cross-currency swaps on foreign-currency-denominated debt instruments with a U.S. dollar notional value of \$14,136 to hedge our exposure to changes in foreign currency exchange rates. These derivatives have been designated at inception and qualify as cash flow hedges with a net fair value of \$1,100 at September 30, 2013. We have foreign exchange contracts with a notional value of \$4 and a net fair value of less than \$1 at September 30, 2013.

Item 4. Controls and Procedures

The registrant maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed by the registrant is recorded, processed, summarized, accumulated and communicated to its management, including its principal executive and principal financial officers, to allow timely decisions regarding required disclosure, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. The chief executive officer and chief financial officer have performed an evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of September 30, 2013. Based on that evaluation, the chief executive officer and chief financial officer concluded that the registrant's disclosure controls and procedures were effective as of September 30, 2013.

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CAUTIONARY LANGUAGE CONCERNING FORWARD-LOOKING STATEMENTS

Information set forth in this report contains forward-looking statements that are subject to risks and uncertainties, and actual results could differ materially. Many of these factors are discussed in more detail in the "Risk Factors" section. We claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

The following factors could cause our future results to differ materially from those expressed in the forward-looking statements:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments, including the impact on customer demand and our ability and our suppliers' ability to access financial markets at favorable rates and terms.
- Changes in available technology and the effects of such changes, including product substitutions and deployment costs.
- Increases in our benefit plans' costs, including increases due to adverse changes in the United States and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates, adverse medical cost trends, unfavorable or delayed implementation of healthcare legislation, regulations or related court decisions; and our inability to receive retroactive approval from the DOL of our voluntary contribution of a preferred interest in our wireless business.
- The final outcome of FCC and other federal or state agency proceedings (including judicial review, if any, of such proceedings) involving issues that are important to our business, including, without limit, intercarrier compensation, interconnection obligations, the transition from legacy technologies to IP-based infrastructure, universal service, broadband deployment, E911 services, competition policy, net neutrality, unbundled network elements and other wholesale obligations, availability of new spectrum from the FCC on fair and balanced terms, wireless license awards and renewals.
- The final outcome of state and federal legislative efforts involving issues that are important to our business, including deregulation of IP-based services, relief from Carrier of Last Resort obligations, and elimination of state commission review of the withdrawal of services.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments, including laws and regulations that reduce our incentive to invest in our networks, resulting in lower revenue growth and/or higher operating costs.
- Our ability to absorb revenue losses caused by increasing competition, including offerings that use alternative technologies (e.g., cable, wireless and VoIP) and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on customer and access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.
- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The continued development of attractive and profitable U-verse service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- Our continued ability to attract and offer a diverse portfolio of wireless devices, some on an exclusive basis.
-

The availability and cost of additional wireless spectrum and regulations and conditions relating to spectrum use, licensing, obtaining additional spectrum, technical standards and deployment and usage, including network management rules.

- Our ability to manage growth in wireless data services, including network quality and acquisition of adequate spectrum at reasonable costs and terms.
- The outcome of pending, threatened or potential litigation, including patent and product safety claims by or against third parties.
- The impact on our networks and business from major equipment failures; security breaches related to the network or customer information; our inability to obtain handsets, equipment/software or have handsets, equipment/software serviced in a timely and cost-effective manner from suppliers; or severe weather conditions, natural disasters, pandemics, energy shortages, wars or terrorist attacks.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including payment for additional spectrum network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, which may require significant amounts of cash or stock, to respond to competition and regulatory, legislative and technological developments.
- The uncertainty surrounding further congressional action to address spending reductions, which may result in a significant reduction in government spending and reluctance of businesses and consumers to spend in general and on our products and services specifically, due to this fiscal uncertainty.

Readers are cautioned that other factors discussed in this report, although not enumerated here, also could materially affect our future earnings.

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PART II – OTHER INFORMATION

Dollars in millions except per share amounts

Item 1A. Risk Factors

We discuss in our Annual Report on Form 10-K various risks that may materially affect our business. We use this section to update this discussion to reflect material developments since our Form 10-K was filed. For the third quarter 2013, there were no such material developments.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) A summary of our repurchases of common stock during the third quarter of 2013 is as follows:

Period	(a) Total Number of Shares (or Units) Purchased 1,2	(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs 1	(d)
				Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under The Plans or Programs
July 1, 2013 - July 31, 2013	24,608,211	\$ 35.62	24,600,000	246,947,551
August 1, 2013 - August 31, 2013	16,500,137	34.26	16,500,000	230,447,551
September 1, 2013 - September 30, 2013	14,001,278	33.93	14,000,000	216,447,551
Total	55,109,626	\$ 34.78	55,100,000	

In March 2013, our Board of Directors authorized the repurchase of up to 300 million shares of our common stock. In July 2012, our Board of Directors also authorized the repurchase of up to 300 million shares of our common stock, which we completed in May 2013.

1 The March 2013 authorization has no expiration date.

2 Of the shares repurchased, 9,626 shares were acquired through the withholding of taxes on the vesting of restricted stock or through the payment in stock of taxes on the exercise price of options.

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Item 6. Exhibits

Exhibits identified in parentheses below, on file with the Securities and Exchange Commission, are incorporated by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8610.

- 10-qqq Agreement and Plan of Merger, dated as of July 12, 2013, by and among Leap Wireless International, Inc., AT&T Inc., Laser, Inc. and Mariner Acquisition Sub Inc. (Exhibit 10.1 to Form 8-K dated July 12, 2013.)
- 10-rrr Form of Voting Agreement, dated as of July 12, 2013, by and among AT&T Inc., Leap Wireless International, Inc. and the stockholders listed on Schedule I thereto. (Exhibit 10.2 to Form 8-K dated July 12, 2013.)
- 10-sss Form of CVR Agreement, by and among AT&T Inc., Leap Wireless International, Inc., Laser, Inc. and the Rights Agent. (Exhibit 10.3 to Form 8-K dated July 12, 2013.)
- 12 Computation of Ratios of Earnings to Fixed Charges
- 31 Rule 13a-14(a)/15d-14(a) Certifications
 - 31.1 Certification of Principal Executive Officer
 - 31.2 Certification of Principal Financial Officer
- 32 Section 1350 Certifications
- 101 XBRL Instance Document

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 thereunto duly authorized.

AT&T Inc.

November 1, 2013

John J. Stephens
Senior Executive Vice President
and Chief Financial Officer

/s/ John J. Stephens

