

IBM REPORTS 2010 THIRD-QUARTER RESULTS

- o Diluted earnings per share of \$2.82, up 18 percent;
- o 31 consecutive quarters of EPS growth, 13 of last 15 at double digits;
- o Full-year 2010 EPS expectations raised to at least \$11.40;
- o Net income of \$3.6 billion, up 12 percent;
- o Net margin of 14.8 percent, up 1.1 points;
- o Revenue of \$24.3 billion, up 3 percent as reported, 4 percent adjusting for currency;
- o Growth markets revenue up 16 percent, 13 percent adjusting for currency;
- o BRIC countries revenue up 29 percent, 26 percent adjusting for currency;
- o Business analytics revenue up 14 percent;
- o Systems and Technology revenue up 10 percent, 11 percent adjusting for currency;
- o System z mainframe revenue up 15 percent; MIPS up 54 percent;
- o Software revenue excluding divested PLM operations, up 4 percent, 6 percent adjusting for currency; up 1 percent including divested PLM operations;
- o Services revenue up 2 percent, as reported and adjusting for currency;
- o Services backlog of \$134 billion, up \$5 billion quarter to quarter, down \$2 billion adjusting for currency, and flat year over year.

ARMONK, N.Y., October 18, 2010 . . . IBM (NYSE: IBM) today announced third-quarter 2010 diluted earnings of \$2.82 per share, compared with diluted earnings of \$2.40 per share in the third quarter of 2009, an increase of 18 percent.

Third-quarter net income was \$3.6 billion compared with \$3.2 billion in the third quarter of 2009, an increase of 12 percent. Total revenues for the third quarter of 2010 of \$24.3 billion increased 3 percent (4 percent, adjusting for currency) from the third quarter of 2009.

"In the third quarter we grew revenue in our hardware, software and services businesses, expanded margins and again increased earnings per share at double digits," said Samuel J. Palmisano, IBM chairman, president and chief executive officer. "We achieved excellent performance in our growth markets unit, reflecting sustained investments through the downturn and the continued strength of the infrastructure build-out in these countries.

"Looking ahead, we are uniquely positioned in the enterprise, investing in high value segments like business analytics, advanced systems and smarter planet solutions. As a result, we are confident we can deliver strong business performance to grow profit, return value to our shareholders and to achieve full-year 2010 diluted earnings per share of at least \$11.40."

From a geographic perspective, the Americas' third-quarter revenues were \$10.2 billion, an increase of 3 percent (2 percent, adjusting for currency) from the 2009 period. Revenues from Europe/Middle East/Africa were \$7.4 billion, down 6 percent (up 1 percent, adjusting for currency). Asia-Pacific revenues increased 14 percent (7 percent, adjusting for currency) to \$5.9 billion. OEM revenues were \$806 million, up 27 percent compared with the 2009 third quarter.

Growth Markets

Revenues from the company's growth markets organization increased 16 percent (13 percent, adjusting for currency) and represented 21 percent of IBM's total geographic revenue in the quarter. Revenues in the BRIC countries - Brazil, Russia, India and China - increased 29 percent (26 percent, adjusting for currency), and 28 other growth market countries also had double-digit revenue growth, adjusting for currency. Growth markets revenues for both servers and storage increased by more than 20 percent in the quarter. IBM now has 103 sales offices in the growth markets countries after opening 40 offices in 2010.

Services

Total Global Services revenues increased 2 percent (2 percent, adjusting for currency). Global Technology Services segment revenues increased 1 percent (1

percent, adjusting for currency) to \$9.5 billion. Global Business Services segment revenues were up 5 percent (5 percent, adjusting for currency) at \$4.6 billion.

Global Services pre-tax income increased to \$2.2 billion, up 4 percent year over year. Pre-tax income from Global Technology Services increased 4 percent and Global Business Services increased 5 percent. Segment pre-tax margins increased to 15.5 percent and 14.6 percent, respectively.

The estimated services backlog at September 30 was \$134 billion, up \$5 billion quarter to quarter (down \$2 billion, adjusting for currency), and flat year over year at actual rates and adjusting for currency. The backlog includes signed services contracts of \$11.0 billion (down 7 percent) in the quarter, of which 10 contracts were greater than \$100 million. Transactional signings were \$5.4 billion, an increase of 4 percent (4 percent, adjusting for currency). Outsourcing signings were \$5.7 billion, down 15 percent (14 percent, adjusting for currency). Including an agreement signed on October 8, the company would have reported outsourcing signings growth of 14 percent, adjusting for currency. This would have increased total signings reported from \$11.0 billion to \$12.7 billion.

Software

Revenues from the Software segment were \$5.2 billion, an increase of 1 percent (2 percent, adjusting for currency), or 4 percent (6 percent, adjusting for currency) excluding the first-quarter divestiture of the Product Lifecycle Management operations (PLM), compared with the third quarter of 2009. Software pre-tax income of \$1.9 billion increased 2 percent year over year.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.1 billion, an increase of 7 percent (8 percent, adjusting for currency) versus the third quarter of 2009. Operating systems revenues of \$550 million increased 6 percent (7 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 14 percent year over year. Information Management software revenues increased 5 percent. Revenues from Tivoli software increased 9 percent. Revenues from Lotus software and Rational software were flat.

Revenues from the company's business analytics operations across services and software segments increased 14 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$4.3 billion for the quarter, up 10 percent (11 percent, adjusting for currency) from the third quarter of 2009. Systems and Technology pre-tax income was \$327 million, an increase of 46 percent.

Systems revenues increased 8 percent (9 percent, adjusting for currency). Revenues from System x increased 30 percent. Revenues from System z mainframe server products increased 15 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 54 percent. Revenues from Power Systems decreased 13 percent compared with the 2009 period. Revenues from System Storage increased 7 percent, and revenues from Retail Store Solutions were flat year over year. Revenues from Microelectronics OEM increased 28 percent.

Financing

Global Financing segment revenues decreased 1 percent (1 percent, adjusting for currency) in the third quarter to \$529 million. Pre-tax income for the segment increased 23 percent to \$503 million.

The company's total gross profit margin was 45.3 percent in the 2010 third quarter compared with 45.1 percent in the 2009 third-quarter period, led by improving margins in Systems and Technology and Software.

Total expense and other income increased 1 percent to \$6.3 billion compared with the prior-year period. SG&A expense of \$5.1 billion increased 3 percent year over year compared with prior-year expense. RD&E expense of \$1.5 billion increased 1 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$278 million compared with \$294 million a year ago. Other (income) and expense was income of \$106 million compared with prior-year expense of \$5 million. Interest expense increased to \$95 million compared with \$84 million in the prior year.

Pre-tax income increased 7 percent to \$4.7 billion. Pre-tax margin was 19.3 percent, up 0.7 points.

IBM's tax rate reflects an updated view of the full-year rate to 25 percent.

Net income margin increased 1.1 points to 14.8 percent.

The weighted-average number of diluted common shares outstanding in the third-quarter 2010 was 1.27 billion compared with 1.34 billion shares in the same period of 2009. As of September 30, 2010, there were 1.24 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$27.5 billion, compared with \$26.1 billion at year-end 2009. From a management segment view, Global Financing debt totaled \$22.0 billion versus \$22.4 billion at year-end 2009, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$5.5 billion, an increase of \$1.7 billion since year-end 2009, resulting in a debt-to-capitalization ratio of 22.1 percent from 16.0 percent.

IBM ended the third-quarter 2010 with \$11.1 billion of cash on hand and generated free cash flow of \$3.2 billion, down approximately \$200 million year over year. Free cash flow for the nine months of the year was \$7.6 billion, down approximately \$300 million. The company returned \$4.5 billion to shareholders through \$0.8 billion in dividends and \$3.7 billion of share repurchases. The balance sheet remains strong, and the company is well positioned to support its full-year objectives.

Year-To-Date 2010 Results

Net income for the nine months ended September 30, 2010 was \$9.6 billion compared with \$8.6 billion in the year-ago period, an increase of 11 percent. Diluted earnings per share were \$7.38 compared with \$6.42 per diluted share for the 2009 period, an increase of 15 percent. Revenues for the nine-month period totaled \$70.9 billion, an increase of 3 percent (2 percent, adjusting for currency) compared with \$68.5 billion for the nine months of 2009.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and corporate IT spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; breaches of data security; fluctuations in revenue and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impact of relationships with critical suppliers; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions and alliances; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and

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

Presentation of Information in this Press Release

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

IBM results –

- o presenting non-global financing debt-to-capitalization ratio;
- o adjusting for free cash flow;
- o adjusting for currency (i.e., at constant currency);
- o excluding divested PLM operations.

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the third-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II ("Non-GAAP Supplementary Materials") to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/3q10. Presentation charts will be available on the Web site shortly before the Webcast.

Financial Results Below (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

INTERNATIONAL BUSINESS MACHINES CORPORATION
COMPARATIVE FINANCIAL RESULTS
(Unaudited; Dollars in millions except per share amounts)

	Three Months			Nine Months		
	Ended September	30,		Ended September	30,	
	2010	2009	Percent Change	2010	2009	Percent Change
	-----	-----	-----	-----	-----	-----
REVENUE						
Global Technology						
Services	\$9,496	\$9,434	0.7%	\$28,036	\$27,296	2.7%
Gross margin	35.3%	35.5%		34.7%	34.7%	
Global Business						
Services	4,572	4,338	5.4%	13,465	13,074	3.0%
Gross margin	28.9%	28.7%		28.2%	27.5%	
Software	5,151	5,114	0.7%	15,447	14,820	4.2%
Gross margin	86.7%	85.7%		86.1%	85.3%	
Systems and Technology	4,325	3,917	10.4%	11,696	11,000	6.3%
Gross margin	36.8%	35.6%		35.6%	35.7%	

Global Financing	529	536	-1.3%	1,610	1,682	-4.3%
Gross margin	53.3%	44.4%		51.1%	45.8%	
Other	199	227	-12.2%	599	656	-8.7%
Gross margin	-4.7%	8.5%		-7.5%	35.7%	
TOTAL REVENUE	24,271	23,566	3.0%	70,852	68,528	3.4%
GROSS PROFIT	11,001	10,627	3.5%	31,787	30,640	3.7%
Gross margin	45.3%	45.1%		44.9%	44.7%	
EXPENSE AND OTHER INCOME						
S,G&A	5,149	5,013	2.7%	15,886	15,392	3.2%
% of revenue	21.2%	21.3%		22.4%	22.5%	
R,D&E	1,464	1,446	1.2%	4,448	4,360	2.0%
% of revenue	6.0%	6.1%		6.3%	6.4%	
Intellectual property and custom development income	(278)	(294)	-5.5%	(836)	(864)	-3.2%
Other (income) and expense	(106)	5	nm	(746)	(326)	128.5%
Interest expense	95	84	12.1%	267	321	-17.1%
TOTAL EXPENSE AND OTHER INCOME	6,324	6,255	1.1%	19,019	18,882	0.7%
% of revenue	26.1%	26.5%		26.8%	27.6%	
INCOME BEFORE INCOME TAXES	4,677	4,373	7.0%	12,767	11,757	8.6%
Pre-tax margin	19.3%	18.6%		18.0%	17.2%	
Provision for income taxes	1,088	1,159	-6.1%	3,192	3,145	1.5%
Effective tax rate	23.3%	26.5%		25.0%	26.8%	
NET INCOME	\$3,589	\$3,214	11.7%	\$9,576	\$8,612	11.2%
	=====	=====		=====	=====	
Net margin	14.8%	13.6%		13.5%	12.6%	
EARNINGS PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION	\$2.82	\$2.40	17.5%	\$7.38	\$6.42	15.0%
BASIC	\$2.86	\$2.44	17.2%	\$7.49	\$6.47	15.8%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's):						
ASSUMING DILUTION	1,272.8	1,338.2		1,297.0	1,341.6	
BASIC	1,255.2	1,319.9		1,278.3	1,330.1	

nm - not meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

(Dollars in Millions)	At September 30, 2010	At December 31, 2009
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ASSETS		
Current Assets:		
Cash and cash equivalents	\$9,859	\$12,183
Marketable securities	1,227	1,791
Notes and accounts receivable - trade (net of allowances of \$318 in 2010 and \$217 in 2009)	9,717	10,736
Short-term financing receivables (net of allowances of \$373 in 2010 and \$438 in 2009)	13,592	14,914
Other accounts receivable (net of allowances of \$10 in 2010 and \$15 in 2009)	1,187	1,143
Inventories, at lower of average cost or market:		
Finished goods	516	533
Work in process and raw materials	2,113	1,960
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Total inventories	2,629	2,494
Deferred taxes	1,596	1,730
Prepaid expenses and other current assets	4,661	3,946
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Total Current Assets	44,469	48,935
Plant, rental machines, and other property	39,936	39,596
Less: Accumulated depreciation	25,927	25,431
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Plant, rental machines, and other property - net	14,009	14,165
Long-term financing receivables (net of allowances of \$63 in 2010 and \$97 in 2009)	9,448	10,644
Prepaid pension assets	4,379	3,001
Deferred taxes	2,953	4,195
Goodwill	22,703	20,190
Intangible assets - net	3,047	2,513
Investments and sundry assets	6,166	5,379
	-----	-----
Total Assets	\$107,174	\$109,022
	=====	=====
LIABILITIES AND EQUITY		
Current Liabilities:		
Taxes	\$2,908	\$3,826
Short-term debt	5,556	4,168
Accounts payable	7,084	7,436
Compensation and benefits	4,651	4,505
Deferred income	10,499	10,845
Other accrued expenses and liabilities	4,745	5,223
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Total Current Liabilities	35,443	36,002

Long-term debt	21,899	21,932
Retirement and nonpension postretirement benefit obligations	15,145	15,953
Deferred income	3,487	3,562
Other liabilities	8,842	8,819
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Total Liabilities	84,815	86,267
Contingencies and Commitments		
Equity:		
IBM Stockholders' Equity:		
Common stock	44,328	41,810
Retained earnings	88,095	80,900
Treasury stock -- at cost	(92,707)	(81,243)
Accumulated other comprehensive income/(loss)	(17,479)	(18,830)
	-----	-----
Total IBM stockholders' equity	22,238	22,637
Noncontrolling interests	121	118
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Total Equity	22,359	22,755
	-----	-----
Total Liabilities and Equity	\$107,174	\$109,022
	=====	=====

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
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Net Cash from Operations	\$4,551	\$5,197	\$12,754	\$14,325
Less: Global Financing (GF)				
Accounts Receivable	374	817	2,257	3,831
Net Cash from Operations (Excluding GF Accounts Receivable)	4,177	4,380	10,497	10,494
Net Capital Expenditures	(1,007)	(973)	(2,881)	(2,597)
Free Cash Flow (Excluding GF Accounts Receivable)	3,169	3,407	7,616	7,897
Acquisitions	(1,984)	(25)	(2,993)	(125)
Divestitures	0	50	0	406
Dividends	(818)	(726)	(2,369)	(2,133)
Share Repurchase	(3,653)	(930)	(11,774)	(4,365)
Non-GF Debt	273	(4,003)	1,534	(6,184)
Other (including GF Accounts Receivable, GF Debt)	1,858	1,212	5,099	3,110
Change in Cash and Marketable Securities	(\$1,154)	(\$1,014)	(\$2,887)	(\$1,395)

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

THIRD-QUARTER 2010

(Dollars in Millions)	Revenue		Total	Pre-tax Income	Pre-tax Margin
	External	Internal	-----	-----	-----
SEGMENTS					
Global Technology Services	\$9,496	\$362	\$9,857	\$1,524	15.5%
Y-T-Y Change	0.7%	1.9%	0.7%	3.6%	
Global Business Services	4,572	199	4,771	695	14.6%
Y-T-Y Change	5.4%	-6.9%	4.8%	5.3%	
Software	5,151	728	5,879	1,885	32.1%
Y-T-Y Change	0.7%	11.0%	1.9%	1.9%	
Systems and Technology	4,325	196	4,521	327	7.2%
Y-T-Y Change	10.4%	-24.5%	8.2%	45.6%	
Global Financing	529	432	961	503	52.3%
Y-T-Y Change	-1.3%	3.2%	0.7%	23.2%	
TOTAL REPORTABLE SEGMENTS	\$24,072	\$1,917	\$25,990	\$4,933	19.0%
Y-T-Y Change	3.1%	0.7%	3.0%	6.9%	
Eliminations / Other	199	(1,917)	(1,718)	(256)	
TOTAL IBM CONSOLIDATED	\$24,271	\$0	\$24,271	\$4,677	19.3%
Y-T-Y Change	3.0%		3.0%	7.0%	

THIRD-QUARTER 2009

(Dollars in Millions)	Revenue		Total	Pre-tax Income	Pre-tax Margin
	External	Internal	-----	-----	-----
SEGMENTS					
Global Technology Services	\$9,434	\$355	\$9,789	\$1,471	15.0%
Global Business Services	4,338	214	4,552	659	14.5%
Software	5,114	656	5,770	1,850	32.1%
Systems and Technology	3,917	260	4,177	225	5.4%
Global Financing	536	419	955	408	42.7%
TOTAL REPORTABLE SEGMENTS	\$23,339	\$1,904	\$25,243	\$4,614	18.3%
Eliminations / Other	227	(1,904)	(1,677)	(241)	
TOTAL IBM CONSOLIDATED	\$23,566	\$0	\$23,566	\$4,373	18.6%

SEGMENT DATA
(Unaudited)

NINE-MONTHS 2010

(Dollars in Millions)	Revenue		Total	Pre-tax Income	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$28,036	\$1,014	\$29,050	\$3,910	13.5%
Y-T-Y Change	2.7%	-2.5%	2.5%	-1.8%	
Global Business Services	13,465	599	14,064	1,823	13.0%
Y-T-Y Change	3.0%	-10.5%	2.3%	1.9%	
Software	15,447	2,176	17,623	5,925	33.6%
Y-T-Y Change	4.2%	15.5%	5.5%	17.6%	
Systems and Technology	11,696	572	12,267	378	3.1%
Y-T-Y Change	6.3%	-15.8%	5.0%	-35.4%	
Global Financing	1,610	1,267	2,877	1,393	48.4%
Y-T-Y Change	-4.3%	0.9%	-2.1%	13.0%	
TOTAL REPORTABLE SEGMENTS	\$70,253	\$5,627	\$75,880	\$13,429	17.7%
Y-T-Y Change	3.5%	1.8%	3.4%	6.4%	
Eliminations / Other	599	(5,627)	(5,028)	(662)	
TOTAL IBM CONSOLIDATED	\$70,852	\$0	\$70,852	\$12,767	18.0%
Y-T-Y Change	3.4%		3.4%	8.6%	

NINE-MONTHS 2009

(Dollars in Millions)	Revenue		Total	Pre-tax Income	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$27,296	\$1,039	\$28,336	\$3,980	14.0%
Global Business Services	13,074	670	13,743	1,789	13.0%
Software	14,820	1,883	16,703	5,037	30.2%
Systems and Technology	11,000	679	11,680	586	5.0%
Global Financing	1,682	1,255	2,937	1,233	42.0%
TOTAL REPORTABLE SEGMENTS	\$67,872	\$5,527	\$73,399	\$12,625	17.2%
Eliminations / Other	656	(5,527)	(4,871)	(868)	
TOTAL IBM CONSOLIDATED	\$68,528	\$0	\$68,528	\$11,757	17.2%

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