

Quarterly earnings

Third-Quarter Earnings Announcement

IBM REPORTS 2009 THIRD-QUARTER RESULTS

- **Diluted earnings of \$2.40 per share, up 18 percent;**
- **Full-year 2009 EPS expectations raised to at least \$9.85 from at least \$9.70;**
- **Net income of \$3.2 billion, up 14 percent; net margin of 13.6 percent, up 2.5 points;**
- **Free cash flow of \$3.4 billion, up \$1.3 billion year-to-year;**
- **Cash balance of \$11.5 billion, while reducing debt \$4 billion in third quarter;**
- Pre-tax income margin of 18.6 percent, up 3.2 points;
- Gross profit margin of 45.1 percent, up 1.8 points; up 20 of last 21 quarters;
- Revenue of \$23.6 billion, up 1 percent quarter-to-quarter; down 7 percent, or 5 percent adjusting for currency year-to-year;
- Software pre-tax margin of 32.1 percent, up 6.2 points; profit up 21 percent;
- Services pre-tax margin of 14.9 percent, up 2.4 points; profit up 11 percent;
- Services signings of \$11.8 billion; 13 services deals greater than \$100 million;
- Services backlog of \$134 billion, up \$5 billion year-to-year;
- Market share gains in hardware and software.

ARMONK, N.Y., October 15, 2009 . . . IBM (NYSE: IBM) today announced third-quarter 2009 diluted earnings of \$2.40 per share compared with diluted earnings of \$2.04 per share in the third quarter of 2008, an increase of 18 percent.

Third-quarter net income was \$3.2 billion compared with \$2.8 billion in the third quarter of 2008, an increase of 14 percent. Total revenues for the third quarter of 2009 of \$23.6 billion increased 1 percent from the second quarter of 2009, and decreased 7 percent (5 percent, adjusting for currency) from the third quarter of 2008.

“Our long-term strategic shift to higher-value businesses again enabled us to deliver outstanding margin, earnings and cash flow growth in the third quarter,” said Samuel J. Palmisano, IBM chairman, president and chief executive officer. “We also saw improved revenue trends in our business and share gains in software and hardware.”

“We continued to invest for growth in areas where clients see potential for value creation including Smarter Planet solutions, cloud computing and advanced business analytics. We are optimistic about 2009 as we again raise our full-year expectations and we remain well ahead of pace for our 2010 roadmap of \$10 to \$11 per share.”

IBM now expects full-year 2009 earnings of at least \$9.85 per share compared with its previous expectation of at least \$9.70 per share.

The company said it expects full-year 2009 pre-tax income for both its Software and Services segments to grow at double-digit rates and reach approximately \$8 billion.

From a geographic perspective, the Americas’ third-quarter revenues were \$9.9 billion, a decrease of 5 percent (4 percent, adjusting for currency) from the 2008 period. Revenues from Europe/Middle East/Africa were \$7.8 billion, down 12 percent (6 percent, adjusting for currency). Asia-Pacific revenues were essentially flat (down 4 percent, adjusting for currency) to \$5.2 billion. OEM revenues were \$634 million, down 6 percent compared with the 2008 third quarter. Revenues from the company’s growth markets organization decreased 6 percent (1 percent, adjusting for currency) and represented 19 percent of geographic revenues.

Total Global Services revenues decreased 7 percent (5 percent, adjusting for currency); pre-tax income increased 11 percent. Global Technology Services segment revenues decreased 4 percent (2 percent, adjusting for currency) to \$9.4 billion. Global Business Services segment revenues decreased 11 percent (11 percent, adjusting for currency) to \$4.3 billion.

IBM signed services contracts totaling \$11.8 billion, at actual rates, a decrease of 7 percent (7 percent, adjusting for currency), including 13 contracts greater than \$100 million. In addition, IBM signed three deals in the first two days of October with a total value of nearly \$1 billion.

Signings in Consulting and Systems Integration and in Integrated Technology Services were \$5.1 billion, a decrease of 16 percent (15 percent, adjusting for currency). Total outsourcing signings increased 1 percent (1 percent, adjusting for currency) to \$6.7 billion. The estimated services backlog at September 30 was \$134 billion at actual rates compared with \$132 billion at June 30, 2009, and compared with \$129 billion in the third quarter of 2008.

Revenues from the Software segment were \$5.1 billion, a decrease of 3 percent (flat, adjusting for currency) compared with the third quarter of 2008. Revenues from IBM’s key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$2.9 billion, an increase of 2 percent (5 percent, adjusting for currency) versus the third quarter of 2008. Operating systems revenues of \$521 million decreased 12 percent (8 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products, which facilitate customers’ ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, increased 14 percent year over year. Revenues from Information Management software, which enables clients to leverage information on demand, was flat. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 5 percent, and revenues from Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, decreased 9 percent. Revenues from Rational software, integrated tools to improve the processes of software development, increased 2 percent.

IBM said it gained market share in WebSphere, Information Management, Tivoli and Rational software during the third quarter.

Revenues from the Systems and Technology segment totaled \$3.9 billion for the quarter, down 12 percent (11 percent, adjusting for currency) from the third quarter of 2008 -- but an improvement in the year-to-year revenue growth rate compared with the second quarter of 2009. Systems revenues decreased 13 percent (11 percent, adjusting for currency). Revenues from the converged System p products decreased 10 percent compared with the 2008 period. Revenues from System z mainframe server products decreased 26 percent compared with the year-ago period. Total delivery of System z computing power, which is measured in

MIPS (millions of instructions per second), decreased 20 percent. Revenues from the System x servers increased 1 percent. Revenues from System Storage decreased 13 percent, and revenues from Retail Store Solutions decreased 15 percent. Revenues from Microelectronics OEM decreased 1 percent.

IBM said it gained market share in System p, System x and disk and tape storage during the third quarter.

Global Financing segment revenues decreased 15 percent (13 percent, adjusting for currency) in the third quarter to \$536 million.

The company's total gross profit margin was 45.1 percent in the 2009 third quarter compared with 43.3 percent in the 2008 third-quarter period, led by improving margins in services and software. Overall gross profit margins improved year-to-year for the 20th time in the last 21 quarters; total services gross profit margins improved year-to-year for the 18th time in the last 19 quarters.

Total expense and other income decreased 11 percent to \$6.3 billion compared with the prior-year period. SG&A expense decreased 11 percent to \$5.0 billion. RD&E expense of \$1.4 billion decreased 8 percent compared with the year-ago period. Intellectual property and custom development income increased to \$294 million compared with \$267 million a year ago. Other (income) and expense was expense of \$5 million compared with income of \$51 million from a year ago. Interest expense decreased to \$84 million compared with \$159 million in the prior year.

IBM's tax rate in the third-quarter 2009 was 26.5 percent compared with 27.5 percent in the third quarter of 2008.

The weighted-average number of diluted common shares outstanding in the third-quarter 2009 was 1.34 billion compared with 1.38 billion shares in the same period of 2008. As of September 30, 2009, there were 1.31 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$25.5 billion, compared with \$33.9 billion at year-end 2008. From a management segment view, Global Financing debt decreased \$1.4 billion from year-end 2008 to a total of \$22.9 billion at September 30, 2009, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global financing debt totaled \$2.5 billion, a decrease of \$4.0 billion since the end of the second quarter, and \$7.0 billion since year-end 2008, resulting in a debt-to-capitalization ratio of 14.2 percent from 48.7 percent.

IBM ended the third quarter of 2009 with \$11.5 billion of cash on hand and generated free cash flow of \$3.4 billion, excluding Global Financing receivables. The company returned \$1.7 billion to shareholders through \$726 million in dividends and \$930 million of share repurchases. The balance sheet remains strong, and the company is well positioned to take advantage of opportunities.

Year-To-Date 2009 Results

Net income for the nine months ended September 30, 2009 was \$8.6 billion compared with \$7.9 billion in the year-ago period, an increase of 9 percent. Diluted earnings per share were \$6.42 compared with \$5.65 per diluted share for the 2008 period, an increase of 14 percent. Revenues for the nine-month period totaled \$68.5 billion, a decrease of 11 percent (5 percent, adjusting for currency) compared with \$76.6 billion for the nine months of 2008.

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. 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 the 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 protection; 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; competitive conditions; 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. 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 –

- showing non-Global Financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

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/3q09. Presentation charts will be available on the Web site prior to 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,		
	2009	2008	Percent Change	2009	2008	Percent Change
REVENUE						
Global Technology Services	\$9,434	\$9,864	-4.4%	\$27,296	\$29,640	-7.9%
Gross margin	35.5%	32.7%		34.7%	31.9%	
Global Business Services	4,338	4,900	-11.5%	13,074	14,918	-12.4%
Gross margin	28.7%	27.4%		27.5%	26.1%	
Software	5,114	5,249	-2.6%	14,820	15,670	-5.4%
Gross margin	85.7%	84.7%		85.3%	84.4%	
Systems and Technology	3,917	4,431	-11.6%	11,000	13,862	-20.6%
Gross margin	35.6%	36.2%		35.7%	37.3%	
Global Financing	536	633	-15.4%	1,682	1,900	-11.5%
Gross margin	44.4%	49.1%		45.8%	51.8%	
Other	227	224	1.1%	656	633	3.5%
Gross margin	8.5%	15.7%		35.7%	0.6%	
TOTAL REVENUE	23,566	25,302	-6.9%	68,528	76,623	-10.6%
GROSS PROFIT	10,627	10,959	-3.0%	30,640	32,725	-6.4%
Gross margin	45.1%	43.3%		44.7%	42.7%	
EXPENSE AND OTHER INCOME						
S,G&A	5,013	5,644	-11.2%	15,392	17,553	-12.3%
% of revenue	21.3%	22.3%		22.5%	22.9%	
R,D&E	1,446	1,579	-8.4%	4,360	4,809	-9.3%
% of revenue	6.1%	6.2%		6.4%	6.3%	
Intellectual property and custom development income	(294)	(267)	10.4%	(864)	(825)	4.7%
Other (income) and expense	5	(51)	nm	(326)	(201)	62.4%
Interest expense	84	159	-46.9%	321	482	-33.3%
TOTAL EXPENSE AND OTHER INCOME	6,255	7,064	-11.5%	18,882	21,818	-13.5%
% of revenue	26.5%	27.9%		27.6%	28.5%	
INCOME BEFORE INCOME TAXES	4,373	3,895	12.3%	11,757	10,907	7.8%
Pre-tax margin	18.6%	15.4%		17.2%	14.2%	
Provision for income taxes	1,159	1,071	8.2%	3,145	2,999	4.9%
Effective tax rate	26.5%	27.5%		26.8%	27.5%	
NET INCOME	\$3,214	\$2,824	13.8%	\$8,612	\$7,907	8.9%
Net margin	13.6%	11.2%		12.6%	10.3%	
EARNINGS PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION BASIC	\$2.40	\$2.04 *	17.6%	\$6.42	\$5.65 *	13.6%
	\$2.44	\$2.08 *	17.3%	\$6.47	\$5.75 *	12.5%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M's):						
ASSUMING DILUTION BASIC	1,338.2	1,384.1 *		1,341.6	1,399.2 *	
	1,319.9	1,359.5 *		1,330.1	1,376.7 *	

nm – not meaningful

* Reflects the adoption of the Financial Accounting Standards Board (FASB) guidance in determining whether instruments granted in share-based payment transactions are participating securities.

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

(Dollars in Millions)

At September 30, 2009 At December 31, 2008

ASSETS	-----	-----
Current Assets:		
Cash and cash equivalents	\$9,532	\$12,741
Marketable securities	1,980	166
Notes and accounts receivable - trade (net of allowances of \$221 in 2009 and \$226 in 2008)	9,426	10,906
Short-term financing receivables (net of allowances of \$410 in 2009 and \$351 in 2008)	12,944	15,477
Other accounts receivable (net of allowances of \$16 in 2009 and \$55 in 2008)	1,252	1,172
Inventories, at lower of average cost or market:		
Finished goods	554	524
Work in process and raw materials	1,992	2,176
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Total inventories	2,546	2,701
Deferred taxes	1,832	1,542
Prepaid expenses and other current assets	3,934	4,299
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Total Current Assets	43,446	49,004
Plant, rental machines, and other property Less: Accumulated depreciation	39,789 25,600	38,445 24,140
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Plant, rental machines, and other property - net	14,189	14,305
Long-term financing receivables (net of allowances of \$115 in 2009 and \$179 in 2008)	10,229	11,183
Prepaid pension assets	2,711	1,601
Deferred taxes	6,341	7,270
Goodwill	19,272	18,226
Intangible assets - net	2,436	2,878
Investments and sundry assets	5,051	5,058
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Total Assets	\$103,675	\$109,524
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Taxes	\$2,213	\$2,743
Short-term debt	4,885	11,236
Accounts payable	6,145	7,014
Compensation and benefits	4,311	4,623
Deferred income	9,703	10,239
Other accrued expenses and liabilities	5,704	6,580
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Total Current Liabilities	32,960	42,435
Long-term debt	20,583	22,689
Retirement and nonpension postretirement benefit obligations	18,427	19,452
Deferred income	3,348	3,171
Other liabilities	9,863	8,192*
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Total Liabilities	85,182	95,939*
Equity:		
Common stock	40,482	39,129
Retained earnings	76,812	70,353
Treasury stock	(78,411)	(74,171)
Accumulated other comprehensive income /(loss)	(20,487)	(21,845)
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Total IBM Corporation stockholders' equity	18,396	13,465*
Noncontrolling interests*	98	119*
	-----	-----
Total Stockholders' Equity	18,493	13,584*
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Total Liabilities and Stockholders' Equity	\$103,675	\$109,524
	=====	=====

* Reflects the adoption of the FASB guidance on noncontrolling interests in consolidated financial statements.

INTERNATIONAL BUSINESS MACHINES CORPORATION
CASH FLOW ANALYSIS
(Unaudited)

(Dollars in Millions)	Three Months Ended		Nine Months Ended	
	September	September	September	September
	2009	2008	2009	2008
	-----	-----	-----	-----
Net Cash from Operations	\$5,197	\$3,738	\$14,325	\$12,191
Less: Global Financing (GF) Accounts Receivable	817	483	3,831	2,252
Net Cash from Operations (Excluding GF Accounts Receivable)	4,380	3,255	10,494	9,938

Net Capital Expenditures	(973)	(1,125)	(2,597)	(3,505)
Free Cash Flow (Excluding GF Accounts Receivable)	3,407	2,130	7,897	6,433
Acquisitions	(25)	(126)	(125)	(6,017)
Divestitures	50	42	406	71
Share Repurchase	(930)	(2,674)	(4,365)	(9,838)
Dividends	(726)	(677)	(2,133)	(1,916)
Non-GF Debt	(4,003)	(59)	(6,184)	(1,384)
Other (including GF Accounts Receivable, GF Debt)	1,212	1,272	3,110	6,260
Change in Cash & Marketable Securities	(\$1,014)	(\$92)	(\$1,395)	(\$6,391)

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

THIRD-QUARTER 2009

(Dollars in millions)	Revenue			Pre-tax Income	Pre-tax Margin
	External	Internal	Total		
SEGMENTS					
Global Technology Services	\$9,434	\$355	\$9,789	\$1,471	15.0%
Y-T-Y Change	-4.4%	-7.7%	-4.5%	23.8%	
Global Business Services	4,338	214	4,552	659	14.5%
Y-T-Y Change	-11.5%	-17.5%	-11.8%	-8.9%	
Software	5,114	656	5,770	1,850	32.1%
Y-T-Y Change	-2.6%	0.1%	-2.3%	21.2%	
Systems and Technology	3,917	260	4,177	225	5.4%
Y-T-Y Change	-11.6%	16.7%	-10.2%	-20.6%	
Global Financing	536	419	955	408	42.7%
Y-T-Y Change	-15.4%	-8.2%	-12.4%	16.8%	
TOTAL REPORTABLE SEGMENTS	\$23,339	\$1,904	\$25,243	\$4,614	18.3%
Y-T-Y Change	-6.9%	-3.8%	-6.7%	13.3%	
Eliminations / Other	227	(1,904)	(1,677)	(241)	
TOTAL IBM CONSOLIDATED	\$23,566	\$0	\$23,566	\$4,373	18.6%
Y-T-Y Change	-6.9%		-6.9%	12.3%	

THIRD-QUARTER 2008

(Dollars in millions)	Revenue			Pre-tax Income	Pre-tax Margin
	External	Internal	Total		
SEGMENTS					
Global Technology Services	\$9,864	\$384	\$10,248	\$1,189	11.6%
Global Business Services	4,900	259	5,160	724	14.0%
Software	5,249	655	5,904	1,527	25.9%
Systems and Technology	4,431	223	4,654	283	6.1%
Global Financing	633	456	1,090	349	32.0%
TOTAL REPORTABLE SEGMENTS	\$25,077	\$1,978	\$27,055	\$4,072	15.1%
Eliminations / Other	224	(1,978)	(1,753)	(177)	
TOTAL IBM CONSOLIDATED	\$25,302	\$0	\$25,302	\$3,895	15.4%

INTERNATIONAL BUSINESS MACHINES CORPORATION
SEGMENT DATA
(Unaudited)

NINE-MONTHS 2009

(Dollars in millions)	Revenue			Pre-tax Income	Pre-tax Margin
	External	Internal	Total		
SEGMENTS					
Global Technology Services	\$27,296	\$1,039	\$28,336	\$3,980	14.0%
Y-T-Y Change	-7.9%	-10.6%	-8.0%	25.5%	
Global Business Services	13,074	670	13,743	1,789	13.0%
Y-T-Y Change	-12.4%	-13.7%	-12.4%	-7.8%	

Software	14,820	1,883	16,703	5,037	30.2%
Y-T-Y Change	-5.4%	-7.7%	-5.7%	17.5%	
Systems and Technology	11,000	679	11,680	586	5.0%
Y-T-Y Change	-20.6%	7.4%	-19.4%	-29.2%	
Global Financing	1,682	1,255	2,937	1,233	42.0%
Y-T-Y Change	-11.5%	-8.2%	-10.1%	5.8%	
TOTAL REPORTABLE SEGMENTS	\$67,872	\$5,527	\$73,399	\$12,625	17.2%
Y-T-Y Change	-10.7%	-7.6%	-10.5%	10.8%	
Eliminations / Other	656	(5,527)	(4,871)	(868)	
TOTAL IBM CONSOLIDATED	\$68,528	\$0	\$68,528	\$11,757	17.2%
Y-T-Y Change	-10.6%		-10.6%	7.8%	

NINE-MONTHS 2008

(Dollars in millions)	Revenue		Total	Pre-tax Income	Pre-tax Margin
	External	Internal			
SEGMENTS					
Global Technology Services	\$29,640	\$1,162	\$30,803	\$3,171	10.3%
Global Business Services	14,918	776	15,694	1,940	12.4%
Software	15,670	2,041	17,711	4,286	24.2%
Systems and Technology	13,862	633	14,495	829	5.7%
Global Financing	1,900	1,367	3,267	1,165	35.7%
TOTAL REPORTABLE SEGMENTS	\$75,990	\$5,980	\$81,970	\$11,391	13.9%
Eliminations / Other	633	(5,980)	(5,347)	(484)	
TOTAL IBM CONSOLIDATED	\$76,623	\$0	\$76,623	\$10,907	14.2%