

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
October 16, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 8-K**

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

**Date of Report: October 16, 2008**

(Date of earliest event reported)

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

(Exact name of registrant as specified in its charter)

**New York**  
(State of Incorporation)

**1-2360**  
(Commission File Number)

**13-0871985**  
(IRS employer Identification No.)

**ARMONK, NEW YORK**  
(Address of principal executive offices)

**10504**  
(Zip Code)

**914-499-1900**

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

The registrant's press release dated October 16, 2008, regarding its financial results for the periods ended September 30, 2008, including consolidated financial statements for the periods ended September 30, 2008, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's third quarter earnings presentation on October 16, 2008, as well as certain reconciliation and other information ( Non-GAAP Supplementary Materials ) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachments I and II is hereby filed.

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

SIGNATURE

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

Date: October 16, 2008

By: /s/ James J. Kavanaugh

James J. Kavanaugh  
Vice President and Controller

**IBM REPORTS 2008 THIRD-QUARTER RESULTS**

- Diluted earnings of \$2.05 per share, up 22 percent;
- Net income of \$2.8 billion, up 20 percent;
- Total revenues of \$25.3 billion, up 5 percent;
- Global Technology Services revenues up 8 percent; pre-tax income up 16 percent;
- Global Business Services revenues up 7 percent; pre-tax income up 39 percent;
- Total services pre-tax margin at six-year high;
- Services signings of \$12.7 billion, down 4 percent; short-term services signings up 13 percent;
- Software revenues up 12 percent; pre-tax income up 19 percent;
- System z mainframe revenues up 25 percent;
- E/ME/A revenues up 10 percent; Asia Pacific up 6 percent; Americas up 3 percent;
- Revenues from growth markets up 13 percent.

ARMONK, N.Y., October 16, 2008 . . . IBM (NYSE: IBM) today announced third-quarter 2008 diluted earnings of \$2.05 per share from continuing operations compared with diluted earnings of \$1.68 per share in the third quarter of 2007, an increase of 22 percent. Third-quarter income from continuing operations was \$2.8 billion compared with \$2.4 billion in the third quarter of 2007, an increase of 20 percent. Total revenues for the third quarter of 2008 of \$25.3 billion increased 5 percent (2 percent, adjusting for currency) from the third quarter of 2007.

Our results demonstrate that the combination of a steady base of recurring revenue and profits, a range of products and services that deliver value to clients worldwide, and a strong and flexible financial foundation give IBM a competitive edge in good times and tough times, said Samuel J. Palmisano, IBM chairman, president and chief executive officer.

These strengths along with our strategy to manage for productivity in major markets and to invest for growth in emerging countries have enabled IBM to thrive despite an economic environment that no one could have predicted. We remain confident in our full-year 2008 outlook.

From a geographic perspective, the Americas third-quarter revenues were \$10.5 billion, an increase of 3 percent as reported (2 percent, adjusting for currency) from the 2007 period. Revenues from Europe/Middle East/Africa were \$8.9 billion, up 10 percent (4 percent, adjusting for currency). Asia-Pacific revenues increased 6 percent (1 percent, adjusting for currency) to \$5.2 billion. OEM revenues were \$673 million, down 24 percent compared with the 2007 third quarter. Revenues from the company's growth markets organization increased 13 percent (10 percent, adjusting for currency) and represented 19 percent of geographic revenues.

Total Global Services revenues grew 8 percent (4 percent, adjusting for currency). Global Technology Services segment revenues increased 8 percent (5 percent, adjusting for currency) to \$9.9 billion, with strong growth in Integrated Technology Services. Global Business Services segment revenues increased 7 percent (3 percent, adjusting for currency) to \$4.9 billion. IBM signed services contracts totaling \$12.7 billion, at actual rates, a decrease of 4 percent (\$11.1 billion, adjusting for currency, down 5 percent). Short-term signings increased 13 percent, at actual rates, to \$6.1 billion (up 8 percent to \$5.2 billion, adjusting for currency). The company ended the third quarter with an estimated services

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backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Integrated Technology Services, Global Business Services and Maintenance, of \$114 billion, adjusting for currency.

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Revenues from the Systems and Technology segment totaled \$4.4 billion for the quarter, down 10 percent (11 percent, adjusting for currency). Systems revenues decreased 7 percent (8 percent, adjusting for currency). Revenues from System z mainframe server products increased 25 percent compared with the year-ago period, with double-digit growth in all geographies. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), increased 49 percent. Revenues from the converged System p server products increased 7 percent compared with the 2007 period. Revenues from the System x servers decreased 18 percent, and revenues from the System i servers decreased 82 percent. Revenues from System Storage decreased 3 percent, and revenues from Retail Store Solutions decreased 24 percent. Revenues from Microelectronics OEM decreased 27 percent.

Revenues from the Software segment were \$5.2 billion, an increase of 12 percent (8 percent, adjusting for currency) compared with the third quarter of 2007. Revenues from IBM's total middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$4.1 billion, up 12 percent versus the third quarter of 2007. Operating systems revenues of \$594 million increased 5 percent compared with the prior-year quarter.

For 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, revenues increased 4 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 26 percent. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 2 percent, and revenues for Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, increased 10 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 23 percent compared with the year-ago quarter.

Global Financing segment revenues increased 2 percent (down 1 percent, adjusting for currency) in the third quarter to \$633 million. Financing revenues increased 6 percent.

The company's total gross profit margin was 43.3 percent in the 2008 third quarter compared with 41.3 percent in the 2007 period, led by strong performance in both services segments and software.

Total expense and other income increased 6 percent to \$7.1 billion compared with the prior-year period. Adjusting for currency and estimated acquisitions performance, total expense and other income decreased 4 percent year over year. SG&A expense increased 6 percent to \$5.6 billion. RD&E expense increased 4 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$267 million compared with \$270 million a year ago. Other (income) and expense was income of \$51 million, down from \$95 million. Interest expense decreased to \$159 million compared with \$193 million.

IBM's effective tax rate in the third-quarter 2008 was 27.5 percent compared with 28.0 percent in the third quarter of 2007.

Shares repurchased in the third quarter were approximately \$2.7 billion on a cash-paid basis. The weighted-average number of diluted common shares outstanding in the third-quarter 2008 was 1.38 billion compared with 1.41 billion shares in the same period of 2007. As of September 30, 2008, there were 1.34 billion basic common shares outstanding.

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Debt, including Global Financing, totaled \$34.4 billion, compared with \$35.3 billion at year-end 2007. From a management segment view, Global Financing debt totaled \$24.5 billion at September 30, 2008 and at year-end 2007, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$9.9 billion, a decrease of \$0.8 billion since year-end 2007, resulting in a debt-to-capitalization ratio of 29.1 percent from 30.0 percent at year-end 2007. The cash balance was \$9.8 billion at the end of the third quarter.

### **Year-To-Date 2008 Results**

Income from continuing operations for the nine months ended September 30, 2008 was \$7.9 billion compared with \$6.5 billion in the year-ago period, an increase of 22 percent.



Diluted earnings per share from continuing operations were \$5.68 compared with \$4.42 per diluted share for the 2007 period, an increase of 29 percent. Revenues from continuing operations for the nine-month period totaled \$76.6 billion, an increase of 10 percent (4 percent, adjusting for currency) compared with \$69.9 billion for the nine months of 2007.

### **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 company's failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; breaches of the company's data security measures; changes in the economic environment and corporate IT spending budgets; fluctuations in revenues and purchases, and volatility of stock prices; the company's ability to attract and retain key personnel and its reliance on critical skills; adverse affects from tax matters; environmental matters; currency fluctuations and customer financing risks; customer credit risk on receivables; risks from investing in growth opportunities; the company's failure to maintain the adequacy of its internal controls; the company's use of certain estimates and assumptions; dependence on certain suppliers; changes in the financial or business condition of the company's distributors or resellers; the company's ability to successfully manage acquisitions and alliances; failure to have sufficient insurance; legal, political, health and economic conditions; 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**

- 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](http://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**

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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/3q08](http://www.ibm.com/investor/3q08). Presentation charts will be available on the Web site prior to the Webcast.

**Financial Results Attached** (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<br>Ended September 30, |               |                   | Nine Months<br>Ended September 30, |               |                   |
|--|-------------------------------------|---------------|-------------------|------------------------------------|---------------|-------------------|
|  | 2008                                | 2007          | Percent<br>Change | 2008                               | 2007          | Percent<br>Change |
| <b>REVENUE</b>   |                                     |               |                   |                                    |               |                   |
| Global Technology Services                             | \$ 9,864                            | \$ 9,093      | 8.5%              | \$ 29,640                          | \$ 26,106     | 13.5%             |
| Gross margin   | 32.7%                               | 30.6%         |                   | 31.9%                              | 29.9%         |                   |
| Global Business Services                               | 4,900                               | 4,586         | 6.8%              | 14,918                             | 13,108        | 13.8%             |
| Gross margin   | 27.4%                               | 22.9%         |                   | 26.1%                              | 23.7%         |                   |
| Systems and Technology                                 | 4,431                               | 4,898         | -9.5%             | 13,862                             | 14,520        | -4.5%             |
| Gross margin   | 36.2%                               | 38.5%         |                   | 37.3%                              | 36.9%         |                   |
| Software   | 5,249                               | 4,694         | 11.8%             | 15,670                             | 13,723        | 14.2%             |
| Gross margin   | 84.7%                               | 84.2%         |                   | 84.4%                              | 84.3%         |                   |
| Global Financing                                       | 633                                 | 623           | 1.7%              | 1,900                              | 1,834         | 3.6%              |
| Gross margin   | 49.1%                               | 44.6%         |                   | 51.8%                              | 47.2%         |                   |
| Other  | 224                                 | 225           | -0.4%             | 633                                | 630           | 0.6%              |
| Gross margin   | 15.7%                               | 2.7%          |                   | 0.6%                               | 11.2%         |                   |
| <b>TOTAL REVENUE</b>                                   | <b>25,302</b>                       | <b>24,119</b> | <b>4.9%</b>       | <b>76,623</b>                      | <b>69,920</b> | <b>9.6%</b>       |
| <b>GROSS PROFIT</b>                                    | <b>10,959</b>                       | <b>9,956</b>  | <b>10.1%</b>      | <b>32,725</b>                      | <b>28,760</b> | <b>13.8%</b>      |
| Gross margin   | 43.3%                               | 41.3%         |                   | 42.7%                              | 41.1%         |                   |
| <b>EXPENSE AND OTHER<br/>INCOME</b>                    |                                     |               |                   |                                    |               |                   |
| S,G&A  | 5,644                               | 5,324         | 6.0%              | 17,553                             | 16,044        | 9.4%              |
| % of revenue   | 22.3%                               | 22.1%         |                   | 22.9%                              | 22.9%         |                   |
| R,D&E  | 1,579                               | 1,524         | 3.6%              | 4,809                              | 4,568         | 5.3%              |
| % of revenue   | 6.2%                                | 6.3%          |                   | 6.3%                               | 6.5%          |                   |
| Intellectual property and custom<br>development income | (267)                               | (270)         | -1.3%             | (825)                              | (721)         | 14.4%             |
| Other (income) and expense                             | (51)                                | (95)          | -46.0%            | (201)                              | (528)         | -61.9%            |
| Interest expense                                       | 159                                 | 193           | -17.7%            | 482                                | 396           | 21.6%             |
| <b>TOTAL EXPENSE AND<br/>OTHER INCOME</b>              | <b>7,064</b>                        | <b>6,676</b>  | <b>5.8%</b>       | <b>21,818</b>                      | <b>19,759</b> | <b>10.4%</b>      |
| % of revenue   | 27.9%                               | 27.7%         |                   | 28.5%                              | 28.3%         |                   |



|   | Three Months<br>Ended September 30, |                 |                   | Nine Months<br>Ended September 30, |                 |                   |
|---|-------------------------------------|-----------------|-------------------|------------------------------------|-----------------|-------------------|
|   | 2008                                | 2007            | Percent<br>Change | 2008                               | 2007            | Percent<br>Change |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>      |                                     |                 |                   |                                    |                 |                   |
| Pre-tax margin  | 3,895                               | 3,280           | 18.7%             | 10,907                             | 9,001           | 21.2%             |
| Provision for income taxes  | 1,071                               | 918             | 16.6%             | 2,999                              | 2,534           | 18.4%             |
| Effective tax rate  | 27.5%                               | 28.0%           |                   | 27.5%                              | 28.2%           |                   |
| <b>INCOME FROM CONTINUING OPERATIONS</b>                          |                                     |                 |                   |                                    |                 |                   |
| Net margin  | \$ 2,824                            | \$ 2,362        | 19.6%             | \$ 7,907                           | \$ 6,467        | 22.3%             |
| <b>DISCONTINUED OPERATIONS</b>                                    |                                     |                 |                   |                                    |                 |                   |
| Loss from discontinued operations                                 |                                     | (1)             |                   |                                    | (1)             |                   |
| <b>NET INCOME</b>   | <b>\$ 2,824</b>                     | <b>\$ 2,361</b> | <b>19.6%</b>      | <b>\$ 7,907</b>                    | <b>\$ 6,466</b> | <b>22.3%</b>      |
| <b>EARNINGS/(LOSS)PER SHARE OF COMMON STOCK:</b>                  |                                     |                 |                   |                                    |                 |                   |
| <b>ASSUMING DILUTION</b>  |                                     |                 |                   |                                    |                 |                   |
| CONTINUING OPERATIONS   | \$ 2.05                             | \$ 1.68         | 22.0%             | \$ 5.68                            | \$ 4.42         | 28.5%             |
| DISCONTINUED OPERATIONS   |                                     | (0.00)          |                   |                                    | (0.00)          |                   |
| <b>TOTAL</b>  | <b>\$ 2.05</b>                      | <b>\$ 1.68</b>  | <b>22.0%</b>      | <b>\$ 5.68</b>                     | <b>\$ 4.42</b>  | <b>28.5%</b>      |
| <b>BASIC</b>  |                                     |                 |                   |                                    |                 |                   |
| CONTINUING OPERATIONS   | \$ 2.09                             | \$ 1.72         | 21.5%             | \$ 5.79                            | \$ 4.50         | 28.7%             |
| DISCONTINUED OPERATIONS   |                                     | (0.00)          |                   |                                    | (0.00)          |                   |
| <b>TOTAL</b>  | <b>\$ 2.09</b>                      | <b>\$ 1.72</b>  | <b>21.5%</b>      | <b>\$ 5.79</b>                     | <b>\$ 4.50</b>  | <b>28.7%</b>      |
| <b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s)</b> |                                     |                 |                   |                                    |                 |                   |
| ASSUMING DILUTION   | 1,379.1                             | 1,405.8         |                   | 1,393.1                            | 1,463.1         |                   |
| BASIC   | 1,350.7                             | 1,371.4         |                   | 1,366.7                            | 1,436.0         |                   |

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in millions)                             | At<br>September 30,<br>2008 | At<br>December 31,<br>2007 | Percent<br>Change |
|---|-----------------------------|----------------------------|-------------------|
| <b>ASSETS</b>                                     |                             |                            |                   |
| Cash, cash equivalents, and marketable securities | \$ 9,755                    | \$ 16,146                  | -39.6%            |
| Receivables - net, inventories, prepaid expenses  | 34,432                      | 37,031                     | -7.0%             |
| Plant, rental machines, and other property - net  | 14,659                      | 15,081                     | -2.8%             |
| Investments and other assets                      | 57,064                      | 52,172                     | 9.4%              |
| <b>TOTAL ASSETS</b>                               | <b>\$ 115,910</b>           | <b>\$ 120,431</b>          | <b>-3.8%</b>      |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>        |                             |                            |                   |
| Short-term debt                                   | \$ 16,181                   | \$ 12,235                  | 32.2%             |
| Long-term debt                                    | 18,232                      | 23,039                     | -20.9%            |
| Total debt  | 34,413                      | 35,274                     | -2.4%             |
| Accounts payable, taxes, and accruals             | 28,571                      | 32,076                     | -10.9%            |
| Other liabilities                                 | 25,407                      | 24,612                     | 3.2%              |
| <b>TOTAL LIABILITIES</b>                          | <b>88,391</b>               | <b>91,962</b>              | <b>-3.9%</b>      |
| <b>STOCKHOLDERS EQUITY</b>                        | <b>27,519</b>               | <b>28,470</b>              | <b>-3.3%</b>      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>  | <b>\$ 115,910</b>           | <b>\$ 120,431</b>          | <b>-3.8%</b>      |

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## SEGMENT DATA

(Unaudited)

## THIRD-QUARTER 2008

| (Dollars in millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income<br>(Loss)<br>From<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|---|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |   |                   |
| Global Technology Services       | \$ 9,864         | \$ 384              | \$ 10,248        | \$ 1,189  | 11.6%             |
| Y-T-Y Change                     | 8.5%             | -5.8%               | 7.9%             | 15.6%   |                   |
| Global Business Services         | 4,900            | 259                 | 5,160            | 724   | 14.0%             |
| Y-T-Y Change                     | 6.8%             | -6.0%               | 6.1%             | 38.9%   |                   |
| Systems and Technology           | 4,431            | 223                 | 4,654            | 283   | 6.1%              |
| Y-T-Y Change                     | -9.5%            | -5.6%               | -9.4%            | -21.7%  |                   |
| Software                         | 5,249            | 655                 | 5,904            | 1,527   | 25.9%             |
| Y-T-Y Change                     | 11.8%            | 14.8%               | 12.1%            | 19.0%   |                   |
| Global Financing                 | 633              | 456                 | 1,090            | 349   | 32.0%             |
| Y-T-Y Change                     | 1.7%             | 31.3%               | 12.3%            | 3.2%  |                   |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>25,077</b>    | <b>1,978</b>        | <b>27,055</b>    | <b>4,072</b>  | <b>15.1%</b>      |
| Y-T-Y Change                     | 5.0%             | 7.6%                | 5.1%             | 15.3%   |                   |
| Eliminations / Other             | 224              | (1,978)             | (1,753)          | (177)   |                   |
| <b>TOTAL IBM CONSOLIDATED</b>    | <b>\$ 25,302</b> | <b>\$ 0</b>         | <b>\$ 25,302</b> | <b>\$ 3,895</b>   | <b>15.4%</b>      |
| Y-T-Y Change                     | 4.9%             |                     | 4.9%             | 18.7%   |                   |

## THIRD-QUARTER 2007

| (Dollars in millions)      | External | Revenue<br>Internal | Total    | Pre-tax<br>Income<br>(Loss)<br>From<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------|----------|---------------------|----------|---|-------------------|
| <b>SEGMENTS</b>            |          |                     |          |   |                   |
| Global Technology Services | \$ 9,093 | \$ 408              | \$ 9,501 | \$ 1,028  | 10.8%             |
| Global Business Services   | 4,586    | 276                 | 4,862    | 521   | 10.7%             |
| Systems and Technology     | 4,898    | 236                 | 5,134    | 361   | 7.0%              |
| Software                   | 4,694    | 571                 | 5,265    | 1,283   | 24.4%             |

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|                           |           |         |           |          |       |
|---------------------------|-----------|---------|-----------|----------|-------|
| Global Financing          | 623       | 348     | 970       | 339      | 34.9% |
| TOTAL REPORTABLE SEGMENTS | 23,894    | 1,838   | 25,732    | 3,532    | 13.7% |
| Eliminations / Other      | 225       | (1,838) | (1,613)   | (252)    |       |
| TOTAL IBM CONSOLIDATED    | \$ 24,119 | \$ 0    | \$ 24,119 | \$ 3,280 | 13.6% |



## INTERNATIONAL BUSINESS MACHINES CORPORATION

## SEGMENT DATA

(Unaudited)

## NINE-MONTHS 2008

| (Dollars in millions)            | External         | Revenue<br>Internal | Total            | Pre-tax<br>Income<br>(Loss)<br>From<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------------|------------------|---------------------|------------------|---|-------------------|
| <b>SEGMENTS</b>                  |                  |                     |                  |   |                   |
| Global Technology Services       | \$ 29,640        | \$ 1,162            | \$ 30,803        | \$ 3,171  | 10.3%             |
| Y-T-Y Change                     | 13.5%            | -6.4%               | 12.6%            | 27.0%   |                   |
| Global Business Services         | 14,918           | 776                 | 15,694           | 1,940   | 12.4%             |
| Y-T-Y Change                     | 13.8%            | -14.3%              | 12.0%            | 31.4%   |                   |
| Systems and Technology           | 13,862           | 633                 | 14,495           | 829   | 5.7%              |
| Y-T-Y Change                     | -4.5%            | -16.6%              | -5.1%            | 5.0%  |                   |
| Software                         | 15,670           | 2,041               | 17,711           | 4,286   | 24.2%             |
| Y-T-Y Change                     | 14.2%            | 19.8%               | 14.8%            | 20.1%   |                   |
| Global Financing                 | 1,900            | 1,367               | 3,267            | 1,165   | 35.7%             |
| Y-T-Y Change                     | 3.6%             | 31.8%               | 13.8%            | 11.6%   |                   |
| <b>TOTAL REPORTABLE SEGMENTS</b> | <b>75,990</b>    | <b>5,980</b>        | <b>81,970</b>    | <b>11,391</b>   | <b>13.9%</b>      |
| Y-T-Y Change                     | 9.7%             | 5.9%                | 9.4%             | 21.5%   |                   |
| Eliminations / Other             | 633              | (5,980)             | (5,347)          | (484)   |                   |
| <b>TOTAL IBM CONSOLIDATED</b>    | <b>\$ 76,623</b> | <b>\$ 0</b>         | <b>\$ 76,623</b> | <b>\$ 10,907</b>  | <b>14.2%</b>      |
| Y-T-Y Change                     | 9.6%             |                     | 9.6%             | 21.2%   |                   |

## NINE-MONTHS 2007

| (Dollars in millions)      | External  | Revenue<br>Internal | Total     | Pre-tax<br>Income<br>(Loss)<br>From<br>Continuing<br>Operations | Pre-tax<br>Margin |
|----------------------------|-----------|---------------------|-----------|---|-------------------|
| <b>SEGMENTS</b>            |           |                     |           |   |                   |
| Global Technology Services | \$ 26,106 | \$ 1,243            | \$ 27,348 | \$ 2,497  | 9.1%              |
| Global Business Services   | 13,108    | 906                 | 14,014    | 1,477   | 10.5%             |
| Systems and Technology     | 14,520    | 758                 | 15,279    | 789   | 5.2%              |
| Software                   | 13,723    | 1,704               | 15,427    | 3,569   | 23.1%             |

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|                           |           |         |           |          |       |
|---------------------------|-----------|---------|-----------|----------|-------|
| Global Financing          | 1,834     | 1,037   | 2,871     | 1,045    | 36.4% |
| TOTAL REPORTABLE SEGMENTS | 69,291    | 5,648   | 74,939    | 9,376    | 12.5% |
| Eliminations / Other      | 630       | (5,648) | (5,018)   | (375)    |       |
| TOTAL IBM CONSOLIDATED    | \$ 69,920 | \$ 0    | \$ 69,920 | \$ 9,001 | 12.9% |

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