BRADBURY DANIEL
Form 4
September 28, 2018

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BRADBURY DANIEL

(Last) (First) (Middle)

C/O GERON CORPORATION, 149 COMMONWEALTH DRIVE, SUITE 2070

(Street)

MENLO PARK, CA 94025

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
GERON CORP [GERN]

3. Date of Earliest Transaction (Month/Day/Year)
09/28/2018

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	09/28/2018		A (1)		8,523 (1)	A	$ 0 (1)	27,287	I	Family Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BRADBURY DANIEL C/O GERON CORPORATION 149 COMMONWEALTH DRIVE, SUITE 2070 MENLO PARK, CA 94025	X			

Signatures

/s/ Olivia Bloom for Daniel Bradbury	09/28/2018
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares issued in lieu of cash payment for quarterly board of directors retainer fee. Number of shares issued based on close price on September 28, 2018 of $1.76 per share.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Percent

For the six months ended June 30:

	2011		2010		Change
Intellectual Property and Custom Development Income:					
Sales and other transfers of intellectual property	$ 150		$ 87		72.4 %
Licensing/royalty-based fees	113		173		

(34.7

)

Custom development income

294

298

(1.5

)

Total

$

557

$

558

(0.3

)%

The timing and amount of Sales and other transfers of IP may vary significantly from period to period depending upon the timing of divestitures, economic conditions, industry consolidation and the timing of new patents and know-how development. There were no significant IP transactions in the second quarter or first six months of 2011 and 2010.

Interest Expense

(Dollars in millions)	**Yr. to Yr. Percent**

For the three months ended June 30:	2011	2010	Change
Interest expense	$ 97	$ 90	8.3%

(Dollars in millions) For the six months ended June 30:	2011	2010	Yr. to Yr. Percent Change
Interest expense	$ 190	$ 172	10.6%

The increase in interest expense for the second quarter and first six months of 2011 versus the same periods of 2010 was primarily driven by higher average debt levels, partially offset by lower average interest rates. Interest expense is presented in cost of financing in the Consolidated Statement of Earnings only if the related external borrowings are to support the Global Financing external business. See page 71 for additional information regarding Global Financing debt and interest expense.

Table of Contents

Management Discussion (continued)

Overall interest expense for the second quarter and first six months of 2011 was $234 million and $469 million, respectively, an increase of $4 million and $9 million, respectively, year to year.

Retirement-Related Plans

The following tables provide the total pre-tax cost for all retirement-related plans. These amounts are included in the Consolidated Statement of Earnings within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants.

(Dollars in millions) For the three months ended June 30:		2011		2010	Yr. to Yr. Percent Change
Retirement-related plans cost:					
Service cost	$	137	$	134	2.4%
Amortization of prior service cost/(credits)		(39)		(45)	(13.3)
Cost of defined contribution plans		372		343	8.3
Total operating costs	$	470	$	432	8.7%
Interest cost	$	1,156	$	1,171	(1.3)%
Expected return on plan assets		(1,653)		(1,595)	3.6
Recognized actuarial losses		444		290	52.8
Plan amendments/curtailments/settlements		1		0	nm
Multiemployer plan/other costs		40		20	96.2
Total non-operating costs/(income)	$	(12)	$	(113)	(88.9)
Total retirement-related plans cost	$	458	$	319	43.2%

nm not meaningful

(Dollars in millions) For the six months ended June 30:		2011		2010	Yr. to Yr. Percent Change
Retirement-related plans cost:					
Service cost	$	278	$	272	2.3%
Amortization of prior service cost/(credits)		(77)		(89)	(13.1)
Cost of defined contribution plans		782		733	6.7
Total operating costs	$	983	$	916	7.3%
Interest cost	$	2,305	$	2,374	(2.9)%
Expected return on plan assets		(3,290)		(3,231)	1.8
Recognized actuarial losses		903		590	53.0
Plan amendments/curtailments/settlements		1		27	(96.9)
Multiemployer plan/other costs		74		52	41.9
Total non-operating costs/(income)	$	(8)	$	(189)	(95.6)
Total retirement-related plans cost	$	975	$	728	34.0%

nm not meaningful

In the second quarter, total retirement-related plan cost increased by $138 million compared to the second quarter of 2010, primarily driven by an increase in recognized actuarial losses of $153 million. Total cost for the first six months of 2011 increased $247 million versus the first half of 2010 driven by an increase in recognized actuarial losses of $313 million, partially offset by lower interest cost.

As discussed in the Snapshot on page 37, the company has begun to characterize certain retirement-related costs as operating and others as non-operating. Utilizing this characterization, operating retirement-related costs in the second quarter were $470 million, an increase of $38 million compared to the second quarter of 2010, primarily driven by a $28 million increase in defined contribution plan costs. Non-operating costs of $(12) million increased $100 million in the second quarter compared to the prior year driven primarily by an increase in recognized actuarial losses ($153 million), partially offset by increased expected return on plan assets ($58 million). For the first six months of 2011, operating retirement-related costs were $983 million, an increase of $67 million compared to the first six months of 2010. This increase was driven by a $49

Table of Contents

Management Discussion (continued)

million increase in the cost of defined contribution plans and increased service costs and amortization of prior service cost ($18 million). Non-operating costs of $(8) million increased $180 million in the first half compared to the prior year driven primarily by an increase in recognized actuarial losses of $313 million, partially offset by lower interest cost ($69 million) and an increase in the expected return on plan assets ($59 million).

See Note 10, Retirement-Related Benefits on pages 28 to 30 for additional plan cost detail.

The company expects 2011 pre-tax retirement-related plan cost to be approximately $1.9 billion, an increase of approximately $500 million compared to 2010. This estimate reflects current pension plan assumptions at December 31, 2010. Within total retirement-related plan cost, operating retirement-related plan cost is expected to be approximately $1.9 billion, an increase of approximately $100 million versus 2010. Non-operating retirement-related plan cost is expected to be approximately zero versus income of $0.4 billion in 2010. See the company s 2010 Annual Report, note U, Retirement-Related Benefits, on pages 112 to 126 for additional information.

Taxes

The effective tax rate for the second quarter of 2011 was 25.0 percent compared to an effective tax rate of 26.0 percent for the second quarter of 2010. The effective tax rates for the first six months of 2011 and 2010 were 25.0 percent and 26.0 percent, respectively. The decrease in the rate for the second quarter and for the six months ended June 30, 2010, compared to the prior year periods, was primarily due to a more favorable mix of earnings in lower tax jurisdictions.

There were a number of discrete period tax events in the second quarter of 2011. The company reached agreement with the Internal Revenue Service (IRS) during the quarter related to the valuation of certain intellectual property within the 2004-2005 and 2006-2007 audit periods. The agreement resolves all open matters for the period 2004 through 2007 with the IRS. The resolution resulted in a net reduction of the second-quarter tax provision of $173 million. This benefit was predominantly offset by a one-time tax cost associated with the intercompany transfer of certain intellectual property in the quarter. In addition, during the second quarter, the company completed the integration of a number of acquired companies. The integrations resulted in a current period tax charge of approximately $250 million that was offset by the release of a prior year tax liability associated with certain of the acquired companies.

With limited exception, the company is no longer subject to U.S. federal, state and local or non-U.S. income tax audits by taxing authorities for years through 2007. The years subsequent to 2007 contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it relates to the amount and/or timing of income, deductions and tax credits. Although the outcome of tax audits is always uncertain, the company believes that adequate amounts of tax and interest have been provided for any adjustments that are expected to result for these years.

The amount of unrecognized tax benefits at December 31, 2010 increased by $3 million for the first six months of 2011 to $5,296 million. The amount of unrecognized tax benefits decreased by $38 million during the second quarter of 2011. Including the items described above, the decrease reflects various impacts including additions for the current year tax positions of $218 million and net reductions and settlements for prior year positions of $256 million. The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate is $4,814 million at June 30, 2011.

In April 2010, the company appealed the determination of a non-U.S. local taxing authority with respect to certain foreign tax losses. The tax benefit of these losses, approximately $1,486 million, has been included in unrecognized tax benefits. This amount includes the portion of these losses that had been utilized against a prior year liability. In April 2011, the company received notification that the appeal had been denied. In June 2011, the company has filed a suit in court challenging this decision.

The company expects the IRS to commence its audit of the company s U.S. tax returns for 2008 and 2009 in the third quarter of 2011.

Table of Contents

Management Discussion (continued)

Earnings Per Share

Basic earnings per share is computed on the basis of the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed on the basis of the weighted-average number of shares of common stock outstanding plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method. Dilutive potential common shares include outstanding stock options and stock awards.

For the three months ended June 30:	2011	2010	Yr. to Yr. Percent Change
Consolidated earnings per share:			
Assuming dilution	$ 3.00	$ 2.61	14.9%
Basic	$ 3.04	$ 2.65	14.7%
Diluted operating (non-GAAP) earnings per share	$ 3.09	$ 2.62	17.9%
Weighted-average shares outstanding: (in millions)			
Assuming dilution	1,221.4	1,296.7	(5.8)%
Basic	1,204.8	1,278.6	(5.8)%

For the six months ended June 30:	2011	2010	Yr. to Yr. Percent Change
Consolidated earnings per share:			
Assuming dilution	$ 5.30	$ 4.57	16.0%
Basic	$ 5.38	$ 4.64	15.9%
Diluted operating (non-GAAP) earnings per share	$ 5.50	$ 4.61	19.3%
Weighted-average shares outstanding: (in millions)			
Assuming dilution	1,230.7	1,309.2	(6.0)%
Basic	1,213.5	1,289.9	(5.9)%

Actual shares outstanding at June 30, 2011 were 1,194.3 million. The weighted-average number of common shares outstanding assuming dilution during the second quarter and first six months of 2011 was 75.2 million and 78.4 million lower, respectively, than the same periods in 2010, primarily as a result of the company s common stock repurchase program.

Financial Position

Dynamics

At June 30, 2011, the company s balance sheet and liquidity positions remain strong. Cash and marketable securities at quarter end was $11,764 million. Total debt of $29,772 million increased $1,148 million from prior year-end levels. The commercial paper balance at June 30, 2011 was $2,013 million, up $869 million from $1,144 million at year end. The company continues to have substantial flexibility in the market. In the first six months, the company generated $8,071 million in cash from operations, a decrease of $131 million compared to the first six months of 2010 (see cash flow analysis on page 62). The company has consistently generated strong cash flow from operations and continues to have access to additional sources of liquidity through the capital markets and its $10 billion global credit facility. The company s strong cash flow and substantial cash position permits the company to invest and deploy capital to areas with the most attractive long-term opportunities.

The assets and debt associated with the Global Financing business are a significant part of the company s financial position. The financial position amounts appearing on pages 4 and 5 are the consolidated amounts including Global Financing. The amounts appearing in the separate Global Financing section, beginning on page 67, are supplementary data presented to facilitate an understanding of the Global Financing business.

Table of Contents

Management Discussion (continued)

Working Capital

(Dollars in millions)		At June 30, 2011		At December 31, 2010
Current assets	$	46,937	$	48,116
Current liabilities		39,843		40,562
Working capital	$	7,094	$	7,554
Current ratio		1.18:1		1.19:1

Working capital decreased $460 million from the year-end 2010 position. The key changes are described below:

Current assets decreased $1,179 million ($2,501 million adjusted for currency), due to:

- A decline of $1,843 million ($2,700 million adjusted for currency) in short-term receivables primarily due to collections of higher year-end balances; and

- A decline of $940 million in marketable securities primarily due to sales of securities during the first six months of 2011; partially offset by

- An increase of $1,054 million ($768 million adjusted for currency) in cash and cash equivalents (see cash flow analysis on page 62); and

- An increase of $436 million ($320 million adjusted for currency) in prepaid expenses and other current assets; primarily due to

- An increase of $759 million in various prepaid expenses and other assets (taxes, maintenance, insurance, deposits); partially offset by

- A decrease of $323 million in derivative assets and corresponding collateral as a result of changes in foreign currency rates primarily for instruments in non-hedging relationships.

Current liabilities decreased $719 million ($1,573 million adjusted for currency), as a result of:

- A decrease of $1,853 million in taxes payable primarily due to tax payments in the United States, Japan and Europe in the first six months of 2011; and

- A decrease in accounts payable of $692 million ($868 million adjusted for currency) and a decrease of $322 million ($457 million adjusted for currency) in compensation and benefits reflecting declines from typically higher year-end balances; partially offset by

- An increase in deferred income of $1,080 million ($669 million adjusted for currency) due to annual Global Services and Software customer contract renewals; and

- An increase in short-term debt of $1,080 million primarily driven by:

- A net increase of $869 million in commercial paper and $2,436 million in new debt issuances; and

- Reclasses of $1,220 million from long-term to short-term debt to reflect maturity dates; partially offset by

- Payments of $3,563 million.

Table of Contents

Management Discussion (continued)

Cash Flow

The company s cash flow from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows on page 6, is summarized in the table below. These amounts include the cash flows associated with the Global Financing business.

(Dollars in millions) For the six months ended June 30:	2011	2010
Net cash provided by/(used in) operations:		
Operating activities	$ 8,071	$ 8,203
Investing activities	(86)	(2,645)
Financing activities	(7,217)	(7,114)
Effect of exchange rate changes on cash and cash equivalents	285	(301)
Net change in cash and cash equivalents	$ 1,054	$ (1,858)

Net cash from operating activities decreased $131 million compared to the first six months of 2010 driven by the following key factors:

- A decrease in cash provided by operating assets and liabilities of $932 million due to:
- Higher net tax payments of $1,100 million during the first six months of 2011 compared to 2010; and
- A decrease in net cash provided by receivables of $371 million, primarily as a result of increased revenue; partially offset by
- A decrease in net cash used related to retirement-related plans of $298 million, primarily driven by lower employer funding in 2011 compared to 2010; and
- A decrease in net cash used for workforce rebalancing activities of $100 million during the first six months of 2011 compared to 2010; partially offset by
- Improved net income of $540 million.

Net cash used in investing activities decreased $2,559 million driven by:

- A decrease of $851 million in cash used for acquisitions; and

- A net benefit of $1,646 million from purchases and sales of marketable securities and other investments, due to asset sales in the first quarter and securities sales in the second quarter.

Net cash used in financing activities increased $103 million as a result of:

- A net increase of $176 million in cash used for common stock transactions; and

- An increase in dividends paid of $149 million in the first six months of 2011 compared to 2010; partially offset by

- Higher net cash proceeds from debt issuances of $952 million in the first six months of 2011 as compared to $731 million in 2010.

Noncurrent Assets and Liabilities

(Dollars in millions)	**At June 30, 2011**	**At December 31, 2010**
Noncurrent assets	$ 66,536	$ 65,335
Long-term debt	21,915	21,846
Noncurrent liabilities (excluding debt)	28,505	27,871

62

Table of Contents

Management Discussion (continued)

The increase in noncurrent assets of $1,201 million (a decrease of $234 million adjusted for currency) was driven by:

- An increase of $1,787 million ($1,588 million adjusted for currency) in prepaid pension assets primarily in the United States; and

- An increase of $474 million ($57 million adjusted for currency) in goodwill primarily due to currency and the TRIRIGA acquisition during the second quarter of 2011; partially offset by

- A decrease of $449 million ($602 million adjusted for currency) in investments and sundry assets driven by asset sales during the first quarter; and

- A decrease of $343 million ($401 million adjusted for currency) in noncurrent deferred taxes primarily driven by retirement-related activity; and

- A decrease of $283 million in intangible assets due to amortization during the first six months of 2011; and

Long-term debt increased $68 million primarily due to currency as new debt issuances of $1,220 million were essentially offset by reclasses to short-term debt as certain instruments approach maturity.

Noncurrent liabilities, excluding debt, increased $635 million (a decrease of $230 million adjusted for currency) primarily driven by:

- An increase of $624 million ($386 million adjusted for currency) in other noncurrent liabilities mainly due to an increase in tax related liabilities; and

- Retirement and nonpension benefit obligations which were essentially flat as a result of:

- A decrease of $482 million primarily driven by contributions to non-U.S. plans; offset by

- An increase of $517 million due to currency.

Debt

The company s funding requirements are continually monitored and strategies are executed to manage the overall asset and liability profile. Additionally, the company maintains sufficient flexibility to access global funding sources as needed.

(Dollars in millions)		At June 30, 2011		At December 31, 2010
Total company debt	$	29,772	$	28,624
Total Global Financing segment debt	$	23,390	$	22,823
Debt to support external clients		19,925		19,583
Debt to support internal clients		3,465		3,240

Global Financing provides financing predominantly for the company s external client assets, as well as for assets under contract by other IBM units. These assets, primarily for Global Services, generate long-term, stable revenue streams similar to the Global Financing asset portfolio. Based on their attributes, these Global Services assets are leveraged with the balance of the Global Financing asset base. The debt analysis above is further detailed in the Global Financing section on page 71.

Given the significant leverage, the company presents a debt-to-capitalization ratio which excludes Global Financing debt and equity as management believes this is more representative of the company s core business operations. This ratio can vary from period to period as the company manages its global cash and debt positions.

Core debt-to-capitalization ratio (excluding Global Financing debt and equity) was 24.3 percent at June 30, 2011 compared to 22.6 percent at December 31, 2010. The increase was primarily driven by an increase in non-Global Financing debt of $581 million and a decrease in non-Global Financing equity of $37 million from the December 31, 2010 balances.

Table of Contents

Management Discussion (continued)

Consolidated debt-to-capitalization ratio at June 30, 2011 was 56.2 percent versus 55.3 percent at December 31, 2010.

Equity

Total equity increased $38 million from December 31, 2010 primarily as a result of an increase in treasury stock of $7,912 million, driven by common stock repurchases in the first six months of 2011, offset by an increase in retained earnings of $4,802 million, an increase of $1,556 million in common stock and lower accumulated comprehensive losses of $1,634 million.

Looking Forward

In the first six months of 2011, the company delivered solid financial results. The company enters the second half of 2011 in an excellent position with a strong systems portfolio, continued momentum in software, growth in the services backlog with significant opportunity in the growth markets, good momentum in all its key growth plays and a very strong balance sheet.

In May 2010, the company met with investors and introduced a new road map for earnings per share in 2015. The objective of the company s new road map for growth is to achieve at least $20 of operating (non-GAAP) earnings per diluted share in 2015. Consistent with the company s prior road map, the company has identified the major drivers of financial performance: revenue growth, operating leverage and common stock share repurchase. The revenue growth will come from a combination of base revenue growth, a mix to faster growing businesses and from acquisitions closed between 2010 and 2015. The contribution from operating leverage will be driven by the shift to higher margin businesses and enterprise productivity. The company will also continue to return value to its shareholders, with approximately $50 billion of share repurchase and $20 billion of dividends during the road map period. Overall, the company expects fairly balanced contribution from revenue growth, operating leverage and share repurchase. The company measures the success of its business model over the long term, not any individual quarter or year. The company s strategies, investments and actions are all taken with an objective of optimizing long-term performance.

In January 2011, the company disclosed that it is expecting GAAP earnings of at least $12.56 and operating (non-GAAP) earnings of at least $13.00 per diluted share for the full year 2011. In April 2011, the company increased its expectation for GAAP earnings per diluted share to at least $12.73 and its expectation for operating (non-GAAP) earnings per diluted share to at least $13.15 for the full year. In July 2011, the company again increased its expectation for GAAP earnings per diluted share to at least $12.87 and its expectation for operating (non-GAAP) earnings per diluted share to at least $13.25 for the full year. The operating (non-GAAP) earnings per share expectation excludes acquisition-related charges of $0.40 per share and non-operating retirement-related costs/(income) of ($0.02) per share. This revised expectation results in an increase year to year of 12 percent in GAAP earnings per share and an increase of 14 percent year to year in operating (non-GAAP) earnings per share. The company believes its performance in the first half of 2011 is a good start towards the 2015 objective.

The Global Services business delivered outstanding performance in the growth markets, especially in the second quarter, driving significant share gains. The company continues to make great progress in these markets - as the company works with businesses to build out the

infrastructure required to support future growth. The services backlog in the growth markets has increased almost 50 percent in the past two years and now approaches about 20 percent of the total services backlog. The company anticipates significant future opportunity in the growth markets, which is a key driver of services performance in the 2015 roadmap. In the second half of 2011, the company expects to yield benefits from the workforce rebalancing actions taken in the first half of the year, and combined with the momentum in the business, the company expects the services business to deliver margin expansion and double digit profit growth. The Software business had an excellent second quarter with strong revenue and profit growth, while continuing its market leadership. Pre-tax margin was impacted as a result of a higher level of acquisition integration. In the second half, as the company yields improvements from the acquisitions, the company expects the Software business to improve margins. The Systems and Technology business had an excellent first half of 2011. Within this business, the company expects continued opportunity and double-digit profit growth in the third quarter, although the business will face a very tough compare in the fourth quarter versus a strong fourth quarter of 2010.

Table of Contents

Management Discussion (continued)

Currency Rate Fluctuations

Changes in the relative values of non-U.S. currencies to the U.S. dollar affect the company s financial results and financial position. At June 2011, currency changes resulted in assets and liabilities denominated in local currencies being translated into more dollars than at year-end 2010. The company uses financial hedging instruments to limit specific currency risks related to financing transactions and other foreign currency-based transactions. Further discussion of currency and hedging appears in the 2010 IBM Annual Report in Note L, Derivative Financial Instruments, on pages 96 through 101.

Foreign currency fluctuations often drive operational responses that mitigate the simple mechanical translation of earnings. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates. For example, when pricing offerings in the marketplace, the company may use some of the advantage from a weakening U.S. dollar to improve its position competitively, and price more aggressively to win the business, essentially passing on a portion of the currency advantage to its customers. Competition will frequently take the same action. Consequently, the company believes that some of the currency-based changes in cost impact the prices charged to clients. The company also maintains currency hedging programs for cash management purposes which mitigate, but do not eliminate, the volatility of currency impacts on the company s financial results.

The company translates revenue, cost and expense in its non-U.S. operations at current exchange rates in the reported period. References to adjusted for currency or constant currency reflect adjustments based upon a simple constant currency mathematical translation of local currency results using the comparable prior period s currency conversion rate. However, this constant currency methodology that the company utilizes to disclose this information does not incorporate any operational actions that management may take in reaction to fluctuating currency rates. Based on the currency rate movements in the first half of 2011, total revenue increased 10.1 percent as reported and 5.1 percent at constant currency versus the first six months of 2010. On a pre-tax income basis, these translation impacts offset by the net impact of hedging activities resulted in a theoretical maximum (assuming no pricing or sourcing actions) increase of $370 million in the first six months of 2011. The same mathematical exercise resulted in a $20 million increase in the first six months of 2010. The company views these amounts as a theoretical maximum impact to its as-reported financial results. Considering the operational responses mentioned above, movements of exchange rates, and the nature and timing of hedging instruments, it is difficult to predict future currency impacts on any particular period, but the company believes it could be substantially less than the theoretical maximum given the competitive pressure in the marketplace.

For non-U.S. subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, translation adjustments are reflected in results of operations. Generally, the company manages currency risk in these entities by linking prices and contracts to U.S. dollars. The company continues to monitor the economic conditions in Venezuela. On December 30, 2010, the official rate for essential goods was eliminated, with no change to the SITME rate. The SITME rate remained constant throughout the first half of 2011. Future gains or losses from devaluation of the SITME rate are not expected to have a material impact given the size of the company s operations in Venezuela (less than 1 percent of total 2009 and 2010 revenue, respectively). See the company s 2010 Annual Report, Currency Rate Fluctuations, on page 53 for additional information.

Liquidity and Capital Resources

In the company s 2010 Annual Report, on pages 47 through 49, there is a discussion of the company s liquidity including two tables that present five years of data. The table presented on page 47 includes net cash from operating activities, cash and marketable securities and the size of the company s global credit facilities for each of the past five years. For the six months ended, or as of, as applicable, June 30, 2011, those amounts are $8.1 billion for net cash from operating activities, $11.8 billion of cash and marketable securities and $10 billion in global credit facilities, respectively.

The major rating agencies ratings on the company s debt securities at June 30, 2011 appear in the table on page 66 and remain unchanged from December 31, 2010. The company s debt securities do not contain any acceleration clauses which could change the scheduled maturities of the obligation. In addition, the company does not have ratings trigger provisions in its debt covenants or documentation, which would allow the holders to declare an event of default and seek to accelerate payments thereunder in the event of a change in credit rating. The company s contractual agreements governing derivative instruments contain standard market clauses which can trigger the termination of the agreement if the company s credit rating were to fall below investment grade. At June 30, 2011, the fair value of those instruments that were in a liability position was $898 million, before any applicable netting, and this position is subject to fluctuations in fair value period to period based on the level of the company s outstanding instruments and market conditions. The company has no other contractual

Table of Contents

Management Discussion (continued)

arrangements that, in the event of a change in credit rating, would result in a material adverse effect on its financial position liquidity.

	STANDARD AND POOR S	MOODY S INVESTORS SERVICE	FITCH RATINGS
Senior long-term debt	A+	Aa3	A+
Commercial paper	A-1	Prime-1	F1

The table appearing on page 48 of the 2010 Annual Report presents the format in which management reviews cash flows for each of the past five years and is accompanied by a description of the way cash flow is managed, measured and reviewed. The company prepares its Consolidated Statement of Cash Flows in accordance with applicable accounting standards for cash flow presentation on page 6 of this Form 10-Q and highlights causes and events underlying sources and uses of cash in that format on page 62. The following is management s view of cash flows for the first half of 2011 and 2010 prepared in a manner consistent with the table and description on pages 48 and 49 of the 2010 Annual Report:

(Dollars in millions) **For the six months ended June 30:**	**2011**	**2010**
Net cash from operating activities per GAAP:	$ 8,071	$ 8,203
Less: the change in Global Financing receivables	1,903	1,883
Net cash from operating activities, excluding Global Financing receivables	6,168	6,320
Capital expenditures, net	(2,010)	(1,873)
Free cash flow (excluding Global Financing receivables)	4,159	4,446
Acquisitions	(159)	(1,009)
Divestitures	4	
Share repurchase	(8,021)	(8,121)
Dividends	(1,700)	(1,551)
Non-Global Financing debt	1,007	1,261
Other (includes Global Financing receivables and Global Financing debt)	4,822	3,241
Change in cash, cash equivalents and short-term marketable securities	$ 113	$ (1,732)

Free cash flow for the first six months of 2011 decreased $287 million versus the first six months of 2010. The decline year to year was primarily driven by higher net income tax settlement payments in the first quarter of 2011 compared to the prior year; excluding this impact, free cash flow would have increased year to year by approximately $500 million. Also, in the first six months of 2011, $9,720 million was returned to shareholders through share repurchases and dividends.

Events that could temporarily change the historical cash flow dynamics discussed above and in the 2010 Annual Report include significant changes in operating results, material changes in geographic sources of cash, unexpected adverse impacts from litigation or future pension funding during periods of severe downturn in the capital markets. Whether any litigation has such an adverse impact will depend on a number of variables, which are more completely described in Note 14, Contingencies, on pages 32 to 35 of this Form 10-Q. The company expects to make legally mandated pension plan contributions to certain non-U.S. plans of approximately $800 million in 2011. The company is not quantifying any further impact from pension funding because it is not possible to predict future movements in the capital markets or pension plan funding regulations.

66

Explanation of Responses:

Table of Contents

Management Discussion (continued)

Global Financing

Global Financing is a reportable segment that is measured as a standalone entity. Global Financing facilitates clients acquisition of IBM systems, software and services with the objective of generating consistently strong returns on equity.

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2011**	**2010**	**2011**	**2010**
External revenue	$ 519	$ 544	$ 1,035	$ 1,081
Internal revenue	547	431	1,044	834
Total revenue	1,066	975	2,079	1,916
Total cost	384	342	719	676
Gross profit	$ 682	$ 633	$ 1,360	$ 1,239
Gross profit margin	64.0%	64.9%	65.4%	64.7%
Pre-tax income	$ 496	$ 463	$ 1,015	$ 890
After-tax income*	$ 334	$ 306	$ 675	$ 590
Return on equity*	39.9%	39.6%	40.6%	37.8%

* See page 71 for the details of the after-tax income and the return on equity calculation.

The increase in revenue in the second quarter, as compared to the same period in 2010, was due to:

- Growth in internal revenue of 26.8 percent driven by increases in used equipment sales (up 38.2 percent to $414 million) primarily to Global Technology Services and in financing revenue (up 1.1 percent to $133 million); partially offset by

- A decline in external revenue of 4.6 percent (11 percent adjusted for currency), due to a decrease in used equipment sales (down 24.9 percent to $119 million), partially offset by an increase in financing revenue (up 3.8 percent to $399 million).

The increase in revenue in the first six months, as compared to the same period in 2010, was due to:

- Growth in internal revenue of 25.1 percent driven by increases in used equipment sales (up 37.1 percent to $758 million) primarily to Global Technology Services and in financing revenue (up 1.6 percent to $285 million); partially offset by

- A decline in external revenue of 4.3 percent (8 percent adjusted for currency), due to a decrease in used equipment sales (down 21.0 percent to $222 million), partially offset by an increase in financing revenue (up 1.6 percent to $812 million).

The increases in financing revenue in the second quarter and the first six months of 2011, compared to the same periods in 2010, were due to higher average asset balances.

Gross profit increased 7.7 percent in the second quarter of 2011 compared to the same period in 2010 due to increases in both used equipment sales gross profit and financing gross profit. Gross profit margin decreased 1.0 points due to decreases in financing margins and used equipment sales margins. Gross profit increased 9.7 percent in the first six months of 2011 compared to the prior year also due to increases in used equipment sales gross profit and financing gross profit. Gross profit margin increased 0.7 points due to an improvement in both financing and equipment sales margins.

Pre-tax income increased 7.4 percent to $496 million in the second quarter of 2011 versus the same period in 2010. The increase was driven by the increase in gross profit of $49 million and a decrease in financing receivables provisions of $12 million, partially offset by an increase in other expenses of $26 million. Pre-tax income increased 14.2 percent in the first six months of 2011 compared to the prior year, primarily driven by the increase in gross profit of $120 million and a decrease in

Table of Contents

Management Discussion (continued)

financing receivables provisions of $35 million, partially offset by an increase in other expenses of $29M. The decrease in financing receivables provisions in both periods was due to lower specific reserve requirements. Normalizing for $2 million of workforce rebalancing charges in the first quarter of 2011 and 2010, respectively, pre-tax income increased 14.2 percent for the first six months of 2011 versus the prior year period.

Pre-tax margins of 46.5 percent and 48.8 percent, decreased 0.8 points and increased 2.4 points, versus the second quarter and first six months of 2010, respectively. Pre-tax margins on a normalized basis were 49.0 percent and 46.5 percent for the first six months of 2011 and 2010, respectively.

The increases in return on equity for the second quarter and for the first six months of 2011 compared to the same periods in 2010 were driven by higher after-tax income.

Financial Condition

Balance Sheet

(Dollars in millions)		At June 30, 2011		At December 31, 2010
Cash and cash equivalents	$	1,286	$	1,353
Net investment in sales-type and direct financing leases		9,370		9,370
Equipment under operating leases:				
External clients (a)		1,787		1,827
Internal clients (b) (c)		341		500
Client loans		10,559		10,630
Total client financing assets		22,057		22,326
Commercial financing receivables		5,240		6,819
Intercompany financing receivables(b) (c)		4,357		4,204
Other receivables		314		321
Other assets		945		790
Total assets	$	34,199	$	35,813
Intercompany payables (b)	$	4,345	$	6,717
Debt (d)		23,390		22,823
Other liabilities		3,132		3,016
Total liabilities		30,867		32,557
Total equity		3,332		3,256
Total liabilities and equity	$	34,199	$	35,813

(a) Includes intercompany mark-up, priced on an arms-length basis, on products purchased from the company s product divisions, which is eliminated in IBM s consolidated results.

(b) Entire amount eliminated for purposes of IBM s consolidated results and therefore does not appear on pages 4 and 5.

(c) These assets, along with all other financing assets in this table, are leveraged at the value in the table using Global Financing debt.

(d) Global Financing debt is comprised of intercompany loans and external debt. A portion of Global Financing debt is in support of the company s internal business, or related to intercompany mark-up embedded in the Global Financing assets. See table on page 71.

Sources and Uses of Funds

The primary use of funds in Global Financing is to originate client and commercial financing assets. Client financing assets for end users consist primarily of IBM systems, software and services, but also include non-IBM equipment, software and services to meet IBM clients total solutions requirements. Client financing assets are primarily sales-type, direct financing and operating leases for systems products, as well as loans for systems, software and services with terms generally from two to seven years. Global Financing s client loans are primarily for software and services and are unsecured. These loans are subjected to additional credit analysis to evaluate the associated risk and, when deemed necessary, actions are taken to mitigate risks in the loan agreements which include covenants to protect against credit deterioration during the life of the obligation. Client financing also includes internal activity as described on page 23 of the 2010 IBM Annual Report.

Commercial financing receivables arise primarily from inventory and accounts receivable financing for dealers and remarketers of IBM and non-IBM products. Payment terms for inventory financing and accounts receivable financing

Table of Contents

Management Discussion (continued)

generally range from 30 to 90 days. These short-term receivables are primarily unsecured and are also subjected to additional credit analysis in order to evaluate the associated risk.

At June 30, 2011, substantially all financing assets are IT related assets, and approximately 65 percent of the external portfolio is with investment grade clients with no direct exposure to consumers or mortgage assets.

Originations

The following are total external and internal financing originations.

(Dollars in millions)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Client financing:				
External	$ 3,348	$ 2,778	$ 6,434	$ 4,975
Internal	0	2	0	64
Commercial financing	8,327	7,536	16,051	14,234
Total	$ 11,675	$ 10,316	$ 22,486	$ 19,273

New financing originations of both commercial and client financing assets exceeded cash collections, which resulted in a net increase in financing assets in the second quarter of 2011 from March 31, 2011. Cash collections of both commercial and client financing assets exceeded new financing originations in the first six months of 2011, which resulted in a net decline in financing assets from December 31, 2010. The increase in originations in both periods in the table above was due to improving volumes in client and commercial financing.

Cash generated by Global Financing was primarily deployed to pay the intercompany payables and dividends to IBM.

Global Financing Receivables and Allowances

The following table presents external financing receivables excluding residual values and the allowance for credit losses.

(Dollars in millions)		At June 30, 2011		At December 31, 2010
Gross financing receivables	$	24,745	$	26,565
Specific allowance for credit losses		255		305
Unallocated allowance for credit losses		72		96
Total allowance for credit losses		327		401
Net financing receivables	$	24,418	$	26,164
Allowance for credit losses coverage rate		1.3%		1.5%

Roll-Forward of Financing Receivables Allowance for Credit Losses (includes current and noncurrent financing receivables)

(Dollars in millions) January 1, 2011		Allowance Used*		Additions/ (Reductions) Bad Debt Expense		Other**		June 30, 2011
$	401	$	(66)	$	(22)	$	14	$ 327

* Represents reserved receivables, net of recoveries, which were disposed of during the period.

** Primarily represents translation adjustments.

Global Financing receivables reserve coverage decreased from 1.5 percent at December 31, 2010 to 1.3 percent at June 30, 2011, primarily due to the disposition of receivables previously reserved. Specific reserves decreased 16 percent from $305 million at December 31, 2010 to $255 million at June 30, 2011. Unallocated reserves decreased $24 million from $96 million at December 31, 2010 to $72 million at June 30, 2011 primarily due to the decline in gross financing receivables.

Table of Contents

Management Discussion (continued)

Global Financing s bad debt expense was a decrease of $22 million for the six months ended June 30, 2011, compared to an increase of $13 million for the six months ended June 30, 2010. The decrease in bad debt expense was attributed to the decline of required specific reserve additions. In the second quarter of 2011, compared to the second quarter of 2010, bad debt expense decreased $12 million.

Residual Value

Residual value is a risk unique to the financing business and management of this risk is dependent upon the ability to accurately project future equipment values at lease inception. Global Financing has insight into product plans and cycles for the IBM products under lease. Based upon this product information, Global Financing continually monitors projections of future equipment values and compares them with the residual values reflected in the portfolio.

Global Financing optimizes the recovery of residual values by selling assets sourced from end of lease, leasing used equipment to new clients, or extending lease arrangements with current clients. Sales of equipment, which are primarily sourced from equipment returned at the end of a lease, represented 50.1 percent and 47.2 percent of Global Financing s revenue in the second quarter and first six months, respectively, of 2011, and 47.1 percent and 43.6 percent in the second quarter and first six months, respectively, of 2010. The gross profit margin on these sales was 55.2 percent and 55.6 percent in the second quarter of 2011 and 2010, respectively. The decrease was primarily driven by lower external sales margins. The gross profit margin was 55.6 percent and 53.3 percent for the first six months of 2011 and 2010, respectively. The increase was driven by a mix toward higher margin internal sales, partially offset by decreases in both internal and external sales margins.

The following table presents the recorded amount of unguaranteed residual value for sales-type, direct financing and operating leases at January 1, 2011 and June 30, 2011. In addition, the table presents the residual value as a percentage of the related original amount financed and a run out of when the unguaranteed residual value assigned to equipment on leases at June 30, 2011 is expected to be returned to the company. In addition to the unguaranteed residual value below, on a limited basis, Global Financing will obtain guarantees of the future value of the equipment to be returned at end of lease. These third-party guarantees are included in minimum lease payments as provided for by accounting standards in the determination of lease classifications for the covered equipment and provide protection against risk of loss arising from declines in equipment values for these assets. The residual value guarantee increases the minimum lease payments that are utilized in determining the classification of a lease as a sales-type lease or operating lease. The aggregate asset values associated with the guarantees were $254 million and $125 million for the financing transactions originated during the quarters ended June 30, 2011 and June 30, 2010, respectively, and $436 million and $216 million for the six months ended June 30, 2011 and June 30, 2010, respectively. The associated aggregate guaranteed future values at the scheduled end of lease were $11 million and $7 million for the financing transactions originated during the quarters ended June 30, 2011 and June 30, 2010, respectively, and $19 million and $12 million for the financing transactions originated during the six months ended June 30, 2011 and June 30, 2010, respectively. The cost of guarantees was $1.1 million for the quarter ended June 30, 2011 and $0.7 million for the quarter ended June 30, 2010, and $1.9 million and $1.2 million for the six months ended June 30, 2011 and June 30, 2010, respectively.

Unguaranteed Residual Value

Estimated Run Out of

			June 30, 2011 Balance			
(Dollars in millions)	**January 1, 2011**	**June 30, 2011**	**2011**	**2012**	**2013**	**2014 and Beyond**
Sales-type and direct financing leases	$ 871	$ 792	$ 109	$ 224	$ 211	$ 248
Operating leases	328	315	90	94	91	40
Total unguaranteed residual value	$ 1,199	$ 1,107	$ 199	$ 318	$ 302	$ 288
Related original amount financed	$ 20,412	$ 19,763				
Percentage	5.9%	5.6%				

70

Table of Contents

Management Discussion (continued)

Debt

	At June 30, 2011	At December 31, 2010
Debt-to-equity ratio	7.0x	7.0x

The company funds Global Financing through borrowings using a debt-to-equity ratio target of approximately 7 to 1. The debt used to fund Global Financing assets is composed of intercompany loans and external debt. The terms of the intercompany loans are set by the company to substantially match the term and currency underlying the financing receivable and are based on arm s-length pricing. Both assets and debt are presented in the Global Financing balance sheet on page 68.

Global Financing provides funding predominantly for the company s external client assets, as well as for assets under contract by other IBM units. As previously stated, the company measures Global Financing as a standalone entity, and accordingly, interest expense relating to debt supporting Global Financing s external client and internal business is included in the Global Financing Results of Operations on pages 67 and 68 and in Segment Information on pages 24 to 26.

In the company s Consolidated Statement of Earnings on page 3, however, the external debt-related interest expense supporting Global Financing s internal financing to the company is reclassified from cost of financing to interest expense.

The following table provides additional information on total company debt. In this table, intercompany activity includes internal loans and leases at arm s-length pricing in support of Global Services long-term contracts and other internal activity. The company believes these assets should be appropriately leveraged in line with the overall Global Financing business model.

(Dollars in millions)	**At June 30, 2011**		**At December 31, 2010**	
Global Financing Segment		$ 23,390		$ 22,823
Debt to support external clients	$ 19,925		$ 19,583	
Debt to support internal clients	3,465		3,240	
Non-Global Financing Segments		6,383		5,801
Debt supporting operations	9,847		9,041	
Intercompany activity	(3,465)		(3,240)	
Total company debt		$ 29,772		$ 28,624

Liquidity and Capital Resources

Global Financing is a segment of the company and therefore, is supported by the company s overall liquidity position and access to capital markets. Cash generated by Global Financing was primarily deployed to pay intercompany payables and dividends to the company in order to maintain an appropriate debt-to-equity ratio.

Return on Equity

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2011**	**2010**	**2011**	**2010**
Numerator :				
Global Financing after tax income*	$ 334	$ 306	$ 675	$ 590
Annualized after-tax income (A)	$ 1,337	$ 1,224	$ 1,350	$ 1,180
Denominator :				
Average Global Financing equity (B)**	$ 3,353	$ 3,090	$ 3,321	$ 3,116
Global Financing return on equity(A)/(B)	39.9%	39.6%	40.6%	37.8%

* Calculated based upon an estimated tax rate principally based on Global Financing s geographic mix of earnings as IBM s provision for income taxes is determined on a consolidated basis.

** Average of the ending equity for Global Financing for the last 2 quarters and 3 quarters, for the three months ended June 30, and for the six months ended June 30, respectively.

71

Table of Contents

Management Discussion (continued)

Looking Forward

Global Financing s financial position provides flexibility and funding capacity which enables the company to be well positioned in the current environment. Global Financing s assets and new financing volumes are primarily IBM products and services financed to the company s clients and business partners, and substantially all financing assets are IT related assets which provide a stable base of business for future growth. Global Financing s offerings are competitive and available to clients as a result of the company s borrowing cost and access to the capital markets. Overall, Global Financing s originations will be dependent upon the demand for IT products and services as well as client participation rates.

IBM continues to access both the short-term commercial paper market and the medium- and long-term debt markets. A protracted period where IBM could not access the capital markets would likely lead to a slowdown in originations.

Interest rates and the overall economy (including currency fluctuations) will have an effect on both revenue and gross profit. The company s interest rate risk management policy, however, combined with the Global Financing pricing strategy should mitigate gross margin erosion due to changes in interest rates.

The economy could impact the credit quality of the Global Financing receivables portfolio and therefore the level of provision for credit losses. Global Financing will continue to apply rigorous credit policies in both the origination of new business and the evaluation of the existing portfolio.

As discussed on page 70, Global Financing has historically been able to manage residual value risk both through insight into the company s product cycles, as well as through its remarketing business.

Global Financing has policies in place to manage each of the key risks involved in financing. These policies, combined with product and client knowledge, should allow for the prudent management of the business going forward, even during periods of uncertainty with respect to the global economy.

GAAP Reconciliation

The tables below provide a reconciliation of the company s income statement results as reported under GAAP to its operating earnings presentation which is a non-GAAP measure. The company s calculation of operating earnings, as presented, may differ from similarly titled measures reported by other companies. Please refer to the Snapshot section beginning on page 37 for the company s rationale for presenting operating earnings information.

(Dollars in millions except per share amounts)

For the three months ended June 30, 2011	GAAP	Acquisition-related adjustments	Retirement-related adjustments	Operating (Non-GAAP)
Gross profit	$ 12,385	$ 87	$ 6	$ 12,477
Gross profit margin	46.4%	0.3pts.	0.0pts.	46.8%
S,G&A	$ 6,030	$ (76)	$ (5)	$ 5,950
R,D&E	1,569	0	24	1,593
Other (income) and expense	97	(1)	0	96
Total expense and other (income)	7,500	(77)	18	7,441
Pre-tax income	4,885	163	(12)	5,036
Pre-tax income margin	18.3%	0.6pts.	(0.0)pts.	18.9%
Provision for income taxes*	$ 1,221	$ 38	$ (0)	$ 1,259
Effective tax rate	25.0%	(0.1)pts.	0.1pts.	25.0%
Net income	$ 3,664	$ 126	$ (13)	$ 3,777
Net income margin	13.7%	0.5pts.	(0.0)pts.	14.2%
Diluted earnings per share	$ 3.00	$ 0.10	$ (0.01)	$ 3.09

* Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

Table of Contents

Management Discussion (continued)

(Dollars in millions except per share amounts) For the three months ended June 30, 2010	GAAP	Acquisition-related adjustments	Retirement-related adjustments	Operating (Non-GAAP)
Gross profit	$ 10,809	$ 58	$ (56)	$ 10,811
Gross profit margin	45.6%	0.2pts.	(0.2)pts.	45.6%
S,G&A	$ 5,061	$ (62)	$ 25	$ 5,024
R,D&E	1,475	0	32	1,507
Other (income) and expense	(95)	(3)	0	(97)
Total expense and other (income)	6,234	(64)	57	6,227
Pre-tax income	4,575	122	(113)	4,584
Pre-tax income margin	19.3%	0.5pts.	(0.5)pts.	19.3%
Provision for income taxes*	$ 1,190	$ 38	$ (45)	$ 1,183
Effective tax rate	26.0%	0.1pts.	(0.4)pts.	25.8%
Net income	$ 3,386	$ 84	$ (68)	$ 3,402
Net income margin	14.3%	0.4pts.	(0.3)pts.	14.3%
Diluted earnings per share	$ 2.61	$ 0.06	$ (0.05)	$ 2.62

* Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

(Dollars in millions except per share amounts) For the six months ended June 30, 2011	GAAP	Acquisition-related adjustments	Retirement-related adjustments	Operating (Non-GAAP)
Gross profit	$ 23,243	$ 172	$ 19	$ 23,434
Gross profit margin	45.3%	0.3pts.	0.0pts.	45.7%
S,G&A	$ 11,856	$ (152)	$ (15)	$ 11,689
R,D&E	3,156	0	43	3,199
Other (income) and expense	(105)	(5)	0	(110)
Total expense and other (income)	14,541	(157)	28	14,412
Pre-tax income	8,702	329	(8)	9,022
Pre-tax income margin	17.0%	0.6pts.	(0.0)pts.	17.6%
Provision for income taxes*	$ 2,175	$ 86	$ (5)	$ 2,256
Effective tax rate	25.0%	0.0pts.	0.0pts.	25.0%
Net income	$ 6,526	$ 243	$ (3)	$ 6,767
Net income margin	12.7%	0.5pts.	(0.0)pts.	13.2%
Diluted earnings per share	$ 5.30	$ 0.20	$ 0.00	$ 5.50

* Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

Table of Contents

Management Discussion (continued)

(Dollars in millions except per share amounts) For the six months ended June 30, 2010	GAAP	Acquisition-related adjustments	Retirement-related adjustments	Operating (Non-GAAP)
Gross profit	$ 20,785	$ 113	$ (91)	$ 20,807
Gross profit margin	44.6%	0.2pts.	(0.2)pts.	44.7%
S,G&A	$ 10,737	$ (123)	$ 36	$ 10,650
R,D&E	2,984	0	62	3,046
Other (income) and expense	(640)	(3)	0	(643)
Total expense and other (income)	12,695	(126)	97	12,667
Pre-tax income	8,090	239	(189)	8,140
Pre-tax income margin	17.4%	0.5pts.	(0.4)pts.	17.5%
Provision for income taxes*	$ 2,103	$ 72	$ (76)	$ 2,100
Effective tax rate	26.0%	0.1pts.	(0.3)pts.	25.8%
Net income	$ 5,987	$ 166	$ (113)	$ 6,040
Net income margin	12.9%	0.4pts.	(0.2)pts.	13.0%
Diluted earnings per share	$ 4.57	$ 0.13	$ (0.09)	$ 4.61

* Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

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 financial results 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; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company s ability to successfully manage acquisitions 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.

Item 4. Controls and Procedures

The company s management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the company s disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the company s disclosure controls and procedures were effective as of the end of the period covered by this report. There has been no change in the company s internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, the company s internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

Refer to Note 14, Contingencies, on pages 32 to 35 of this Form 10-Q.

Table of Contents

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

The following table provides information relating to the company s repurchase of common stock for the second quarter of 2011.

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program(*)
April 1, 2011 April 30, 2011	9,070,903	$	165.75	9,070,903	$	11,171,424,238
May 1, 2011 May 31, 2011	7,650,540	$	169.56	7,650,540	$	9,874,169,839
June 1, 2011 June 30, 2011	7,367,128	$	165.75	7,367,128	$	8,653,047,017
Total	24,088,571	$	166.96	24,088,571		

* On October 26, 2010 and April 26, 2011, the Board of Directors authorized $10.0 billion and $8.0 billion, respectively, in funds for use in the company s common stock repurchase program. In each case, the company stated that it would repurchase shares on the open market or in private transactions depending on market conditions and it expects to use cash from operations for the repurchases. The common stock repurchase program does not have an expiration date. This table does not include shares tendered to satisfy the exercise price in connection with cashless exercises of employee stock options or shares tendered to satisfy tax withholding obligations in connection with employee equity awards.

Item 5. Other Information

On April 28, 2011, IBM filed a Form 8-K disclosing the final voting results in connection with the company s Annual Meeting of Stockholders held on April 26, 2011. The company will provide an advisory vote on executive compensation (Say on Pay) on an annual basis. The company s compensation policies and practices continue to be focused on long-term financial performance to drive stockholder value.

Item 6. Exhibits

Exhibit Number

11 Statement re: computation of per share earnings.

12 Statement re: computation of ratios.

31.1	Certification by principal executive officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by principal financial officer pursuant to Rule 13A-14(a) or 15D-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statement of Earnings for the three and six month periods ended June 30, 2011 and 2010, (ii) the Consolidated Statement of Financial Position at June 30, 2011 and December 31, 2010, (iii) the Consolidated Statement of Cash Flows for the six months ended June 30, 2011 and 2010 and (iv) the notes to the Consolidated Financial Statements.

Table of Contents

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.

International Business Machines Corporation
(Registrant)

Date: July 26, 2011

By: /s/ James J. Kavanaugh
James J. Kavanaugh
Vice President and Controller