INTERNATIONAL BUSINESS MACHINES CORP
Form 10-Q
October 31, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10 - Q

QUARTERLY REPORT

PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED SEPTEMBER 30, 2006

1-2360

(Commission file number)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York (State of incorporation)	**13-0871985** (IRS employer identification number)
Armonk, New York (Address of principal executive offices)	**10504** (Zip Code)

914-499-1900
(Registrant s telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section l3 or l5(d) of the Securities Exchange Act of 1934 during the preceding l2 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The registrant has 1,506,351,844 shares of common stock outstanding at September 30, 2006.

Index

Part I - Financial Information

ITEM 1. Consolidated Financial Statements

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

(UNAUDITED)

	Three Months Ended		Nine Months Ended	
(Dollars in millions except	**September 30,**		**September 30,**	
per share amounts)	**2006**	**2005***	**2006**	**2005***
Revenue:				
Global Services	$ 12,017	$ 11,697	$ 35,478	$ 35,407
Hardware	5,583	5,130	15,306	17,445
Software	4,406	4,059	12,554	11,930
Global Financing	591	600	1,755	1,802
Other	20	43	74	123
Total revenue	22,617	21,529	65,166	66,707
Cost:				
Global Services	8,676	8,648	25,768	26,381
Hardware	3,481	3,228	9,930	11,802
Software	647	611	1,932	1,864
Global Financing	304	273	862	834
Other	18	31	81	60
Total cost	13,126	12,791	38,573	40,940
Gross profit	9,492	8,738	26,594	25,767
Expense and other income:				
Selling, general and administrative	5,121	4,632	14,639	16,062
Research, development and engineering	1,543	1,447	4,520	4,383
Intellectual property and custom development income	(242)	(213)	(659)	(720)
Other (income) and expense	(174)	(99)	(616)	(1,788)
Interest expense	70	56	207	172
Total expense and other income	6,317	5,823	18,091	18,109
Income from continuing operations before income taxes	3,174	2,915	8,503	7,658
Provision for income taxes	952	1,399	2,551	2,884
Income from continuing operations	2,222	1,516	5,952	4,774

* Reclassified to conform with 2006 presentation; see Note 1 on page 6 for additional information.

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

1

(Dollars in millions except per share amounts)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Discontinued Operations				
Loss from discontinued operations, net of tax				27
Net income	$ 2,222	$ 1,516	$ 5,952	$ 4,747
Earnings/(loss) per share of common stock:				
Assuming dilution:				
Continuing operations	$ 1.45	$ 0.94	$ 3.81	$ 2.92
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.02)
Total	$ 1.45	$ 0.94	$ 3.81	$ 2.90
Basic				
Continuing operations	$ 1.47	$ 0.95	$ 3.87	$ 2.97
Discontinued operations	(0.00)	(0.00)	(0.00)	(0.02)
Total	$ 1.47	$ 0.95	$ 3.87	$ 2.95
Weighted-average number of common shares outstanding: (millions)				
Assuming dilution	1,534.3	1,617.2	1,560.5	1,635.2
Basic	1,513.2	1,591.3	1,538.6	1,607.9
Cash dividends per common share	$ 0.30	$ 0.20	$ 0.80	$ 0.58

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(UNAUDITED)

ASSETS

(Dollars in millions)	**At September 30, 2006**	**At December 31, 2005**
Assets		
Current assets:		
Cash and cash equivalents	$ 8,484	$ 12,568
Marketable securities	2,417	1,118
Notes and accounts receivable trade (net of allowances of $226 in 2006 and $267 in 2005)	9,235	9,540
Short-term financing receivables (net of allowances of $308 in 2006 and $422 in 2005)	12,400	13,750
Other accounts receivable (net of allowances of $13 in 2006 and $7 in 2005)	1,048	1,138
Inventories, at lower of average cost or market:		
Finished goods	842	902
Work in process and raw materials	2,292	1,939
Total inventories	3,135	2,841
Deferred income taxes	1,403	1,765
Prepaid expenses and other current assets	2,548	2,941
Total current assets	40,668	45,661
Plant, rental machines and other property	35,645	34,261
Less: Accumulated depreciation	21,586	20,505
Plant, rental machines and other property net	14,059	13,756
Long-term financing receivables	9,434	9,628
Prepaid pension assets	23,204	20,625
Intangible assets net	1,599	1,663
Goodwill	10,337	9,441
Investments and sundry assets	4,855	4,974
Total assets	$ 104,155	$ 105,748

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

3

LIABILITIES AND STOCKHOLDERS EQUITY

(Dollars in millions except per share amounts)	**At September 30, 2006**	**At December 31, 2005**
Liabilities and Stockholders Equity		
Current liabilities:		
Taxes	$ 4,125	$ 4,710
Short-term debt	8,555	7,216
Accounts payable and accruals	22,249	23,226
Total current liabilities	34,929	35,152
Long-term debt	13,436	15,425
Retirement and nonpension postretirement benefit obligations	13,012	13,779
Other liabilities	8,530	8,294
Total liabilities	69,907	72,650
Stockholders equity:		
Common stock - par value $0.20 per share and additional paid-in capital	30,257	28,926
Shares authorized: 4,687,500,000		
Shares issued: 2006 - 1,995,246,297 2005 - 1,981,259,104		
Retained earnings	49,402	44,734
Treasury stock - at cost	(45,096)	(38,546)
Shares: 2006 - 488,894,453 2005 - 407,279,343		
Accumulated gains and (losses) not affecting retained earnings	(315)	(2,016)
Total stockholders equity	34,248	33,098
Total liabilities and stockholders equity	$ 104,155	$ 105,748

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

4

INTERNATIONAL BUSINESS MACHINES CORPORATION

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, (UNAUDITED)

(Dollars in millions)	**2006**	**2005***
Cash flow from operating activities from continuing operations:		
Net income	$ 5,952	$ 4,747
Loss from discontinued operations		$ 27
Adjustments to reconcile income from continuing operations to cash provided from operating activities:		
Depreciation	2,893	3,084
Amortization of intangibles	790	775
Stock-based compensation	621	796
Net gain on asset sales and other	(88)	(1,216)
Changes in operating assets and liabilities, net of acquisitions/divestitures	(483)	1,281
Net cash provided by operating activities from continuing operations	9,685	9,494
Cash flow from investing activities from continuing operations:		
Payments for plant, rental machines and other property, net of proceeds from dispositions	(2,776)	(2,455)
Investment in software	(585)	(601)
Acquisition of businesses, net of cash acquired	(882)	(1,298)
Divestiture of businesses, net of cash transferred		656
Purchases of marketable securities and other investments	(20,388)	(2,418)
Proceeds from disposition of marketable securities and other investments	18,715	3,124
Net cash used in investing activities from continuing operations	(5,915)	(2,992)
Cash flow from financing activities from continuing operations:		
Proceeds from new debt	292	4,236
Payments to settle debt	(1,448)	(3,264)
Short-term borrowings/(repayments) less than 90 days net	369	(1,803)
Common stock transactions net	(5,883)	(5,878)
Cash dividends paid	(1,231)	(934)
Net cash used in financing activities from continuing operations	(7,901)	(7,643)
Effect of exchange rate changes on cash and cash equivalents	56	(652)
Net cash used in discontinued operations - operating activities	(9)	(8)
Net change in cash and cash equivalents	(4,084)	(1,801)
Cash and cash equivalents at January 1	12,568	10,053
Cash and cash equivalents at September 30	$ 8,484	$ 8,252

* Reclassified to conform with 2006 presentation.

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

Notes to Consolidated Financial Statements

1. The accompanying consolidated financial statements and notes thereto are unaudited. In the opinion of the management of International Business Machines Corporation (the company), these statements include all adjustments, which are of a normal recurring nature, necessary to present a fair statement of the company s results of operations, financial position and cash flows.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses that are reported in the Consolidated Financial Statements and accompanying disclosures. Actual results may be different. See the company s 2005 Annual Report for a discussion of the company s critical accounting estimates.

Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the company s 2005 Annual Report.

In the first quarter of 2006, the company made changes to its management system. These changes impacted the company s reportable segments and resulted in the reclassification of certain revenue and cost within its Consolidated Statement of Earnings. These changes did not impact the company s total revenue, cost, expense, net income, earnings per share, Consolidated Statement of Financial Position or Consolidated Statement of Cash Flows. See Note 10 for additional information regarding the changes in reportable segments. The periods presented in this Form 10-Q are reported on a comparable basis. The company filed a Form 8-K with the Securities and Exchange Commission (SEC) on June 13, 2006 to reclassify its historical financial statements and related footnotes to reflect these management system changes.

Within the financial tables in this Form 10-Q, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts.

2. The following table summarizes Net income plus gains and (losses) not affecting retained earnings (net of tax):

(Dollars in millions)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Net income	$ 2,222	$ 1,516	$ 5,952	$ 4,747
Gains and (losses) not affecting retained earnings (net of tax):				
Foreign currency translation adjustments	(74)	30	563	(995)
Minimum pension liability adjustments			1,432	2
Net unrealized gains on marketable securities	32	26	10	9
Net unrealized gains/(losses) on cash flow hedge derivatives	81	57	(305)	834
Total gains and (losses) not affecting retained earnings	39	113	1,701	(150)
Net income plus gains and (losses) not affecting retained earnings	$ 2,261	$ 1,629	$ 7,652	$ 4,597

3. Effective January 1, 2005, the company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), Share-Based Payment. Accordingly, stock-based compensation expense is measured at grant date, based on the fair value of the award and is recognized as expense over the employee requisite service period. The following table presents total stock-based compensation expense included in the Consolidated Statement of Earnings:

(Dollars in millions)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Cost	$ 54	$ 82	$ 162	$ 253
Selling, general and administrative*	136	143	394	461
Research, development and engineering	22	26	64	82
Other (income) and expense				(8)
Pre-tax stock-based compensation expense	212	251	621	788
Income tax benefits	(75)	(87)	(220)	(269)
Total stock-based compensation expense	$ 137	$ 164	$ 401	$ 519

* Includes $3 million and $7 million of credits in the three- and nine-month periods ended September 30, 2005, respectively, as a result of awards forfeited in connection with the company s second-quarter 2005 workforce resource actions.

The reduction in pre-tax stock-based compensation expense for the three and nine-month periods ended September 30, 2006, as compared to the corresponding periods in the prior year, was principally the result of: (1) a reduction in the level and fair value of stock option grants ($74 million and $231 million, respectively), (2) changes to the terms of the company s employee stock purchase plan, which rendered it non-compensatory in the second quarter of 2005 in accordance with the provisions of SFAS 123(R) (no effect in three-month period and $18 million decrease in nine-month period), offset by (3) increased expense for performance-based stock

7

units ($3 million and $30 million, respectively) resulting from changes in the probabilities of achieving performance metrics and (4) an increase in the level of restricted equity award grants ($32 million and $52 million, respectively). The effects on pre-tax stock-based compensation expense of the 2005 sale of the Personal Computing business were recorded in Other (income) and expense above and in the Consolidated Statement of Earnings for the nine-month period ended September 30, 2005.

As of September 30, 2006, $1,330 million of total unrecognized compensation expense related to non-vested awards is expected to be recognized over a weighted average period of approximately 2 years.

There were no significant capitalized stock-based compensation expense at September 30, 2006 and 2005.

Under IBM s long-standing practices and policies, all stock option awards are approved prior to or on the date of grant. The exercise price of at-the-money stock options is the average of the high and low market price on the date of grant or, in the case of premium-priced stock options, 10 percent above such average. The options approval process specifies the individual receiving the grant, the number of options or the value of the award, the exercise price or formula for determining the exercise price and the date of grant. All option awards for senior management are approved by the Executive Compensation and Management Resources Committee of the Board of Directors (the Committee). All option awards for employees other than senior management are approved by senior management pursuant to a series of delegations that were approved by the Committee, and the grants made pursuant to these delegations are reviewed periodically with the Committee. Options that are awarded as part of annual total compensation for senior management and other employees are made on specific cycle dates scheduled in advance. With respect to option awards given in connection with promotions or new hires, IBM s policy requires approval of such awards prior to the grant date, which is typically the date of the promotion or the date of hire. The exercise price of these options is the average of the high and low market price on the date of grant in the case of at-the-money stock options or, in the case of premium-priced stock options, 10 percent above such average. See IBM s 2005 Annual Report, note U, Stock-Based Compensation , for additional information on the company s stock-based incentive awards.

4. In September 2006, the Financial Accounting Standards Board (FASB) released SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans that requires employers to recognize the funded status of their postretirement plans in the statement of financial position and introduces additional net periodic benefit cost disclosure requirements. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation. The company will adopt SFAS No. 158 as of December 31, 2006. Upon adoption of SFAS No. 158, the company will recognize the underfunded status of its defined benefit pension plans and non-pension postretirement benefit plans as a liability in its Consolidated Statement of Financial Position. The overfunded status of the company s defined benefit pension plans will be recognized as an asset in its Consolidated Statement of Financial Position. Gains or losses, prior service costs or credits, and transition assets that have not yet been included in net periodic benefit cost as of December 31, 2006, will be recognized, net of tax, as components of the ending

balance of Accumulated Gains and (Losses) not Affecting Retained Earnings. Subsequent to adoption, the company will recognize the gains or losses and prior service costs or credits, net of tax, that arise during the period but are not recognized in net periodic benefit cost as a component of Accumulated Gains and (Losses) not Affecting Retained Earnings. Those amounts will be adjusted as they are subsequently recognized in net periodic benefit cost. The company measures defined benefit plan assets and obligations as of December 31 and SFAS No. 158 will not affect the company s existing valuation practices.

The adoption of SFAS No. 158 as of December 31, 2006 is expected to reduce the company s assets between $11 - 12 billion, decrease its liabilities between $0.5 - 1.5 billion, and reduce its stockholders equity between $10 - 11 billion. The company s Total stockholders equity was $34.2 billion at September 30, 2006. The company estimated the effect of adoption based on the most current valuations of its significant pension and non-pension postretirement benefit obligations at December 31, 2005, adjusted for the remeasurement of certain non-U.S. benefit plans arising from plan amendments and changes in certain significant assumptions at September 30, 2006. Those assumptions include the discount rate, interest crediting rate, fair value of plan assets and foreign exchange rates. The current estimate is based on the expectation that deferred tax assets attributable to pension and non-pension postretirement benefits will be realized. The actual effect of adoption could materially differ from the estimate as a result of changes in assumptions used in the valuation of plan obligations and fair value of plan assets. As noted above, those assumptions include, but are not limited to, discount rates, interest crediting rates, actual fair value of plan assets, foreign exchange rates, country-specific tax treatment, and the realizability of deferred tax assets. In addition, the company estimates that approximately $1.0 billion of the liability balance will be reclassified as a current liability in accordance with the provisions of SFAS 158. The adoption of SFAS No. 158 will have no impact on the company s existing debt covenants, credit ratings or financial flexibility.

In September 2006, the FASB finalized SFAS No. 157, Fair Value Measurements which will become effective in 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements; however, it does not require any new fair value measurements. The provisions of SFAS No. 157 will be applied prospectively to fair value measurements and disclosures in the company s Consolidated Financial Statements beginning in the first quarter of 2008.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) No. 108, codified as SAB Topic 1.N, Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 describes the approach that should be used to quantify the materiality of a misstatement and provides guidance for correcting prior year errors. The company early adopted SAB No. 108 in the third quarter of 2006 and accordingly, follows SAB No. 108 requirements when quantifying financial statement misstatements. The adoption of SAB No. 108 did not result in corrections of the company s Consolidated Financial Statements.

In July 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The company will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to Retained earnings, Goodwill, or Accumulated Gains and (Losses) not Affecting Retained Earnings, as appropriate, as of the beginning of the period of adoption. The company has commenced the process of evaluating the expected effect of FIN 48 on its Consolidated Financial Statements and does not presently expect a material impact upon adoption. However, the company does expect to reclassify a portion of its unrecognized tax benefits from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. Prior period amounts also will be reclassified to conform to this change in presentation.

5. In May 2005, the company implemented a series of restructuring actions designed to improve the company s efficiencies, strengthen its client-facing operations and capture opportunities in high-growth markets. The company s actions primarily included voluntary and involuntary workforce reductions, with the majority impacting the Global Services business, primarily in Europe, as well as the vacating of leased facilities. These actions were in addition to the company s ongoing workforce reduction and rebalancing activities that occur each quarter.

The total charges expected to be incurred in connection with all second-quarter 2005 initiatives are approximately $1,766 million, of which $1,753 million has been recorded cumulatively through September 30, 2006. The remaining expected charges represent accretion/interest expense on the long-term portion of the company s workforce and vacant space obligations. Approximately $1,623 million of the total charges require cash payments, of which approximately $1,344 million has been made as of September 30, 2006 and $75 million are expected to be made over the next 12 months.

Total pre-tax restructuring activity was as follows:

(Dollars in millions)	Pre-Tax Charges Recorded in 2Q 2005		Asset Impairments	Liability recorded in the 2nd Qtr. 2005	Payments	Other(2)	Liability as of 12/31/05	
Workforce reductions	$ 1,574		$	$ 1,574	$ (1,013)	$ (107)	$ 454	
Vacant space	141			141	(53)	(5)	83	
Asset impairments	95		95					
Total restructuring charges for 2Q 2005 actions	$ 1,810	(1)	$ 95	$ 1,715	$ (1,066)	$ (112)	$ 537	(3)

(1) $1.6 billion recorded in Selling, general and administrative expense and $0.2 billion recorded in Other (income) and expense in the Consolidated Statement of Earnings.

(2) Consists of foreign currency translation adjustments ($38 million), net reclassifications to other balance sheet categories ($41 million) and reversals of previously recorded liabilities ($34 million) for changes in the estimated cost of employee terminations and vacant space, offset by approximately $1 million of accretion expense. The reversals were recorded primarily in SG&A expense.

(3) $391 million recorded as a current liability in Accounts payable and accruals and $146 million as a non-current liability in Other liabilities in the Consolidated Statement of Financial Position.

(Dollars in millions)	Liability as of December 31, 2005	Payments	Other(4)	Liability as of September 30, 2006	
Workforce reductions	$ 454	$ (246)	$ 4	$ 212	
Vacant space	83	(32)	3	54	
Total restructuring charges for 2Q 2005 actions	$ 537	$ (278)	$ 7	$ 266	(5)

(4) Consists of foreign currency translation adjustments ($27 million), net balance sheet reclassifications ($2 million) and accretion expense ($5 million), offset by reversals of previous recorded liabilities ($27 million) for changes in the estimated cost of employee terminations and vacant space. These reversals were primarily recorded in SG&A.

(5) $75 million recorded as a current liability in Accounts payable and accruals and $192 million as a non-current liability in Other liabilities in the Consolidated Statement of Financial Position.

Charges incurred for the workforce reductions consisted of severance/termination benefits for approximately 16,000 employees (14,500 of which were for the incremental second-quarter 2005 actions). All separations were substantially completed by March 31, 2006. The non-current portion of the liability associated with the workforce reductions relates to terminated employees who were granted annual payments to supplement their income in certain countries. Depending on individual country legal requirements, these required payments will continue until the former employee begins receiving pension benefits or is deceased. Cash payments made through September 30, 2006 associated with the workforce reductions were $1,259 million.

The vacant space accruals are primarily for ongoing obligations to pay rent for vacant space, offset by estimated sublease income, over the respective lease term of the company s lease agreements. The length of these obligations varies by lease with the longest extending through 2019.

In connection with the company s restructuring activities initiated in the second quarter of 2005, the company recorded pre-tax impairment charges for certain real estate assets of approximately $95 million during the year ended December 31, 2005. The principal component of such impairment charges resulted from the sale of a facility in Yasu-City, Japan, which closed during the third quarter of 2005. In connection with this sale, the company recorded an impairment charge to write the asset down to its fair value in the second quarter of 2005.

These restructuring activities had the following effect on the company s reportable segments:

At September 30, 2006: (Dollars in millions)	**Total Pre-Tax Charges Expected to be Incurred for 2Q 2005 Actions***	**Cumulative Pre-Tax Charges Recorded for 2Q 2005 Actions***
Global Technology Services	$ 724	$ 719
Global Business Services	443	441
Systems & Technology Group	132	132
Software	98	97
Global Financing	16	16
Total reportable segments	1,412	1,405
Unallocated corporate amounts	354	349
Total	$ 1,766	$ 1,753

* Amounts reclassified from previously reported amounts to reflect the new management system structure implemented in the first quarter of 2006; see Note 10 for additional information.

12

6. The company offers defined benefit pension plans, defined contribution pension plans, as well as nonpension postretirement benefit plans primarily consisting of retiree medical benefits. The following tables provide the total retirement-related benefit plans impact on income from continuing operations before income taxes.

(Dollars in millions)	2006	2005	Yr. to Yr. Percent Change
For the three months ended September 30:			
Retirement-related plans - cost:			
Defined benefit and contribution pension plans - cost	$ 498	$ 429	16.1 %
Nonpension postretirement benefits-cost	97	95	2.1
Total	$ 595	$ 524	13.5 %

(Dollars in millions)	2006	2005	Yr. to Yr. Percent Change
For the three months ended September 30:			
Retirement-related plans - cost:			
Defined benefit and contribution pension plans - cost	$ 1,542	$ 1,376	12.1 %
Nonpension postretirement benefits-cost	290	279	3.9
Total	$ 1,832	$ 1,655	10.7 %

13

The following tables provides the components of the cost/(income) for the company s pension plans:

Cost/(Income) of Pension Plans

(Dollars in millions)	**U.S. Plans 2006**	**2005**	**Non-U.S. Plans 2006**	**2005**
For the three months ended September 30:				
Service cost	$ 193	$ 171	$ 144	$ 167
Interest cost	614	615	399	402
Expected return on plan assets	(904)	(918)	(583)	(548)
Amortization of transition assets			(2)	(1)
Amortization of prior service cost	15	16	(31)	5
Recognized actuarial losses	196	141	204	137
Net periodic pension cost U.S. plan and material non-U.S. plans	114 *	25 *	131 **	162 **
Cost of other defined benefit plans	27	36	39	35
Cost of restructuring/divestiture actions				6
Total net periodic pension cost for all defined benefit plans	141	61	170	