

INTERNATIONAL BUSINESS MACHINES CORP  
Form 10-K  
February 24, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K  
ANNUAL REPORT  
pursuant to Section 13 or 15 (d) of the  
Securities Exchange Act of 1934  
FOR THE YEAR ENDED DECEMBER 31, 2014**

**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)

**Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of each class</b>               | <b>Voting shares outstanding<br/>at February 10, 2015</b> | <b>Name of each exchange<br/>on which registered</b> |
|--|---|--|
| Capital stock, par value \$.20 per share | 988,424,172   | New York Stock Exchange<br>Chicago Stock Exchange    |
| 1.375% Notes due 2019                    |   | New York Stock Exchange                              |
| 2.750% Notes due 2020                    |   | New York Stock Exchange                              |
| 1.875% Notes due 2020                    |   | New York Stock Exchange                              |
| 1.25% Notes due 2023                     |   | New York Stock Exchange                              |
| 2.875% Notes due 2025                    |   | New York Stock Exchange                              |
| 8.375% Debentures due 2019               |   | New York Stock Exchange                              |
| 7.00% Debentures due 2025                |   | New York Stock Exchange                              |
| 6.22% Debentures due 2027                |   | New York Stock Exchange                              |
| 6.50% Debentures due 2028                |   | New York Stock Exchange                              |
| 7.00% Debentures due 2045                |   | New York Stock Exchange                              |
| 7.125% Debentures due 2096               |   | New York Stock Exchange                              |

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-Accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$180.8 billion.

Documents incorporated by reference:

Portions of IBM's Annual Report to Stockholders for the year ended December 31, 2014 are incorporated by reference into Parts I, II and IV of this Form 10-K.

Portions of IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015 are incorporated by reference into Part III of this Form 10-K.

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**PART I**

**Item 1. Business:**

International Business Machines Corporation (IBM or the company) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological innovation, and its operations and aims have been international in nature. This was signaled over 90 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: The company creates value for clients through integrated solutions and products that leverage: data, information technology, deep expertise in industries and business processes, and a broad ecosystem of partners and alliances. IBM solutions typically create value by enabling new capabilities for clients that transform their businesses and help them engage with their customers and employees in new ways. These solutions draw from an industry-leading portfolio of consulting and IT implementation services, cloud and cognitive offerings, and enterprise systems and software; all bolstered by one of the world's leading research organizations.

**Strategy**

In a time of unprecedented technological change, IBM's strategy remains one of innovation and a constant drive to deliver higher value for our clients.

Key tenets of the company's strategy include:

- 1. Our strategic imperatives:** Data, cloud and engagement are fundamentally transforming the IT industry, the company and our clients' businesses. The tremendous growth of data is redefining today's competitive advantage. With data as the world's new "natural resource," it is fundamentally transforming industries and professions. Yet as with all natural resources, only by refining data into actionable insights through analytics does it become valuable to the customer's business. Cloud computing the delivery of IT and business processes as digital services offers opportunities for enterprises to reinvent not just their operations, but their entire business model and approaches to innovation. Engagement, including mobile and social technologies, is profoundly changing how people interact and the way work gets done. Finally, these transformations are all supported and protected by high levels of security to ensure privacy and integrity of action. These three imperatives data, cloud and engagement are the foundation of IBM's strategy today and its vision for the future.
- 2. Our unique strength:** Our ability to connect new technologies with the systems currently running today's enterprises is a key value-added service and market differentiator for IBM. Clients today want more than just adopting new technologies they want IBM to fuse new solutions with their existing systems. This "bringing together" is what the company calls Hybrid Cloud, and IBM is uniquely able to bring this value to its clients.
- 3. Our migration to higher levels of business value:** Clients look to IBM to solve their business challenges and opportunities rather than just providing technology. Our evolution over decades from hardware to software and services, and increasingly to full-fledged business solutions reflects this critical shift in meeting client needs. IBM brings together the full breadth of its integrated offerings and industry expertise to be essential to its clients and deliver higher value.

**1. Our Strategic Imperatives**

**Data: transforming industries and professions**

Fueled by the proliferation of mobile devices, social media and the infusion of technology into virtually all aspects of business, data is the world's new natural resource. Without powerful analytics, however, it is just data.

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Across all industries, enterprises are working hard to harvest new insights from the explosion of available data – the new basis for today's competitive advantage. The advantage for enterprises increases as they apply more sophisticated approaches to refining their data, turning them into insights that are actionable and add value. The advent of cognitive computing, which mirrors the same cognitive process that people use every day to understand the world around them, is profoundly redefining the relationship between humans and information. Cognitive systems learn, navigate the language and protocols of expert communities, and communicate in natural language.

IBM has invested more than \$26 billion, including over \$17 billion on more than 30 acquisitions, to build its capabilities in big data and analytics. One third of IBM Research's spending is focused on data, analytics and cognitive computing.

In 2014, IBM reported nearly \$17 billion in business analytics revenue, and the company established the Watson Group to develop and commercialize cognitive computing innovations. The company has committed a \$1 billion investment to Watson, including \$100 million dedicated to venture investments to support start-ups building cognitive apps through the Watson Developer Zone on Bluemix. The company is also making Watson more widely available through the Watson Ecosystem, which has grown to more than 160 partners with nearly 4,000 future partners seeking to build a new generation of cognitive apps. IBM also launched Watson Analytics, a breakthrough natural language-based cognitive service that provides instant access to powerful predictive and visual analytic tools for businesses. Through Watson Analytics, IBM is extending analytics to the end user, not just the data scientist. IBM's goal is to give every business professional access to advanced cognitive-powered predictive analytics, coupled with new forms of data.

In addition in 2014, the company made bold moves by establishing key alliances. In the data space, the company announced a ground-breaking partnership with Twitter to incorporate Twitter's massive data streams into IBM's cloud-based analytics, customer engagement platforms and consulting services. Enterprises will now be able to understand customer sentiment more deeply and anticipate sudden shifts in moods and markets by tapping into the Twitter data in powerful new ways. This capability will also allow clients to integrate Twitter data into their own cloud services and mobile apps.

### **Cloud: reinventing IT**

Cloud is at the heart of the digital revolution. No enterprise is untouched by this revolution and the shifts are occurring rapidly.

Enterprises are benefitting from cloud by using it to transform their IT and business processes into digital services. Much has been written about how cloud enables the sharing of infrastructure – this is true. However the real promise of cloud is much more profound. By forcing greater levels of standards up and down the technology value chain, new products and services, and even entire business models, are able to be created in weeks rather than months or years.

Cloud is a catalyst for innovation. IBM has invested more than \$8 billion to acquire 18 companies related to cloud, and is investing more than \$1 billion to expand its global footprint to 40 datacenters worldwide. IBM now has more than 120 software-as-a-service (SaaS) offerings, and IBM Cloud supports 24 of the top 25 Fortune 500 companies, driving \$7 billion of revenue for cloud-based solutions in 2014.

SoftLayer is the foundation for IBM's expansive infrastructure-as-a-service portfolio. It offers bare metal, private cloud and virtual server instances, which means it can cover many different workloads with unprecedented performance. SoftLayer offers a built-in private network which can handle huge capacity and gives users the ability to isolate public/private networks with controls for access and location of data.

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Bluemix is IBM's platform-as-a-service, built on the open standards foundation of Cloud Foundry and powered by SoftLayer's cloud infrastructure. SoftLayer offers cloud-based services, APIs and leading third-party services to developers in an integrated platform. Bluemix also allows them to mix and match different tools to build apps in the cloud for mobile, Web, big data and analytics to name just a few.

IBM Cloud marketplace brings together the company's vast portfolio of cloud capabilities, delivering a self-service, digital experience for developers, IT and business leaders. Visitors have access to a growing portfolio of cloud capabilities from IBM and qualified third-party vendors. Open integration including pre-built APIs and hybrid options enable enterprise integration and composable business models.

The IBM Cloud is the most powerful choice for enterprise-grade environments bringing unparalleled levels of security, performance and scalability. As a result, in 2014, IBM formed a strategic alliance with SAP to run its business applications on IBM's cloud.

### **Engagement: re-imagining work**

Social, mobile and unprecedented access to data are changing how individuals and institutions work together. A new class of customer has emerged: one who is empowered with knowledge, enriched by networks and expects value in return for sharing information. Enterprises must create a systematic approach to engage these newly empowered customers through more personalized interactions. IBM calls these new forms of interactions "engagement" and includes social collaboration and mobile both underpinned by high levels of security.

In 2014, the mobile, social and security portfolio generated double-digit growth with mobile revenue more than tripling versus 2013, security revenue up 19 percent and social business growing 3 percent. In addition, IBM has acquired 23 companies related to mobile, social and security.

On the mobile front, IBM and Apple formed an historic partnership to transform enterprise mobility as we know it today. Together, IBM and Apple are joining forces to bring the ease-of-use of personal apps to the enterprise environment. Together, the two companies are bringing the first wave of industry-specific apps to the market targeting the needs of individual workers and helping to solve long-standing industry challenges.

In addition, MobileFirst remains IBM's unified approach to help clients and partners deliver best-in-class mobile solutions, take advantage of more commercial opportunities and provide a superior customer experience.

On the social collaboration front, in 2014, IDC named IBM the worldwide market share leader in Enterprise Social Software for the fifth consecutive year.<sup>(1)</sup> In addition, IBM Verse, powered by IBM analytics and advanced search, is a new cloud-based messaging and social collaboration solution to manage the workday. It provides a seamless user experience across social networking, meetings, chat, documents, mail, and an array of intelligent, security-rich and engaging social apps on mobile devices or the Web.

Security is a boardroom-level issue. It is also a key enabler for the continued growth of data, cloud and engagement. Enterprises and their clients demand that these activities be secure as a requirement for participation.

The magnitude, sophistication and complexity of today's security threats are growing. With the proliferation of data on mobile devices, in social media and in the cloud, breaches are more visible and

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<sup>(1)</sup> IDC Worldwide Enterprise Social Networks 2014-2018 Forecast and 2013 Vendor Shares, July 23, 2014.

occur on a heightened scale. IBM Security solutions use sophisticated analytics to identify and thwart attacks in realtime protecting our clients' information, processes and people.

IBM Security brings to our clients high-end consulting, advanced fraud and threat protection, identity and access management, application and data security, mobile and cloud security, network and end-point protection with services for cloud.

## 2. Our Unique Strength

Data, cloud and engagement are powerful forces changing the landscape of technology and businesses. However, enterprise clients need more. Enterprises need to bring this new world of technology together with the existing systems that currently run their businesses if they are to capture their full value. This combination is what we refer to as Hybrid Cloud.

Without bringing these worlds together, these new technologies become "islands" within the enterprise. For example, a business that invests in a social media platform engages with and captures the sentiment of individual customers. These can be valuable interactions. However, much deeper insight into the needs and wants of an individual customer comes when combining the social media interactions with the historical purchase and engagement records of that customer as stored in existing systems. By combining these insights, the enterprise personalizes interactions in ways that are relevant and meaningful to that customer.

IBM is unique in bringing this Hybrid world to its clients with our unparalleled strength in both the existing and the new worlds of IT.

IBM supports its clients' mission critical processes, and remains the "go-to" platform for the enterprise. For example, more than 90 percent of the top 100 banks and the top 25 U.S. retailers run on IBM systems. In addition, nearly half of the Fortune 100 companies outsource IT operations to IBM. The company's leadership in enterprise computing provides the foundation for strategic partnerships as leading companies want to work with IBM, as evidenced by the Apple, SAP, Twitter and Tencent partnerships announced in 2014.

Combine this with the company's strength in the new worlds of data, cloud and engagement and IBM brings a unique and important capability to the market.

## 3. Our Migration to Higher Value

Technology by itself does not create value for a business. Technology enables a business to achieve its aspirations by facilitating richer interactions with clients and ecosystems, by unlocking deeper insight and by enabling faster actions.

IBM has continuously evolved its mission to deliver increasingly higher levels of business value to its clients. Starting primarily as a hardware company, IBM has added a rich portfolio of software and services to add higher value.

This next phase of IBM's transformation will realize the full breadth of the portfolio by bringing higher-value added solutions to our clients. Examples include:

Using predictive analytics to reduce customer attrition rates through the IBM Customer Data solution.

Detecting fraudulent claims before payments are made through the IBM Counter Fraud solution.

Preventing costly and unscheduled downtime of equipment through early detection of anomalies with the IBM Predictive Asset Optimization solution.

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The focus on integrated solutions will make IBM a stronger partner with its clients as the company takes another step in its continuous evolution to higher levels of value.

### Summary

One constant throughout IBM's over 100-year history has been the need to continually transform the company in an ever-changing industry. Our industry, our clients and IBM itself is in the midst of such a fundamental transformation.

This is a transformation of unparalleled growth and promise:

The promise of technology to bring extraordinary levels of insight to human endeavors through advances in analytics and cognitive computing.

The promise of the cloud as a catalyst for innovation, freeing enterprises to focus more on the uses of technology rather than just the technology itself.

The promise of enterprises engaging with their customers, their employees and their business partners through richer, more personalized means.

All underscored by security to help protect the integrity of every interaction.

We are excited about the prospects for growth and value for our clients and for IBM and we look forward to helping our clients transform their businesses for the future.

### Business Model

The company's business model is built to support two principal goals: helping enterprise clients to become more innovative, efficient and competitive through the application of business insight and IT solutions; and providing long-term value to shareholders. The business model has been developed over time through strategic investments in capabilities and technologies that have superior long-term growth and profitability prospects based on the value they deliver to clients.

The company's global capabilities include services, software, systems, fundamental research and related financing. The broad mix of businesses and capabilities are combined to provide integrated solutions to the company's clients.

The business model is dynamic, adapting to the continuously changing market and economic environment. The company continues to divest certain businesses and strengthen its position through strategic organic investments and acquisitions in higher-value areas. In addition, the company has transformed itself into a globally integrated enterprise which has improved overall productivity and is driving investment and expanding participation in markets with significant long-term opportunity.

This business model, supported by the company's financial model, has enabled the company to deliver strong earnings, cash flows and returns to shareholders over the long term.

### Business Segments and Capabilities

The company's major operations consists of five business segments: Global Technology Services and Global Business Services, which the company collectively calls Global Services, Software, Systems and Technology and Global Financing.

*Global Services*: is a critical component of the company's strategy of providing IT infrastructure and business insight and solutions to clients. While solutions often include industry-leading IBM software and systems, other suppliers' products are also used if a client solution requires it. Approximately 60 percent of external Global Services segment revenue is annuity based, coming primarily from outsourcing and maintenance arrangements. The Global Services backlog provides a

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solid revenue base entering each year. Within Global Services, there are two reportable segments: Global Technology Services and Global Business Services.

**Global Technology Services (GTS)** primarily provides IT infrastructure and business process services, creating business value for clients through unique technology and IP integrated services within its global delivery model. By leveraging insights and experience drawn from IBM's global scale, skills and technology, with applied innovation from IBM Research, clients gain access to leading-edge, high-quality services with improved productivity, flexibility, cost and outcomes.

### GTS Capabilities

*Strategic Outsourcing:* delivers comprehensive IT outsourcing services dedicated to transforming clients' existing infrastructures to consistently deliver improved quality, flexibility, risk management and financial value. The company integrates long-standing expertise in service management and technology with the ability to exploit the power of new technologies from IBM systems and software, such as cloud computing, analytics and virtualization, to deliver high performance, innovation and improved ability to achieve business objectives.

*Global Process Services:* included within Strategic Outsourcing, delivers a range of offerings consisting of standardized through transformational solutions including processing platforms and business process outsourcing. These services deliver improved business results to clients through the strategic change and/or operation of the client's business processes, applications and infrastructure. Global Process Services will be integrated within Global Business Services beginning in 2015.

*Integrated Technology Services:* delivers a portfolio of project-based and managed services that enable clients to transform and optimize their IT environments by driving efficiency, flexibility and productivity, while reducing costs. The standardized portfolio is built around key assets and patented software, and incorporates best practices and proven methodologies that ensure predictive quality of delivery, security and compliance.

*Cloud:* delivers a comprehensive set of cloud services ranging from assisting clients with building their own private clouds, to building customized dedicated managed clouds, to allowing clients to leverage standardized cloud infrastructure services from the SoftLayer and Cloud Managed Services offerings, to creating hybrid environments linking their private and public workloads together. This portfolio of cloud offerings spans across the GTS business lines.

*Technology Support Services (Maintenance Services):* delivers a complete line of support services from product maintenance through solution support to maintain and improve the availability of clients' IT infrastructures.

**Global Business Services (GBS)** has the mission to deliver predictable business outcomes to the company's clients across two primary business areas: Consulting and Systems Integration and Application Management Services. These professional services deliver business value and innovation to clients through solutions which leverage industry and business process expertise. The role of GBS is to drive initiatives that integrate IBM content and solutions and drive the progress of the company's strategic imperatives. As clients transform themselves in response to market trends like big data, social and mobile computing, GBS helps clients use these technologies to reinvent relationships with their customers and realize new standards of efficacy and efficiency in the internal processes, data and applications that they use to run their businesses.

### GBS Capabilities

*Consulting and Systems Integration:* delivering client value with solutions in Strategy and Transformation, Application Innovation Services, Enterprise Applications and Smarter Analytics.



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Consulting is also focused on bringing to market client solutions that drive Smarter Commerce, Cloud, Mobile and Social Business.

*Application Management Services:* delivers application management, maintenance and support services for packaged software, as well as custom and legacy applications. Value is delivered through advanced capabilities in areas such as application testing and modernization, cloud application services, the company's highly differentiated globally integrated capability model, industry knowledge and the standardization and automation of application management.

**Software** consists primarily of middleware and operating systems software. Middleware software enables clients to integrate systems, processes and applications across a standard software platform to improve their business results, solve critical problems and gain competitive advantage within their industries. IBM middleware is designed on open standards, making it easier to integrate disparate business applications, developed by different methods and implemented at different times. Operating systems are the software engines that run computers. Approximately 70 percent of external Software segment revenue is annuity based, coming from recurring license charges, software sold "as a service" and ongoing post-contract support. The remaining revenue relates to one-time charge (OTC) arrangements in which clients pay one, up-front payment for a perpetual license. Typically, the sale of OTC software includes one year of post-contract support. Clients can also purchase ongoing post-contract support after the first year, which includes unspecified product upgrades and technical support.

### Software Capabilities

*WebSphere:* delivers capabilities that enable organizations to run high-performance business applications. With these applications, clients can integrate and manage business processes across their organizations with the flexibility and agility they need to respond to changing conditions. Built on services-oriented architecture (SOA), and open standards support for cloud, mobile and social interactions, the WebSphere platform enables enterprises to extend their reach and optimize interactions with their key constituents. Smarter Commerce software helps companies better manage and improve each step of their value chain and capitalize on opportunities for profitable growth, efficiency and increased customer loyalty.

*Information Management:* enables clients to integrate, manage and analyze enormous amounts of data from a large variety of sources in order to gain competitive advantage and improve their business outcomes. With this approach, clients can extract real value out of their data and use it to make better business decisions. IBM's middleware and integrated solutions include advanced database management, information integration, data governance, enterprise content management, data warehousing, business analytics and intelligence, predictive analytics and big data analytics.

*Watson Solutions:* the first commercially available cognitive computing platform that has the ability to interact in natural language, processing vast amounts of big data, and learning from its interactions with people and computers. As an advisor, Watson is able to sift through and understand large amounts of data delivering insights with unprecedented speeds and accuracy.

*Tivoli:* helps clients optimize the value they get from their infrastructures and technology assets through greater visibility, control and automation across their end-to-end business operations. These asset management solutions foster integrated service delivery for cloud and datacenter management, enterprise endpoint and mobile device management, asset and facilities management, and storage management. Tivoli includes security systems software that provides clients with a single security intelligence platform that enables them to better secure all aspects of their enterprise and prevent security breaches.

*Workforce Solutions:* enables businesses to connect people and processes for more effective communication and increased productivity through collaboration, messaging and social networking

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software. By remaining at the forefront of collaboration tools, IBM's social business offerings help organizations reap real benefits associated with social networking, as well as create a more efficient and effective workforce.

*Rational:* supports software development for both IT and complex embedded system solutions, with a portfolio of products and solutions supporting DevOps and Smarter Product Development, transforming the way lines of business, development and operations work together to deliver innovation via software.

*Mobile:* spans middleware and offers customers true end-to-end mobile solutions across platform and application development, mobile security, and mobile device management. Leveraging powerful analytics and usage data, customers are provided with the ability to have more compelling interactions with their clients and workforce, increasing touchpoints and deepening relationships. The mobile offerings provide the ability to increase workforce productivity through enhanced collaboration, improved knowledge sharing and increased response speed.

In January 2015, the company made several changes designed to more effectively align its key capabilities and resources to its strategic imperatives. These changes will enable the company to respond more quickly to critical client agendas and drive higher value. Across Software, the company is transitioning its portfolio to capture growth and continue to drive innovation. The focus will be centered around analytics, security, and commerce similar to the action the company implemented in 2014 with Watson utilizing its software assets to improve speed and agility in bringing integrated solutions to its clients.

**Systems and Technology (STG)** provides clients with innovative infrastructure technologies to help meet the new requirements of data, cloud and engagement from deploying advanced analytics, to moving to digital service delivery with the cloud, and securing mobile transaction processing. Approximately half of Systems and Technology's server and storage sales transactions are through the company's business partners; with the balance direct to end-user clients. In addition, Systems and Technology provides leading semiconductor technology, products and packaging solutions for IBM's own advanced technology needs.

### Systems and Technology Capabilities

*Servers:* a range of high-performance systems designed to address capacity, security, speed and compute power needs for businesses, organizations and technical computing applications. After the divestiture of the System x industry standard server business, the portfolio includes System z, a trusted enterprise platform for integrating data, transactions and insight, and Power Systems, a system designed from the ground up for big data, optimized for scale-out cloud and Linux, and delivering open innovation with OpenPOWER. The company is also a founding member of the OpenPOWER foundation, a group of industry-leading companies working together to develop high-performance compute solutions based on the IBM POWER architecture.

*Storage:* data storage products and solutions that allow clients to retain and manage rapidly growing, complex volumes of digital information. These solutions address critical client requirements for information retention and archiving, security, compliance and storage optimization including data deduplication, availability and virtualization. The portfolio consists of a broad range of software defined storage solutions, disk and tape storage systems and Flash storage and solutions.

*Technology:* the company's continued leadership in systems requires ongoing investments in semiconductor and material science research and development that drives innovation that matters for our clients. In 2014, the company announced a definitive agreement to divest its Microelectronics business, and manufacturing operations. This transaction is expected to close in 2015.

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**Global Financing** facilitates IBM clients' acquisition of information technology systems, software and services by providing financing solutions in the areas where the company has the expertise. The financing arrangements are predominantly for products or services that are critical to the end users' business operations. These financing contracts are entered into after a comprehensive credit evaluation and are secured by legal contracts. As a captive financier, Global Financing has the benefit of both deep knowledge of its client base and a clear insight into the products and services financed. These factors allow the business to effectively manage two of the major risks, credit and residual value, associated with financing while generating strong returns on equity. Global Financing also maintains a long term partnership with the companies' clients through various stages of IT asset life cycle from initial purchase and technology upgrades to asset disposition decisions.

### Global Financing Capabilities

*Client Financing:* lease and loan financing to end users and internal clients for terms up to seven years. Assets financed are primarily IT products and services where the company has expertise. Internal financing is predominantly in support of Global Services' long-term client service contracts. Global Financing also factors a selected portion of the company's accounts receivable, primarily for cash management purposes. All internal financing arrangements are at arm's-length rates and are based upon market conditions.

*Commercial Financing:* short-term inventory and accounts receivable financing to dealers and remarketers of IBM and OEM products.

*Remanufacturing and Remarketing:* used equipment is returned from lease transactions, or may be surplus equipment internally or externally purchased. These assets may be refurbished or upgraded and sold or leased to new or existing clients both externally or internally. Externally remarketed equipment revenue represents sales or leases to clients and resellers. Internally remarketed equipment revenue primarily represents used equipment that is sold internally to Systems and Technology and Global Services. Systems and Technology may also sell the equipment that it purchases from Global Financing to external clients.

## IBM WORLDWIDE ORGANIZATIONS

The following worldwide organizations play key roles in IBM's delivery of value to its clients:

Sales and Distribution

Research, Development and Intellectual Property

Integrated Supply Chain

### *Sales and Distribution*

IBM has a significant global presence, operating in more than 175 countries, with an increasingly broad-based geographic distribution of revenue. The company's Sales and Distribution organization manages the IBM global footprint, with dedicated country-based operating units focused on delivering unique value and superior experiences for clients. Within these units, client relationship professionals work with integrated teams of consultants, product specialists and delivery fulfillment teams to enable clients' business growth and innovation. These teams deliver value by understanding the clients' businesses and needs, and then bring together capabilities from across IBM and an extensive network of Business Partners to develop and implement solutions.

By combining global expertise with local experience, IBM's geographic structure enables dedicated management focus for local clients, speed in addressing new market opportunities and timely investments in emerging opportunities. The geographic units align industry-skilled resources to serve clients' agendas. IBM extends capabilities to mid-market client segments by leveraging industry skills with marketing, Inside Sales and local Business Partner resources.

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The company continues to invest to capture the long-term opportunity in key growth markets around the world China, India and countries within Southeast Asia, Eastern Europe, the Middle East, Africa and Latin America. The company's major markets include the G7 countries of Canada, France, Germany, Italy, Japan, the United States (U.S.) and the United Kingdom (UK) plus Austria, the Bahamas, Belgium, the Caribbean region, Cyprus, Denmark, Finland, Greece, Iceland, Ireland, Israel, Malta, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

### *Research, Development and Intellectual Property*

IBM's research and development (R&D) operations differentiate the company from its competitors. IBM annually invests approximately 6 percent of total revenue for R&D, focusing on high-growth, high-value opportunities. IBM Research works with clients and the company's business units through global labs on near-term and mid-term innovations. It contributes many new technologies to IBM's portfolio every year and helps clients address their most difficult challenges. IBM Research also explores the boundaries of science and technology from nanotechnology to future systems, big data analytics, secure clouds and to IBM Watson, a "cognitive" learning system.

IBM Research also focuses on differentiating IBM's services businesses, providing new capabilities and solutions. It has the world's largest mathematics department of any public company, enabling IBM to create unique analytic solutions and actively engage with clients on their toughest challenges.

In February 2015, the company announced a new IBM Research lab to be located in South Africa. This will be IBM Research's 13th global lab.

In 2014, IBM was awarded more U.S. patents than any other company for the 22nd consecutive year. IBM's 7,534 patents awarded in 2014 represent a diverse range of inventions poised to enable significant innovations that will position the company to compete and lead in the emerging opportunities represented by cloud, big data and analytics, security, social and mobile. These inventions also will advance the new era of cognitive systems where machines will learn, reason and interact with people in more natural ways. It was the most U.S. patents ever awarded to one company in a single year.

The company continues to actively seek intellectual property (IP) protection for its innovations, while increasing emphasis on other initiatives designed to leverage its IP leadership. Some of IBM's technological breakthroughs are used exclusively in IBM products, while others are licensed and may be used in IBM products and/or the products of the licensee. While the company's various proprietary IP rights are important to its success, IBM believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents or licenses. IBM owns or is licensed under a number of patents, which vary in duration, relating to its products.

### *Integrated Supply Chain*

IBM has an extensive integrated supply chain, procuring materials and services globally. In 2014, the company also managed approximately \$21.8 billion in procurement spending for its clients through the Global Process Services organization. The supply, manufacturing and logistics operations are integrated in one operating unit that has optimized inventories over time. Simplifying and streamlining internal processes has improved sales force productivity and operational effectiveness and efficiency. Supply chain resiliency enables IBM to reduce its risk during marketplace changes.

The company continues to derive business value from its own globally integrated supply chain providing a strategic advantage for the company to create value for clients. IBM leverages its supply chain expertise for clients through its supply chain business transformation outsourcing service to optimize and help operate clients' end-to-end supply chain processes, from procurement to logistics.

Utilizing analytics, mobile, cloud and social with numerous projects, has allowed the integrated supply chain to drive positive business outcomes for the company and its clients.

## COMPETITION

The company is a globally-integrated enterprise, operating in more than 175 countries. The company participates in a highly competitive environment, where its competitors vary by industry segment, and range from large multinational enterprises to smaller, more narrowly focused entities. Overall, across its business segments, the company recognizes hundreds of competitors worldwide.

Across its business, the company's principal methods of competition are: technology innovation; performance; price; quality; brand; its broad range of capabilities, products and services; client relationships; the ability to deliver business value to clients; and, service and support. In order to maintain leadership, a corporation must continue to invest, innovate and integrate. The company has been executing a strategy to transform its business, including shifting to higher value market segments and offerings and increasing its capabilities through organic investments and strategic acquisitions. As the company executes its strategy, it enters new markets, such as cloud, business analytics and "as-a-service" solutions, which exposes the company to new competitors. Overall, the company is the leader or among the leaders in each of its business segments.

A summary of the competitive environment for each business segment is included below:

### *Global Services:*

The services segments, GTS and GBS, operate in a highly competitive and continually evolving global market. GTS competes in strategic outsourcing, business process outsourcing, cloud services, and a wide range of technical and IT support services. GBS competes in consulting, system integration and application management services. The principal competitive factors in these business segments include: technical skills and capabilities, innovative service and product offerings, industry knowledge and experience, value and speed, price, client relationships, quality of sales and delivery, reliability, security and the availability of resources. The company's competitive advantages in the services business include its global reach and scale, global delivery model, best-of-breed process and industry skills, extensive technology expertise, services assets, an ability to deliver integrated solutions that can address clients' needs in any environment and a strong set of relationships with clients and strategic business partners worldwide. The company competes with broad based competitors including: Accenture, Amazon.com, Inc. (Amazon), Computer Sciences Corporation, Fujitsu, Google Inc., Hewlett-Packard Company (HP) and Microsoft Corporation (Microsoft); India-based service providers; the consulting practices of public accounting firms; and many companies that primarily focus on local markets or niche service areas.

### *Software:*

The enterprise management software market is highly competitive, and increasingly technology companies are looking to implement software solutions that will improve business outcomes for their clients. The key competitive factors in this segment include: functionality, ease-of-use, scalability, open standards, total cost-of-ownership and business value. IBM's leadership in each of these areas, and the ability to deliver solutions that drive business results, provides it with competitive advantages. The company's software business includes middleware and solutions software offerings, delivered both on-premise and "as-a-service", and operating systems. The middleware portfolio is the broadest in the industry and covers both mainframe and distributed computing environments. The middleware portfolio also underpins IBM's solutions business and enhances the business value the company brings to clients. The solutions portfolio provides comprehensive business and industry-specific offerings to new types of IT decision makers, such as chief marketing and procurement officers, chief information security

officers and chief financial officers. The depth and breadth of the software offerings, coupled with the company's global sales and technical support infrastructure, differentiate the software business from its competitors. The company's research and development capabilities and intellectual property patent portfolio also contribute to this segment's leadership. The company's principal competitors in this segment include CA, Inc., Microsoft, Oracle Corporation (Oracle), Salesforce.com and SAP. The company also competes with smaller, niche competitors in specific geographic or product markets worldwide.

***Systems and Technology:***

The enterprise server and storage market is characterized by technology and service innovation, with competition focused on value, function, reliability, price and cost performance. New entrants are leveraging innovation in technology and delivery of services to compete against traditional providers and offerings. The company's principal competitors include Cisco Systems, Inc. (Cisco), Dell, Inc., EMC Corporation, HP and Oracle. Additionally, infrastructure-as-a-service providers such as Amazon Web Services who offer IT as a service and original device manufacturers who offer re-branded, lower cost system hardware alternatives compete with the company in this area.

The company's investments in virtualization technologies, software optimization capabilities, power management, security, multi-operating system capabilities and the ability of its systems platforms to leverage the entire system, from the company's custom semiconductors through the software stack to increase efficiency, lower cost and improve performance, provide the company with competitive advantages in this segment. In addition, the company's research and development capabilities and intellectual property patent portfolio contribute significantly to this segment's leadership.

***Global Financing:***

Global Financing provides client financing, commercial financing and participates in the remarketing of used equipment. Global Financing's access to capital and its ability to manage increased exposures provide a competitive advantage for the company. The key competitive factors include price, IT product expertise, client service, contract flexibility, ease of doing business, global capabilities and residual values. In client and commercial financing, Global Financing competes with three types of companies in providing financial services to IT customers: other captive financing entities of companies such as Cisco and HP and non-captive financing entities of companies such as General Electric Company and banks or financial institutions. In remarketing, the company competes with local and regional brokers plus original manufacturers in the fragmented worldwide used IT equipment market.

**Forward-looking and Cautionary Statements**

Certain statements contained in this Form 10-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees. The company may also make forward-looking statements in other reports filed with the Securities and Exchange Commission, in materials delivered to stockholders and in press releases. In addition, the company's representatives may from time to time make oral forward-looking statements. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as "anticipates," "believes," "expects," "estimates," "intends," "plans," "projects," and similar expressions, may identify such forward-looking statements. Any forward-looking statement in this Form 10-K speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements. In accordance with the Reform Act, set forth under Item 1A. "Risk Factors" on pages 14 to 19 are cautionary statements that accompany those forward-looking statements.

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Readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. Those cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Form 10-K, in the company's filings with the Securities and Exchange Commission or in materials incorporated therein by reference.

The following information is included in IBM's 2014 Annual Report to Stockholders and is incorporated herein by reference:

Segment information and revenue by classes of similar products or services pages 145 to 150.

Financial information by geographic areas page 149.

Amount spent during each of the last three years on R&D activities page 127.

Financial information regarding environmental activities page 118.

The number of persons employed by the registrant page 73.

The management discussion overview pages 22 to 25.

Available information page 155.

Also refer to Item 1A. entitled "Risk Factors" in Part I of this Form.

### Executive Officers of the Registrant (at February 24, 2015):

|  | Age | Officer since |
|--|-----|---------------|
| Virginia M. Rometty, Chairman of the Board, President and Chief Executive Officer*           | 57  | 2005          |
| Colleen F. Arnold, Senior Vice President, IBM Sales and Distribution                         | 57  | 2010          |
| Michelle H. Browdy, Senior Vice President, Legal and Regulatory Affairs, and General Counsel | 50  | 2015          |
| Erich Clementi, Senior Vice President, IBM Sales and Distribution                            | 56  | 2010          |
| Bruno V. Di Leo Allen, Senior Vice President, IBM Sales and Distribution                     | 57  | 2012          |
| Diane J. Gherson, Senior Vice President, Human Resources                                     | 57  | 2013          |
| Jon C. Iwata, Senior Vice President, Marketing and Communications                            | 52  | 2002          |
| Martin Jetter, Senior Vice President, IBM Global Technology Services                         | 55  | 2014          |
| James J. Kavanaugh, Senior Vice President, Transformation and Operations                     | 48  | 2008          |
| John E. Kelly III, Senior Vice President, Solutions Portfolio and Research                   | 61  | 2000          |
| Kenneth M. Keverian, Senior Vice President, Corporate Strategy                               | 58  | 2014          |
| Arvind Krishna, Senior Vice President and Director, IBM Research                             | 52  | 2015          |
| Robert J. LeBlanc, Senior Vice President, IBM Cloud  | 56  | 2010          |
| Steven A. Mills, Executive Vice President, Software and Systems                              | 63  | 2000          |
| Robert J. Picciano, Senior Vice President, IBM Analytics                                     | 50  | 2014          |
| Michael D. Rhodin, Senior Vice President, IBM Watson   | 54  | 2010          |
| Thomas W. Rosamilia, Senior Vice President, IBM Systems                                      | 54  | 2013          |
| Martin J. Schroeter, Senior Vice President and Chief Financial Officer                       | 50  | 2014          |
| Stanley J. Sutula III, Vice President and Controller   | 49  | 2015          |
| Bridget A. van Kralingen, Senior Vice President, IBM Global Business Services                | 51  | 2012          |

\*

Member of the Board of Directors.

All executive officers are elected by the Board of Directors and serve until the next election of officers in conjunction with the annual meeting of the stockholders as provided in the By-laws. Each

executive officer named above, with the exception of Kenneth M. Keverian, has been an executive of IBM or its subsidiaries during the past five years.

Mr. Keverian was a Senior Partner at the Boston Consulting Group, a global management consulting firm, until joining IBM in 2014. He was with Boston Consulting Group for 26 years and he focused on serving technology companies in the computing and communications sectors.

**Item 1A. Risk Factors:**

*Downturn in Economic Environment and Client Spending Budgets could impact the Company's Business:* If overall demand for IBM's products and solutions decreases, whether due to general economic conditions or a shift in client buying patterns, the company's revenue and profit could be impacted.

*The Company may not meet its Growth and Productivity Objectives under its Internal Business Transformation and Global Integration Initiatives:* On an ongoing basis, IBM seeks to drive greater agility, productivity, flexibility and cost savings by transforming and globally integrating its own business processes and functions to remain competitive and to enable scaling of resources and offerings in both emerging and more established markets. These various initiatives may not yield their intended gains in speed, quality, productivity and enablement of rapid scaling, which may impact the company's competitiveness and its ability to meet its growth and productivity objectives.

*Failure of Innovation Initiatives could impact the Long-Term Success of the Company:* IBM has been moving away from certain segments of the IT industry and into areas in which it can differentiate itself through innovation and by leveraging its investments in R&D. If IBM is unable to continue its cutting-edge innovation in a highly competitive environment or is unable to commercialize such innovations, expand and scale them with sufficient speed, the company could fail in its ongoing efforts to maintain and increase its market share and its profit margins. In addition, IBM has one of the strongest brand names in the world, and its brand and overall reputation could be negatively impacted by many factors, including if the company does not continue to be recognized for its industry-leading technology and solutions. If the company's brand image is tarnished by negative perceptions, its ability to attract and retain customers could be impacted.

*Risks from Investing in Growth Opportunities could impact the Company's Business:* The company continues to invest significantly in its strategic imperatives to drive revenue growth and market share gains. Client adoption rates and viable economic models are less certain in the high-value, highly competitive, and rapidly-growing segments, and new delivery models may unfavorably impact demand and profitability for our other products or services. In addition, as the company expands to capture emerging growth opportunities, it needs to rapidly secure the appropriate mix of trained, skilled and experienced personnel, and develop ecosystems and collaborative partnerships. In emerging growth countries, the developing nature presents potential political, social, legal and economic risks from evolving governmental policy, inadequate infrastructure, creditworthiness of customers and business partners, labor disruption and corruption, which could impact the company's ability to meet its growth objectives and to deliver to its clients around the world.

*IBM's Intellectual Property Portfolio may not prevent Competitive Offerings, and IBM may not be able to Obtain Necessary Licenses:* The company's patents and other intellectual property may not prevent competitors from independently developing products and services similar to or duplicative to the company's, nor can there be any assurance that the resources invested by the company to protect its intellectual property will be sufficient or that the company's intellectual property portfolio will adequately deter misappropriation or improper use of the company's technology. In addition, the company may be the target of aggressive and opportunistic enforcement of patents by third parties, including non-practicing entities. Also, there can be no assurances that IBM will be able to obtain from third parties the licenses it needs in the future. The company's ability to protect its intellectual property



could also be impacted by changes to existing laws, legal principles and regulations governing intellectual property, including the ownership and protection of patents.

*Cybersecurity and Privacy Considerations could impact the Company's Business:* The company's products, services, and systems may affect critical third party operations or involve the storage, processing and transmission of proprietary information and sensitive or confidential data, including valuable intellectual property and personal information of employees, customers and others. In the current environment there are numerous and evolving risks to cybersecurity and privacy, including criminal hackers, hacktivists, state-sponsored intrusions, industrial espionage, employee malfeasance, and human or technological error. Computer hackers and others routinely attempt to breach the security of technology products, services, and systems, and those of customers, third-parties contractors and vendors. Successful breaches could result in, for example, unauthorized access to, disclosure, modification, misuse, loss, or destruction of company, customer, or other third party data or systems, theft of sensitive or confidential data including personal information and intellectual property, system disruptions, and denial of service. In the event of such breaches, the company, its customers or other third parties could be exposed to potential liability, litigation, and regulatory action, as well as the loss of existing or potential customers, damage to brand and reputation, and other financial loss. In addition, the cost and operational consequences of responding to breaches and implementing remediation measures could be significant. The company experiences and responds to cybersecurity threats, although none has had a material adverse effect on the company to date. As these threats develop and grow, the company may also find it necessary to make significant further investments to protect data and infrastructure. As a global enterprise, the company could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy, data localization and data protection. Additionally, cyber attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to company, customer, or other third party operations or services, financial loss, potential liability, and damage to brand and reputation.

*The Company's Financial Results for Particular Periods are Difficult to Predict:* IBM's revenues are affected by such factors as the introduction of new products and services, the length of the sales cycles and the seasonality of technology purchases. Moreover, the company's strategic imperatives involve new products, new customers, and new markets, all of which contribute to the difficulty of predicting the company's financial results. The company's financial results may also be impacted by the structure of products and services contracts and the nature of its customers' businesses; for example, certain of the company's services contracts with commercial customers in regulated industries are subject to periodic review by regulators with respect to controls and processes. As a result of the above-mentioned factors, the company's financial results are difficult to predict. Historically, the company has had lower revenue in the first quarter than in the immediately preceding fourth quarter. In addition, the high volume of products typically ordered at the end of each quarter, especially at the end of the fourth quarter, may affect IBM's ability to successfully ship all orders before the end of the quarter.

*Due to the Company's Global Presence, its Business and Operations could be impacted by Local Legal, Economic, Political and Health Conditions:* The company is a globally integrated entity, operating in over 175 countries worldwide and deriving more than sixty percent of its revenues from sales outside the United States. Changes in the laws or policies of the countries in which the company operates, or inadequate enforcement of laws or policies, could affect the company's business and the company's overall results of operations. The company's results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions, inflation and currency fluctuations between the U.S. dollar and non-U.S. currencies. Further, as the company expands its customer base and the scope of its offerings, both within the U.S. and globally, it may be impacted by additional regulatory or other risks. In addition, any widespread outbreak of an illness,

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pandemic or other local or global health issue or uncertain political climates, international hostilities, natural disasters, or any terrorist activities, could adversely affect customer demand and the company's operations and its ability to source and deliver products and services to its customers.

*The Company could incur Substantial Costs for Environmental Matters:* The company is subject to various federal, state, local and foreign laws and regulations concerning the discharge of materials into the environment or otherwise related to environmental protection, including the U.S. Superfund law. The company could incur substantial costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if it were to violate or become liable under environmental laws and regulations. Compliance with environmental laws and regulations is not expected to have a material adverse effect on the company's financial position, results of operations and competitive position.

*Tax Matters could impact the Company's Results of Operations and Financial Condition:* The company is subject to income taxes in both the United States and numerous foreign jurisdictions. IBM's provision for income taxes and cash tax liability in the future could be adversely affected by numerous factors including, but not limited to, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws, regulations, accounting principles or interpretations thereof, which could adversely impact the company's results of operations and financial condition in future periods. In addition, IBM is subject to the continuous examination of its income tax returns by the United States Internal Revenue Service and other tax authorities around the world. The company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on the company's provision for income taxes and cash tax liability.

*The Company's Results of Operations and Financial Condition could be negatively impacted by its U.S. and non-U.S. Pension Plans:* Adverse equity market conditions and volatility in the credit markets may have an unfavorable impact on the value of the company's pension trust assets and its future estimated pension liabilities. As a result, the company's financial results in any period could be negatively impacted. In addition, in a period of an extended financial market downturn, the company could be required to provide incremental pension plan funding with resulting liquidity risk which could negatively impact the company's financial flexibility. Further, the company's results of operations and financial results could be negatively impacted by premiums for mandatory pension insolvency insurance coverage outside the United States. Premium increases can be significant due to the level of insolvencies of unrelated companies in the country at issue. Currently, Canada, Germany, Luxembourg and the United Kingdom require that these premiums be paid directly by the company and not out of plan assets, which could negatively impact the company's earnings. IBM's 2014 Annual Report to Stockholders includes information about potential impacts from pension funding and the use of certain assumptions regarding pension matters.

*Ineffective Internal Controls could impact the Company's Business and Operating Results:* The company's internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If the company fails to maintain the adequacy of its internal controls, including any failure to implement required new or improved controls, or if the company experiences difficulties in their implementation, the company's business and operating results could be harmed and the company could fail to meet its financial reporting obligations.

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*The Company's Use of Accounting Estimates involves Judgment and could impact the Company's Financial Results:* The application of generally accepted accounting principles requires the company to make estimates and assumptions about certain items and future events that directly affect its reported financial condition. The company's most critical accounting estimates are described in the Management Discussion in IBM's 2014 Annual Report to Stockholders, under "Critical Accounting Estimates." In addition, as discussed in note M, "Contingencies and Commitments," in IBM's 2014 Annual Report to Stockholders, the company makes certain estimates including decisions related to legal proceedings and reserves. These estimates and assumptions involve the use of judgment. As a result, actual financial results may differ.

*The Company Depends on Skilled Personnel and could be impacted by the loss of Critical Skills:* Much of the future success of the company depends on the continued service, availability and integrity of skilled personnel, including technical, marketing and staff resources. Skilled and experienced personnel in the areas where the company competes are in high demand, and competition for their talents is intense. Changing demographics and labor work force trends may result in a loss of knowledge and skills as experienced workers leave the company. In addition, as global opportunities and industry demand shifts, realignment, training and scaling of skilled resources may not be sufficiently rapid. Further, many of IBM's key personnel receive a total compensation package that includes equity awards. New regulations, volatility in the stock market and other factors could diminish the company's use, and the value, of the company's equity awards, putting the company at a competitive disadvantage or forcing the company to use more cash compensation.

*The Company's Business could be impacted by its Relationships with Critical Suppliers:* IBM's business employs a wide variety of components, supplies, services and raw materials from a substantial number of suppliers around the world. Certain of the company's businesses rely on a single or a limited number of suppliers, and after GLOBALFOUNDRIES completes the acquisition of IBM's global commercial semiconductor business, it will become IBM's exclusive server processor technology provider for certain semiconductors. Changes in the business condition (financial or otherwise) of these suppliers could subject the company to losses and affect its ability to bring products to market. Further, the failure of the company's suppliers to deliver components, supplies, services and raw materials in sufficient quantities, in a timely manner, and in compliance with all applicable laws and regulations could adversely affect the company's business. In addition, any defective components, supplies or materials, or inadequate services received from suppliers could reduce the reliability of the company's products and services and harm the company's reputation.

*The Company could be impacted by its Business with Government Clients:* The company's customers include numerous governmental entities within and outside the U.S., including the U.S. Federal Government and state and local entities. Some of the company's agreements with these customers may be subject to periodic funding approval. Funding reductions or delays could adversely impact public sector demand for our products and services. Also, some agreements may contain provisions allowing the customer to terminate without cause and providing for higher liability limits for certain losses. In addition, the company could be suspended or debarred as a governmental contractor and could incur civil and criminal fines and penalties, which could negatively impact the company's results of operations and financial results.

*The Company is exposed to Currency and Customer Financing Risks that could impact its Revenue and Business:* The company derives a significant percentage of its revenues and costs from its affiliates operating in local currency environments, and those results are affected by changes in the relative values of non-U.S. currencies and the U.S. dollar. Further, inherent in the company's customer financing business are risks related to the concentration of credit, client creditworthiness, interest rate and currency fluctuations on the associated debt and liabilities, the determination of residual values and the financing of other than traditional IT assets. The company employs a number of strategies to manage these risks, including the use of derivative financial instruments, which involve the risk of

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non-performance by the counterparty. In addition, there can be no assurance that the company's efforts to manage its currency and customer financing risks will be successful.

*The Company's Financial Performance could be impacted by Changes in Market Liquidity Conditions and by Customer Credit Risk on Receivables:* The company's financial performance is exposed to a wide variety of industry sector dynamics worldwide. The company's earnings and cash flows, as well as its access to funding, could be negatively impacted by changes in market liquidity conditions. IBM's 2014 Annual Report to Stockholders includes information about the company's liquidity position. The company's client base includes many worldwide enterprises, from small and medium businesses to the world's largest organizations and governments, with a significant portion of the company's revenue coming from global clients across many sectors. Most of the company's sales are on an open credit basis, and the company performs ongoing credit evaluations of its clients' financial conditions. If the company becomes aware of information related to the creditworthiness of a major customer, or, if future actual default rates on receivables in general differ from those currently anticipated, the company may have to adjust its allowance for credit losses, which could affect the company's consolidated net income in the period the adjustments are made.

*The Company's Reliance on Third Party Distribution Channels could impact its Business:* The company offers its products directly and through a variety of third party distributors and resellers. Changes in the business condition (financial or otherwise) of these distributors and resellers could subject the company to losses and affect its ability to bring its products to market. As the company moves into new areas, distributors and resellers may be unable to keep up with changes in technology and offerings, and the company may be unable to recruit and enable appropriate partners to achieve growth objectives. In addition, the failure of third party distributors and resellers to comply with all applicable laws and regulations may prevent the company from working with them and could subject the company to losses and affect its ability to bring products to market.

*Risks to the Company from Acquisitions, Alliances and Dispositions include Integration Challenges, Failure to Achieve Objectives, and the Assumption of Liabilities:* The company has made and expects to continue to make acquisitions, alliances and dispositions. Acquisitions and alliances present significant challenges and risks relating to the integration of the business into the company, and there can be no assurances that the company will manage acquisitions and alliances successfully or that strategic acquisition opportunities will be available to the company on acceptable terms or at all. The related risks include the company failing to achieve strategic objectives and anticipated revenue improvements and cost savings, as well as the failure to retain key personnel of the acquired business and the assumption of liabilities related to litigation or other legal proceedings involving the acquired business. From time to time, the company disposes or attempts to dispose of assets that are no longer central to its strategic objectives. Any such disposition or attempted disposition is subject to risks, including risks related to the terms and timing of such disposition, risks related to obtaining necessary governmental or regulatory approvals and risks related to retained liabilities not subject to the company's control.

*The Company is Subject to Legal Proceedings Risks:* As a company with a substantial employee population and with clients in more than 175 countries, IBM is involved, either as plaintiff or defendant, in a variety of ongoing claims, demands, suits, investigations, tax matters and proceedings that arise from time to time in the ordinary course of its business. The risks associated with such legal proceedings are described in more detail in note M, "Contingencies and Commitments," in IBM's 2014 Annual Report to Stockholders. The company believes it has adopted appropriate risk management and compliance programs. Legal and compliance risks, however, will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, may arise from time to time.

*Risk Factors Related to IBM Securities:* The company and its subsidiaries issue debt securities in the worldwide capital markets from time to time, with a variety of different maturities and in different

currencies. The value of the company's debt securities fluctuates based on many factors, including the methods employed for calculating principal and interest, the maturity of the securities, the aggregate principal amount of securities outstanding, the redemption features for the securities, the level, direction and volatility of interest rates, changes in exchange rates, exchange controls, governmental and stock exchange regulations and other factors over which the company has little or no control. The company's ability to pay interest and repay the principal for its debt securities is dependent upon its ability to manage its business operations, as well as the other risks described under this Item 1A, entitled "Risk Factors." There can be no assurance that the company will be able to manage any of these risks successfully.

The company also issues its common stock from time to time in connection with various compensation plans, contributions to its pension plan and certain acquisitions. The market price of IBM common stock is subject to significant volatility, due to other factors described under this Item 1A, entitled "Risk Factors," as well as economic and geopolitical conditions generally, trading volumes, speculation by the press or investment community about the company's financial condition, and other factors, many of which are beyond the company's control. Since the market price of IBM's common stock fluctuates significantly, stockholders may not be able to sell the company's stock at attractive prices.

In addition, changes by any rating agency to the company's outlook or credit ratings can negatively impact the value and liquidity of both the company's debt and equity securities. The company does not make a market in either its debt or equity securities and cannot provide any assurances with respect to the liquidity or value of such securities.

**Item 1B. Unresolved Staff Comments:**

Not applicable.

**Item 2. Properties:**

At December 31, 2014, IBM's manufacturing and development facilities in the United States had aggregate floor space of 17 million square feet, of which 12 million was owned and 5 million was leased. Of these amounts, 2 million square feet was vacant and 1 million square feet was being leased to non-IBM businesses. On October 20, 2014, IBM and GLOBALFOUNDRIES announced a definitive agreement in which GLOBALFOUNDRIES will acquire the company's Microelectronics business, including semiconductor manufacturing facilities in East Fishkill, New York and Essex Junction, Vermont. The transaction is expected to close in 2015. Similar facilities in 14 other countries totaled 7 million square feet, of which 3 million was owned and 4 million was leased.

Although improved production techniques, productivity gains and infrastructure reduction actions have resulted in reduced manufacturing floor space, continuous maintenance and upgrading of facilities is essential to maintain technological leadership, improve productivity and meet customer demand.

**Item 3. Legal Proceedings:**

Refer to note M, "Contingencies and Commitments," on pages 122 to 124 of IBM's 2014 Annual Report to Stockholders, which is incorporated herein by reference.

**Item 4. Mine Safety Disclosures:**

Not applicable.

**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:**

Refer to pages 151 and 155 of IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference solely as they relate to this item.

IBM common stock is listed on the New York Stock Exchange and the Chicago Stock Exchange. There were 458,306 common stockholders of record at February 10, 2015.

The following table provides information relating to the company's repurchase of common stock for the fourth quarter of 2014.

|                   | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased<br>as Part of Publicly<br>Announced<br>Program | Approximate<br>Dollar Value<br>of Shares that<br>May Yet Be<br>Purchased<br>Under<br>the Program(1) |
|-------------------|--|------------------------------------|---|---|
| October 1, 2014   |  |                                    |   |   |
| October 31, 2014  | 650,100                                | \$ 177.32                          | 650,100   | \$ 6,264,088,758  |
| November 1, 2014  |  |                                    |   |   |
| November 30, 2014 |  | \$                                 |   | \$ 6,264,088,758  |
| December 1, 2014  |  |                                    |   |   |
| December 31, 2014 |  | \$                                 |   | \$ 6,264,088,758  |
| Total             | 650,100                                | \$ 177.32                          | 650,100   |   |

(1)

On October 29, 2013, the Board of Directors authorized \$15.0 billion in funds for use in the company's common stock repurchase program. On October 28, 2014 the Board of Directors authorized an additional \$5.0 billion in funds for use in such program. In each case, the company stated that it would repurchase shares on the open market or in private transactions depending on market conditions. 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 6. Selected Financial Data:**

Refer to pages 151 and 152 of IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:**

Refer to pages 22 through 77 of IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk:**

Refer to the section titled "Market Risk" on page 72 of IBM's 2014 Annual Report to Stockholders, which is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data:**

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Refer to pages 80 through 150 of IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference. Also refer to the Financial Statement Schedule on page S-1 of this Form 10-K.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:**

Not applicable.

**Item 9A. 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.

Refer to "Report of Management" and "Report of Independent Registered Public Accounting Firm" on pages 78 and 79 of IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference. There has been no change in the company's internal control over financial reporting that occurred during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

**Item 9B. Other Information:**

Effective January 1, 2015, the company amended Article III, Section 2 of its By-laws to increase the number of directors to fourteen. Article II, Section 7 of IBM's By-laws was amended effective February 24, 2015 to clarify the deadline for stockholder submissions before the Annual Meeting of Stockholders. The full text of IBM's By-laws, as amended, is included as Exhibit 3 to this report.



**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance:**

Refer to the information under the captions "Election of Directors for a Term of One Year," "General Information Committees of the Board," "General Information Audit Committee" and "2014 Director Compensation Narrative Section 16(a) Beneficial Ownership Reporting Compliance" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, all of which information is incorporated herein by reference. Also refer to Item 1 of this Form 10-K under the caption "Executive Officers of the Registrant (at February 24, 2015)" on page 13 for additional information on the company's executive officers.

**Item 11. Executive Compensation:**

Refer to the information under the captions "2014 Director Compensation Narrative," "2014 Director Compensation Narrative 2014 Director Compensation Table," "2014 Compensation Discussion and Analysis," "2014 Summary Compensation Table Narrative," "2014 Summary Compensation Table," "2014 Grants of Plan-Based Awards Table," "2014 Outstanding Equity Awards at Fiscal Year-End Narrative," "2014 Outstanding Equity Awards at Fiscal Year-End Table," "2014 Option Exercises and Stock Vested Table," "2014 Retention Plan Narrative," "2014 Retention Plan Table," "2014 Pension Benefits Narrative," "2014 Pension Benefits Table," "2014 Nonqualified Deferred Compensation Narrative," "2014 Nonqualified Deferred Compensation Table," "2014 Potential Payments Upon Termination Narrative," "2014 Potential Payments Upon Termination Table," "General Information Compensation Committee Interlocks and Insider Participation" and "Executive Compensation 2014 Report of the Executive Compensation and Management Resources Committee of the Board of Directors" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, all of which information is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters:**

Refer to the information under the caption "Ownership of Securities Security Ownership of Certain Beneficial Owners" and "Ownership of Securities Common Stock and Stock-based Holdings of Directors and Executive Officers" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, all of which information is incorporated herein by reference.

## EQUITY COMPENSATION PLAN INFORMATION

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights(1)<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))<br>(c) |
|--|---|---|---|
| Equity compensation plans approved by security holders     |   |   |   |
| Options  | 437,563   | \$ 92.65  |   |
| RSUs   | 7,160,978   | N/A   |   |
| PSUs   | 4,343,040(2)  | N/A   |   |
| <b>Subtotal</b>  | <b>11,941,581</b>   | <b>\$ 92.65</b>   | <b>99,995,330</b>   |
| Equity compensation plans not approved by security holders |   |   |   |
| Options  | 1,313,386   | \$ 98.01  |   |
| RSUs   | 573,299   | N/A   |   |
| PSUs   | 161,497(2)  | N/A   |   |
| DCEAP shares   | 153,688   | N/A   |   |
| <b>Subtotal</b>  | <b>2,201,870</b>  | <b>\$ 98.01</b>   | <b>15,513,213</b>   |
| <b>Total</b>   | <b>14,143,451</b>   | <b>\$ 96.67</b>   | <b>115,508,543</b>  |

N/A is not applicable

RSUs = Restricted Stock Units, including Retention Restricted Stock Units

PSUs = Performance Share Units

DCEAP Shares = Promised Fee Shares under the DCEAP (see plan description below)

(1) In connection with 34 acquisition transactions, 519,138 additional share based awards, consisting of stock options and RSUs, were outstanding at December 31, 2014 as a result of the Company's assumption of awards granted by the acquired entities. The weighted-average exercise price of these awards was \$55.51. The Company has not made, and will not make, any further grants or awards of equity securities under the plans of these acquired companies.

(2) The numbers included for PSUs in column (a) above reflect the maximum number payout. Assuming target number payout, the number of securities to be issued upon exercise of PSUs for equity compensation plans approved by security holders is 2,643,331 and for equity compensation plans not approved by security holders is 84,328. For additional information about PSUs, including payout calculations, refer to the information under "2014 Summary Compensation Table Narrative," in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015.

The material features of each equity compensation plan under which equity securities are authorized for issuance that was adopted without stockholder approval are described below:

### 2001 Long-Term Performance Plan

The 2001 Long-Term Performance Plan (the "2001 Plan") has been used to fund awards for employees other than senior executives of the Company. Awards for senior executives of the Company have been and will continue to be funded from the stockholder-approved 1999

Long-Term Performance Plan (the "1999 Plan"); the 1999 Plan is also used to fund awards for employees other than senior

executives, Otherwise, the provisions of the 2001 Plan are identical to the 1999 Plan, including the type of awards that may be granted under the plan (stock options, restricted stock and unit awards and long-term performance incentive awards)

The 2001 Plan is administered by the Executive Compensation and Management Resources Committee of the Board of Directors (the "Committee"), and that Committee may delegate to officers of the company certain of its duties, powers and authority. Payment of awards may be made in the form of cash, stock or combinations thereof and may be deferred with Committee approval. Awards are not transferable or assignable except (i) by law, will or the laws of descent and distribution, (ii) as a result of the disability of the recipient, or (iii) with the approval of the Committee.

If the employment of a participant terminates, other than as a result of the death or disability of a participant, all unexercised, deferred and unpaid awards shall be canceled immediately, unless the award agreement provides otherwise. In the event of the death of a participant or in the event a participant is deemed by the company to be disabled and eligible for benefits under the terms of the IBM Long-Term Disability Plan (or any successor plan or similar plan of another employer), the participant's estate, beneficiaries or representative, as the case may be, shall have the rights and duties of the participant under the applicable award agreement. In addition, unless the award agreement specifies otherwise, the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict any unexpired, unpaid, or deferred awards at any time if the participant is not in compliance with all applicable provisions of the awards agreement and the 2001 plan. In addition, awards may be cancelled if the participant engages in any conduct or act determined to be injurious, detrimental or prejudicial to any interest of the company.

#### **PWCC Acquisition Long-Term Performance Plan**

The IBM PWCC Acquisition Long-Term Performance Plan (the "PWCC Plan") was adopted by the Board of Directors in connection with the company's acquisition of PricewaterhouseCoopers Consulting ("PwCC") from PricewaterhouseCoopers LLP, as announced on October 1, 2002. The PWCC Plan has been and will continue to be used solely to fund awards for employees of PwCC who have become employed by the company as a result of the acquisition. Awards for senior executives of the company will not be funded from the PWCC Plan. The terms and conditions of the PWCC Plan are substantively identical to the terms and conditions of the 2001 Plan, described above.

#### **IBM Deferred Compensation and Equity Award Plan**

The IBM Deferred Compensation and Equity Award Plan (the "DCEAP") was adopted in 1993 and amended and restated effective January 1, 2014. Under the Amended and Restated DCEAP, non-management directors receive Promised Fee Shares in connection with deferred annual retainer payments. Each Promised Fee Share is equal in value to one share of the company's common stock. Upon a director's retirement or other completion of service as a director, amounts deferred into Promised Fee Shares are payable in either cash and/or shares of the company's stock either as lump sum or installments pursuant to the director's distribution election. For additional information about the DCEAP, see "2014 Director Compensation Narrative" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence:**

Refer to the information under the captions "General Information IBM Board of Directors" and "General Information Certain Transactions and Relationships" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, which information is incorporated herein by reference.

**Item 14. Principal Accounting Fees and Services:**

Refer to the information under the captions "Report of the Audit Committee of the Board of Directors" and "Audit and Non-Audit Fees" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, all of which information is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules:**

(a)

The following documents are filed as part of this report:

1.
  - Financial statements from IBM's 2014 Annual Report to Stockholders, which are incorporated herein by reference: Report of Independent Registered Public Accounting Firm (page 79).
  - Consolidated Statement of Earnings for the years ended December 31, 2014, 2013 and 2012 (page 80).
  - Consolidated Statement of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012 (page 81).
  - Consolidated Statement of Financial Position at December 31, 2014 and 2013 (page 82).
  - Consolidated Statement of Cash Flows for the years ended December 31, 2014, 2013 and 2012 (page 83).
  - Consolidated Statement of Changes in Equity at December 31, 2014, 2013 and 2012 (pages 84 and 85).
  - Notes to Consolidated Financial Statements (pages 86 through 150).
2.
  - Financial statement schedule required to be filed by Item 8 of this Form:

| Page | Schedule Number |  |
|------|-----------------|--|
| 31   |                 | Report of Independent Registered Public Accounting Firm on Financial Statement Schedule. |
| S-1  | II              | Valuation and Qualifying Accounts and Reserves.  |

All other schedules are omitted as the required matter is not present, the amounts are not significant or the information is shown in the Consolidated Financial Statements or the notes thereto.

3.
  - Exhibits:

| Reference Number per Item 601 of Regulation S-K | Description of Exhibits  | Exhibit Number in this Form 10-K |
|---|--|----------------------------------|
| (2)   | Plan of acquisition, reorganization, arrangement, liquidation or succession.   | Not applicable                   |
| (3)   | Certificate of Incorporation and By-laws.  |                                  |
|   | The Certificate of Incorporation of IBM is Exhibit 3.2 to Form 8-K filed April 27, 2007, and is hereby incorporated by reference.  |                                  |
|   | The By-laws of IBM, as amended through February 24, 2015.  | 3                                |
| (4)   | Instruments defining the rights of security holders.   |                                  |
|   | The instruments defining the rights of the holders of the 8.375% Debentures due 2019 are Exhibits 4(a)(b)(c) and (d), respectively, to Registration Statement No. 33-31732 on Form S-3, filed on October 24, 1989, and are hereby incorporated by reference. |                                  |

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| Reference<br>Number per<br>Item 601 of<br>Regulation S-K | Description of Exhibits   | Exhibit Number<br>in this<br>Form 10-K |
|--|---|--|
|  | The instruments defining the rights of the holders of the 7.00% Debentures due 2025 and the 7.00% Debentures due 2045 are Exhibits 2 and 3, respectively, to Form 8-K, filed on October 30, 1995, and are hereby incorporated by reference. |  |
|  | The instrument defining the rights of the holders of the 7.125% Debentures due 2096 is Exhibit 2 to Form 8-K/A, filed on December 6, 1996, and is hereby incorporated by reference.   |  |
|  | The instrument defining the rights of the holders of the 6.22% Debentures due 2027 is Exhibit 3 to Form 8-K, filed on August 1, 1997, and is hereby incorporated by reference.  |  |
|  | The instrument defining the rights of the holders of the 6.50% Debentures due 2028 is Exhibit 2 to Form 8-K, filed on January 8, 1998, and is hereby incorporated by reference.   |  |
|  | The instrument defining the rights of the holders of the 2.000% Notes due 2016 is Exhibit 2.1 to Form 8-K, filed December 8, 2010, and is hereby incorporated by reference.   |  |
|  | The instrument defining the rights of the holders of the 1.950% Notes due 2016 is Exhibit 2.1 to Form 8-K, filed July 21, 2011, and is hereby incorporated by reference.  |  |
|  | The instruments defining the rights of the holders of the 2.900% Notes due 2021 is Exhibit 3.1 to Form 8-K, filed October 31, 2011, and is hereby incorporated by reference.  |  |
|  | The instruments defining the rights of the holders of the 0.550% Notes due 2015 and the 1.250% Notes due 2017 are Exhibits 2.1 and 3.1 to Form 8-K, filed February 3, 2012, and are hereby incorporated by reference.                       |  |
|  | The instrument defining the rights of the holders of the 2.20% Notes due 2017 is Exhibit 2.1 to Form 8-K, filed February 9, 2012, and is hereby incorporated by reference.  |  |
|  | The instruments defining the rights of the holders of the 0.750% Notes due 2015 and the 1.875% Notes due 2019 are Exhibits 2.1 and 3.1 to Form 8-K, filed May 10, 2012, and are hereby incorporated by reference.                           |  |
|  | The instruments defining the rights of the holders of the 1.875% Notes due 2022 is Exhibit 2.1 to Form 8-K, filed July 27, 2012, and is hereby incorporated by reference.   |  |
|  | The instruments defining the rights of the holders of the 1.375% Notes due 2019 is Exhibit 2.1 to Form 8-K, filed November 16, 2012, and is hereby incorporated by reference.   |  |

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| Reference Number per Item 601 of Regulation S-K | Description of Exhibits  | Exhibit Number in this Form 10-K |
|---|--|----------------------------------|
|   | The instruments defining the rights of the holders of the 1.250% Notes due 2018 and Floating Rate Notes due 2015 are Exhibits 2.1 and 3.1 to Form 8-K, filed February 7, 2013, and are hereby incorporated by reference.   |                                  |
|   | The instruments defining the rights of the holders of the 0.45% Notes due 2016 and 1.625% Notes due 2020 are Exhibits 2.1 and 3.1 to Form 8-K, filed May 6, 2013, and are hereby incorporated by reference.  |                                  |
|   | The instruments defining the rights of the holders of the 3.375% Notes due 2023 and Floating Rate Notes due 2015 are Exhibits 2.1 and 3.1 to Form 8-K, filed July 31, 2013, and are hereby incorporated by reference.  |                                  |
|   | The instruments defining the rights of the holders of the 1.875% Notes due 2020 and 2.875% Notes due 2025 are Exhibits 2.1 and 3.1 to Form 8-K, filed November 6, 2013, and are hereby incorporated by reference.  |                                  |
|   | The instruments defining the rights of the holders of the 2.750% Notes due 2020 is Exhibit 2 to Form 8-K, filed November 20, 2013, and is hereby incorporated by reference.  |                                  |
|   | The instruments defining the rights of the holders of the Floating Rate Notes due 2016, 1.950% Notes due 2019, Floating Rate Notes due 2019 and 3.625% due 2024 are Exhibits 2, 3, 4 and 5 to Form 8-K, filed February 11, 2014, and are hereby incorporated by reference. |                                  |
|   | The instruments defining the rights of the holders of the Floating Rate Notes due 2021 is Exhibit 2 to Form 8-K, filed November 5, 2014, and is hereby incorporated by reference.  |                                  |
|   | The instruments defining the rights of the holders of the 1.25% Notes due 2023 is Exhibit 2 to Form 8-K, filed November 25, 2014, and is hereby incorporated by reference.   |                                  |
|   | The instruments defining the rights of the holders of the 1.125% Notes due 2018 and Floating Rate Notes due 2018 are Exhibits 2 and 3 to Form 8-K, filed February 5, 2015, and are hereby incorporated by reference.   |                                  |
| (9)   | Voting trust agreement   | Not applicable                   |
| (10)  | Material contracts   |                                  |
|   | The IBM 2001 Long-Term Performance Plan, a compensatory plan, contained in Registration Statement No. 333-87708 on Form S-8, as such amended plan was filed as Exhibit 10.1 to Form 10-Q for the quarter ended September 30, 2007, is hereby incorporated by reference.*   |                                  |



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| Reference<br>Number per<br>Item 601 of<br>Regulation S-K | Description of Exhibits  | Exhibit Number<br>in this<br>Form 10-K |
|--|--|--|
|  | The IBM PWCC Acquisition Long-Term Performance Plan, a compensatory plan, contained in Registration Statement No. 333-102872 on Form S-8, as such amended plan was filed as Exhibit 10.2 to Form 10-Q for the quarter ended September 30, 2007, is hereby incorporated by reference.*  |  |
|  | The IBM 1999 Long-Term Performance Plan, a compensatory plan, contained in Registration Statement No. 333-30424 on Form S-8, as such amended plan was filed as Exhibit 10.3 to Form 10-Q for the quarter ended September 30, 2007, is hereby incorporated by reference.*   |  |
|  | The IBM 1997 Long-Term Performance Plan, a compensatory plan, contained in Registration Statement No. 333-31305 on Form S-8, as such amended plan was filed as Exhibit 10.4 to Form 10-Q for the quarter ended September 30, 2007, is hereby incorporated by reference.*   |  |
|  | Forms of LTPP equity award agreements for (i) stock options, restricted stock, restricted stock units, cash-settled restricted stock units, SARS, (ii) performance share units and (iii) retention restricted stock unit awards. Such equity award agreement forms and the related terms and conditions document, effective June 9, 2014, were filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2014, are hereby incorporated by reference.* |  |
|  | Board of Directors compensatory plans, as described under the caption "General Information 2014 Director Compensation" in IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 28, 2015, are hereby incorporated by reference.*   |  |
|  | The IBM Non-Employee Directors Stock Option Plan, contained in Registration Statement 33-60227 on Form S-8, is hereby incorporated by reference.*  |  |
|  | The IBM Board of Directors Deferred Compensation and Equity Award Plan, a compensatory plan, as amended and restated effective January 1, 2014 which was filed as Exhibit 10.1 to Form 10-K for the year ended December 31, 2013, and is hereby incorporated by reference.*  |  |
|  | The IBM Supplemental Executive Retention Plan, a compensatory plan, as amended and restated through December 31, 2008, was filed as Exhibit 10.2 to Form 10-K for the year ended December 31, 2008, is hereby incorporated by reference.*  |  |
|  | Amendment No. 1 to the IBM Supplemental Executive Retention Plan, a compensatory plan, effective December 9, 2014.*  | 10.1                                   |

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| Reference<br>Number per<br>Item 601 of<br>Regulation S-K | Description of Exhibits   | Exhibit Number<br>in this<br>Form 10-K |
|--|---|--|
|  | The IBM Excess 401(k) Plus Plan, a compensatory plan (formerly the IBM Executive Deferred Compensation Plan), as amended and restated through January 1, 2010, which was filed as Exhibit 10.1 to the Form 10-K for the year ended December 31, 2009 contained in Registration which was filed as Exhibit 10.2 to the Form 10-K for the year ended December 31, 2013, and is hereby incorporated by reference.* Statement No. 333-171968, is hereby incorporated by reference.* |  |
|  | Amendment No. 1 to the IBM Excess 401(k) Plus Plan, a compensatory plan, effective January 1, 2013 which was filed as Exhibit 10.1 to the Form 10-K for the year ended December 31, 2012, and is hereby incorporated by reference.*   |  |
|  | Amendment No. 2 to the IBM Excess 401(k) Plus Plan, a compensatory plan, effective January 1, 2013 which was filed as Exhibit 10.2 to the Form 10-K for the year ended December 31, 2012, and is hereby incorporated by reference.*   |  |
|  | Amendment No. 3 to the IBM Excess 401(k) Plus Plan, a compensatory plan, effective January 1, 2013 which was filed as Exhibit 10.2 to the Form 10-K for the year ended December 31, 2013, and is hereby incorporated by reference.*   |  |
|  | Amendment No. 4 to the IBM Excess 401(k) Plus Plan, a compensatory plan, dated as of February 25, 2014, which was filed as Exhibit 10.1 to the Form 10-Q for the quarter ended March 31, 2014, and is hereby incorporated by reference.*  |  |
|  | Amendment No. 5 to the IBM Excess 401(k) Plus Plan, a compensatory plan, dated as of December 9, 2014.*   | 10.2                                   |
|  | The IBM 2003 Employees Stock Purchase Plan, contained in Registration Statement 333-104806 on Form S-8, as amended through April 1, 2005, which was filed as Exhibit 10.3 to Form 10-Q for the quarter ended March 31, 2005, is hereby incorporated by reference.*  |  |
|  | Form of Noncompetition Agreement, filed as Exhibit 10.2 to Form 10-Q for the quarter ended March 31, 2009, is hereby incorporated by reference.*  |  |
|  | Form of Noncompetition Agreement, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2012, is hereby incorporated by reference.*  |  |
|  | Letter dated March 17, 2014, signed by Kenneth M. Keeverian and IBM, effective April 1, 2014.*  | 10.3                                   |

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| Reference<br>Number per<br>Item 601 of<br>Regulation S-K | Description of Exhibits   | Exhibit Number<br>in this<br>Form 10-K |
|--|---|--|
|  | The \$10,000,000 5-Year Credit Agreement dated as of November 10, 2011, among International Business Machines Corporation, the Subsidiary Borrowers parties thereto, the Lenders parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the Syndication and Documentation Agents named therein, which was filed as Exhibit 10.1 to Form 8-K dated November 14, 2011, the term of which was extended through November 10, 2019, is hereby incorporated by reference. |  |
|  | First Amendment, dated as of October 16, 2014, to the 5-Year Credit Agreement, among International Business Machines Corporation, JPMorgan Chase Bank, N.A., as Administrative Agent, the Subsidiary Borrowers parties thereto, the Lenders parties thereto and the Syndication Agents and Documentation Agents therein.  | 10.4                                   |
| (11)   | Statement re computation of per share earnings<br><br>The statement re computation of per share earnings is note P, "Earnings Per Share of Common Stock," on page 127 of IBM's 2014 Annual Report to Stockholders, and is hereby incorporated by reference.   |  |
| (12)   | Statement re computation of ratios  | 12                                     |
| (13)   | Annual report to security holders**   | 13                                     |
| (18)   | Letter re: change in accounting principles  | Not applicable                         |
| (19)   | Previously unfiled documents  | Not applicable                         |
| (21)   | Subsidiaries of the registrant  | 21                                     |
| (22)   | Published report regarding matters submitted to vote of security holders  | Not applicable                         |
| (23.1)   | Consent of experts  | 23.1                                   |
| (24.1)   | Powers of attorney  | 24.1                                   |
| (24.2)   | Resolution of the IBM Board of Directors authorizing execution of this report by Powers of Attorney   | 24.2                                   |
| (28)   | Information from reports furnished to state insurance regulatory authorities  | Not applicable                         |
| (31.1)   | Certification by CEO 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   | 31.1                                   |
| (31.2)   | Certification by CFO 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                                   |

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| Reference<br>Number per<br>Item 601 of<br>Regulation S-K | Description of Exhibits   | Exhibit Number<br>in this<br>Form 10-K |
|--|---|--|
| (32.1)   | Certification by CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 32.1                                   |
| (32.2)   | Certification by CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 32.2                                   |
| 101.INS  | XBRL Instance Document  |  |
| 101.SCH  | XBRL Taxonomy Extension Schema Document   |  |
| 101.CAL  | XBRL Taxonomy Extension Calculation Linkbase Document   |  |
| 101.DEF  | XBRL Taxonomy Extension Definition Linkbase Document  |  |
| 101.LAB  | XBRL Taxonomy Extension Label Linkbase Document   |  |
| 101.PRE  | XBRL Taxonomy Extension Presentation Linkbase Document  | 101                                    |

\*

Management contract or compensatory plan or arrangement.

\*\*

The Performance Graph, set forth on page 153 of IBM's 2014 Annual Report to Stockholders, is deemed to be furnished but not filed.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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)

By:           /s/ VIRGINIA M. ROMETTY          

Virginia M. Rometty  
*Chairman of the Board,  
President and Chief Executive Officer*

*Date: February 24, 2015*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title  | Date              |
|---|--|-------------------|
| <u>          /s/ VIRGINIA M. ROMETTY          </u><br>Virginia M. Rometty     | Chairman of the Board,<br>President and Chief Executive<br>Officer | February 24, 2015 |
| <u>          /s/ MARTIN J. SCHROETER          </u><br>Martin J. Schroeter     | Senior Vice President and Chief<br>Financial Officer               | February 24, 2015 |
| <u>          /s/ STANLEY J. SUTULA III          </u><br>Stanley J. Sutula III | Vice President and Controller<br>(Chief Accounting Officer)        | February 24, 2015 |

|                        |          |
|------------------------|----------|
| Alain J. P. Belda      | Director |
| William R. Brody       | Director |
| Kenneth I. Chenault    | Director |
| Michael L. Eskew       | Director |
| David N. Farr          | Director |
| Alex Gorsky            | Director |
| Shirley Ann Jackson    | Director |
| Andrew N. Liveris      | Director |
| W. James McNerney, Jr. | Director |

By:           /s/ CHRISTINA M. MONTGOMERY          

Christina M. Montgomery  
*Attorney-in-fact*  
February 24, 2015

James W. Owens            Director

Joan E. Spero             Director

Sidney Taurel             Director

Peter R. Voser            Director

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON FINANCIAL STATEMENT SCHEDULE**

To the Stockholders and Board of Directors of  
International Business Machines Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 24, 2015 appearing in the 2014 Annual Report to Shareholders of International Business Machines Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP  
PricewaterhouseCoopers LLP  
New York, New York  
February 24, 2015

**INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES**  
**VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**For the Years Ended December 31:**  
**(Dollars in Millions)**

| Description                            | Balance at<br>Beginning<br>of Period | Additions* | Writeoffs | Other** | Balance at<br>End of<br>Period |
|--|--------------------------------------|------------|-----------|---------|--------------------------------|
| <b>Allowance For Doubtful Accounts</b> |                                      |            |           |         |                                |
| <b>2014</b>                            |                                      |            |           |         |                                |
| Current                                | \$ 636                               | \$ 276     | \$ (48)   | \$ (35) | \$ 829                         |
| Noncurrent                             | \$ 80                                | \$ 57      | \$ (4)    | \$ (7)  | \$ 126                         |
| <b>2013</b>                            |                                      |            |           |         |                                |
| Current                                | \$ 560                               | \$ 127     | \$ (60)   | \$ 9    | \$ 636                         |
| Noncurrent                             | \$ 66                                | \$ 27      | \$ 0      | \$ (12) | \$ 80                          |
| <b>2012</b>                            |                                      |            |           |         |                                |
| Current                                | \$ 578                               | \$ 41      | \$ (45)   | \$ (15) | \$ 560                         |
| Noncurrent                             | \$ 38                                | \$ 10      | \$ 0      | \$ 17   | \$ 66                          |
| <b>Allowance For Inventory Losses</b>  |                                      |            |           |         |                                |
| <b>2014</b>                            |                                      |            |           |         |                                |
|  | \$ 623                               | \$ 211     | \$ (232)  | \$ (38) | \$ 564                         |
| <b>2013</b>                            |                                      |            |           |         |                                |
|  | \$ 652                               | \$ 201     | \$ (214)  | \$ (16) | \$ 623                         |



2012 \$ 625 \$ 294 \$ (240) \$ (28) \$ 652

**Revenue Based Provisions**

2014 \$ 827 \$ 2,519 \$ (2,693) \$ (37) \$ 616

2013 \$ 777 \$ 3,061 \$ (3,004) \$ (7) \$ 827

2012 \$ 861 \$ 3,228 \$ (3,345) \$ 33 \$ 777

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\* Additions for Allowance for Doubtful Accounts and Allowance for Inventory Losses are charged to expense and cost accounts, respectively, while Revenue Based Provisions are charged to revenue accounts.

\*\* Primarily comprises currency translation adjustments.

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