

INTERNATIONAL BUSINESS MACHINES CORP

Form 424B5

December 14, 2010

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## CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Maximum Offering Price Per Unit(1)	Maximum Aggregate Offering Price	Amount of Registration Fee(1)(2)
Floating Rate Notes due 2012	\$1,000,000,000	100%	\$1,000,000,000	\$71,300

(1)

Calculated in accordance with Rule 457(r) under the Securities Act of 1933 (the "Securities Act"). Pursuant to Rule 457(p) under the Securities Act and Securities Act Release No. 7943, dated January 26, 2001, registration fees of \$1,702,000 were paid with respect to unsold securities that were previously registered under a Registration Statement on Form S-3 (Registration No. 333-102603), filed by International Business Machines Corporation on January 21, 2003, and carried over to Automatic Shelf Registration Statement on Form S-3 filed on August 3, 2007 by International Business Machines Corporation (Registration No. 333-145104) and IBM International Group Capital LLC (Registration No. 333-145104-01). Such prepaid registration fees were originally sourced and carried over from an earlier Registration Statement on Form S-3, filed by IBM Credit Corporation (CIK 353524) on September 7, 1999 (Registration No. 333-86615).

(2)

\$822,920 of prepaid registration fees is presently available for offset. The \$71,300 aggregate registration fee associated with the instant offering is hereby offset against the prepaid registration fees. Since the prepaid registration fees completely offset the registration fee for this offering, no additional registration fee is payable for the instant offering. More importantly, following the instant offering, a total of \$751,620 will still remain available for offset against future registration fees that would otherwise be payable under the current Automatic Shelf Registration Statement on Form S-3, which was filed on July 27, 2010 by International Business Machines Corporation (Registration No. 333-168333) and IBM International Group Capital LLC (Registration No. 333-168333-01).

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PROSPECTUS SUPPLEMENT  
(To Prospectus dated July 27, 2010)

**\$1,000,000,000**

**International Business Machines Corporation**

**Armonk, New York (914) 499-1900**

**Floating Rate Notes due 2012**

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We will pay interest on the Notes at a floating rate of three month LIBOR reset quarterly plus 0.03%.

Interest payable quarterly on March 15, June 15, September 15 and December 15

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The Notes may not be redeemed prior to maturity.

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	Per Note	Total
Price to Public(1)	100.00% \$	1,000,000,000
Underwriting Discounts and Commissions	0.10% \$	1,000,000
Proceeds to Company(1)	99.90% \$	999,000,000

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(1) Plus accrued interest from December 15, 2010.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities, or determined if this prospectus supplement or the accompanying prospectus are truthful or complete. Any representation to the contrary is a criminal offense.

The Underwriters expect to deliver the Notes to purchasers in book-entry form only through the Depository Trust Company, for the benefit of its participants, including Clearstream Banking and the Euroclear System, on December 15, 2010.

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Joint Bookrunning Managers

**Barclays Capital**

**UBS Investment Bank**

Co-Managers

**BBVA Securities**

**UniCredit Capital Markets**

December 13, 2010

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We have not authorized anyone to provide any information other than that contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

The Notes are offered globally for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. See "Offering Restrictions."

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The distribution of this prospectus supplement and accompanying prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the accompanying prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See "Offering Restrictions."

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

International Business Machines Corporation (IBM) 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 invention, and its operations and aims have been international in nature. This was signaled over 80 years ago, in 1924, when C-T-R changed its name to International Business Machines Corporation. And it continues today: IBM creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing.

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**USE OF PROCEEDS**

The net proceeds from the sale of the Notes after deducting underwriting discounts and commissions and expenses to be paid by IBM are estimated to be \$998.8 million and will be used for general corporate purposes.

**CAPITALIZATION**

The following table sets forth the consolidated capitalization of IBM at September 30, 2010, and as adjusted to give effect to the issuance of the Notes offered hereby.

	<b>September 30, 2010</b>	
	<b>Outstanding</b>	<b>As Adjusted</b>
	<b>(Dollars in millions)</b>	
Short-term debt	\$ 5,556	\$ 5,556
Long-term debt:		
International Business Machines Corporation	19,838	20,838
Consolidated subsidiaries	2,060	2,060
Total long-term debt	\$ 21,899	\$ 22,899
Equity		
IBM stockholders' equity:		
Common stock par value \$0.20 per share and additional paid-in capital	44,328	44,328
Shares authorized: 4,687,500,000		
Shares issued: 2,152,542,940		
Retained earnings	88,095	88,095
Treasury stock at cost	(92,707)	(92,707)
Shares: 910,181,802		
Accumulated other comprehensive income (loss)	(17,479)	(17,479)
Total IBM stockholders' equity	22,238	22,238
Noncontrolling interests	121	121
Total equity	22,359	22,359
Total capitalization	\$ 49,814	\$ 50,814

## Notes:

Numbers may not total due to rounding.

From January 31, 1995 through September 30, 2010, IBM repurchased approximately \$124.2 billion of its capital stock under a series of authorizations from IBM's Board of Directors that permits up to \$126.5 billion in repurchases. On October 26, 2010, the company announced that the Board of Directors authorized \$10 billion in additional funds for use in the company's common stock repurchase program.

On December 9, 2010, IBM issued \$1.0 billion of 2.000% Notes due 2016.

**RATIO OF INCOME FROM CONTINUING OPERATIONS TO FIXED CHARGES**

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The ratio of income from continuing operations to fixed charges has been computed by dividing income from continuing operations before income taxes (which excludes (a) amortization of capitalized interest and (b) IBM's share in the income and losses of less than 50% owned affiliates) and fixed charges (excluding capitalized interest) by fixed charges. "Fixed charges" consist of interest expense, capitalized interest and that portion of rental expense deemed to be representative of interest.

	<b>Nine Months Ended September 30, 2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Ratio of income from continuing operations to fixed charges	13.0	11.8	9.2	8.4	10.1	11.1

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## DESCRIPTION OF NOTES

The following description of the particular terms of the Notes supplements, and to the extent inconsistent replaces, the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.

### General

The Floating Rate Notes due 2012 (the "Notes") will be issued under an Indenture (the "Senior Indenture") dated as of October 1, 1993, between IBM and The Bank of New York Mellon, as Trustee, as supplemented by the First Supplemental Indenture dated as of December 15, 1995, filed as an exhibit to the Registration Statement of which the accompanying prospectus is a part. The Notes will be unsecured and will have the same rank as all of IBM's other unsecured and unsubordinated debt. The Notes will bear interest from December 15, 2010, at the floating rate of interest described below under "Interest". Interest on the Notes will be payable quarterly on March 15, June 15, September 15 and December 15 of each year, commencing March 15, 2011 to the persons in whose names the Notes are registered at the close of business on the fifteenth calendar day preceding each March 15, June 15, September 15 or December 15. The Notes will mature on June 15, 2012.

The Notes will not be subject to defeasance and covenant defeasance as provided in "Description of the Debt Securities Satisfaction and Discharge; Defeasance" in the accompanying prospectus. The Notes will be issued in denominations of \$100,000 and multiples of \$1,000 in excess thereof.

IBM may, without the consent of the holders of Notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the Notes, provided however, that no such additional notes may be issued unless such additional notes are fungible with the Notes of such series for U.S. federal income tax purposes. Any additional notes having such similar terms, together with the Notes, will constitute a single series of notes under the Senior Indenture. No additional notes may be issued if an event of default has occurred with respect to the Notes.

### Interest

Interest on the Notes will accrue from and including December 15, 2010, to but excluding the first interest payment date and then from and including the most recent interest payment date to which interest has been paid or duly provided for to but excluding the next interest payment date or maturity date, as the case may be. We refer to each of these periods as an "interest period." The amount of accrued interest that we will pay for any interest period can be calculated by multiplying the face amount of the Note by an accrued interest factor. This accrued interest factor is computed by adding the interest factor calculated for each day from December 15, 2010, or from the last date we paid interest to you, to the date for which accrued interest is being calculated. The interest factor for each day is computed by dividing the interest rate applicable to that day by 360.

When we use the term "London business day," we mean any day on which dealings in United States dollars are transacted in the London interbank market. A "business day" means any day except a Saturday, a Sunday or a legal holiday in The City of New York or a day on which banking institutions in The City of New York are authorized or obligated by law, regulation or executive order to close. In the event that any interest payment date (other than the maturity date) and interest reset date would otherwise fall on a day that is not a business day, that interest payment date and interest reset date will be postponed to the next day that is a business day. If the postponement would cause the day to fall in the next calendar month, the interest payment date and interest reset date will be the immediately preceding business day.

The interest rate on the Notes will be calculated by the calculation agent appointed by us, initially The Bank of New York Mellon, and will be equal to LIBOR plus 0.03%. The calculation agent will



reset the interest rate on each interest payment date and on December 15, 2010, each of which we refer to as an "interest reset date." The second London business day preceding an interest reset date will be the "interest determination date" for that interest reset date. The interest rate in effect on each day that is not an interest reset date will be the interest rate determined as of the interest determination date pertaining to the immediately preceding interest reset date. The interest rate in effect on any day that is an interest reset date will be the interest rate determined as of the interest determination date pertaining to that interest reset date.

"LIBOR" will be determined by the calculation agent in accordance with the following provisions:

(a) With respect to any interest determination date, LIBOR will be the rate for deposits in United States dollars having a maturity of the Index Maturity commencing on the first day of the applicable interest period that appears on Reuters Screen LIBOR01 Page as of 11:00 a.m., London time, on that interest determination date. If no rate appears, LIBOR for that interest determination date will be determined in accordance with the provisions described in (b) below.

(b) With respect to an interest determination date on which no rate appears on Reuters Screen LIBOR01 Page, as specified in (a) above, the calculation agent will request the principal London offices of each of four major reference banks in the London interbank market, as selected by the calculation agent (after consultation with IBM), to provide the calculation agent with its offered quotation for deposits in United States dollars for the Index Maturity, commencing on the first day of the applicable interest period, to prime banks in the London interbank market at approximately 11:00 a.m., London time, on that interest determination date and in a principal amount that is representative for a single transaction in United States dollars in that market at that time. If at least two quotations are provided, then LIBOR on that interest determination date will be the arithmetic mean of those quotations. If fewer than two quotations are provided, then LIBOR on the interest determination date will be the arithmetic mean of the rates quoted at approximately 11:00 a.m., in The City of New York, on the interest determination date by three major banks in The City of New York selected by the calculation agent (after consultation with IBM) for loans in United States dollars to leading European banks, having an Index Maturity and in a principal amount that is representative for a single transaction in United States dollars in that market at that time. If, however, the banks selected by the calculation agent are not providing quotations in the manner described by the previous sentence, LIBOR determined as of that interest determination date will be LIBOR in effect on that interest determination date.

"Reuters Screen LIBOR01 Page" means the display designated as the Reuters Screen LIBOR01 Page, or such other screen as may replace the Reuters Screen LIBOR01 Page on the service or any successor service as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for United States dollar deposits.

The Index Maturity will be three months.

All percentages resulting from any calculation of the interest rate on the Notes will be rounded to the nearest one hundred-thousandth of a percentage point with five one millionths of a percentage point rounded upwards (e.g., 9.876545% (or .09876545) would be rounded to 9.87655% (or .0987655)), and all dollar amounts used in or resulting from such calculation on the Notes will be rounded to the nearest cent (with one-half cent being rounded upward). Each calculation of the interest rate on the Notes by the calculation agent will (in the absence of manifest error) be final and binding on the noteholders and IBM.

So long as any of the Notes remain outstanding, there will at all times be a calculation agent. If that bank is unable or unwilling to continue to act as the calculation agent or if it fails to calculate properly the interest rate on the Notes for any interest period, we will appoint another leading

commercial or investment bank to act as calculation agent in its place. The calculation agent may not resign its duties without a successor having been appointed.

### **Book-Entry, Delivery and Form**

The Notes will be issued in the form of one or more fully registered Global Notes (the "Global Notes") which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the "Depository" or "DTC") and registered in the name of Cede & Co., the Depository's nominee. Beneficial interests in the Global Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository.

Investors may elect to hold interests in the Global Notes through the Depository, Clearstream Banking Luxembourg S.A. ("Clearstream") or Euroclear Bank S.A., as operator of the Euroclear System ("Euroclear") if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of the Depository. Citibank, N.A. will act as depository for Clearstream and JPMorgan Chase Bank will act as depository for Euroclear (in such capacities, the "U.S. Depositories"). Except as described below, the Global Notes may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

The Depository has advised IBM as follows: the Depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the Depository. Access to the Depository book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Clearstream advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its customers ("Clearstream Customers") and facilitates the clearance and settlement of securities transactions between Clearstream Customers through electronic book-entry transfers between their accounts. Clearstream provides to Clearstream Customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Clearstream's U.S. customers are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Customer.

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Distributions with respect to the Notes held through Clearstream will be credited to cash accounts of Clearstream Customers in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream.

Euroclear advises that it was created in 1968 to hold securities for its participants ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. (the "Euroclear Operator"), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Euroclear further advises that investors that acquire, hold and transfer interests in the Notes by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the Global Notes.

The Euroclear Operator advises as follows: Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on the Euroclear Operator's records, all Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit.

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Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Individual certificates in respect of the Notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If DTC notifies IBM that it is unwilling or unable to continue as a clearing system in connection with the Global Notes, or ceases to be a clearing agency registered under the Exchange Act, and a successor clearing system is not appointed by IBM within 90 days after receiving such notice from DTC or upon becoming aware that DTC is no longer so registered, IBM will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the Notes represented by such Global Notes upon delivery of such Global Notes for cancellation. In the event that individual certificates are issued, holders of the Notes will be able to receive payments (including principal and interest) on the Notes and effect transfer of the Notes at the offices of IBM's paying agent and transfer agent.

Title to book-entry interests in the Notes will pass by book-entry registration of the transfer within the records of Clearstream, Euroclear or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within Clearstream and within Euroclear and between Clearstream and Euroclear in accordance with procedures established for these purposes by Clearstream and Euroclear. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the Notes among Clearstream and Euroclear and DTC may be effected in accordance with procedures established for this purpose by Clearstream, Euroclear and DTC.

A further description of the Depository's procedures with respect to the Global Notes is set forth in the prospectus under "Description of the Debt Securities - Global Securities." The Depository has confirmed to IBM, the Underwriters and the trustee that it intends to follow such procedures.

### **Global Clearance and Settlement Procedures**

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using the Depository's Same-Day Funds Settlement System. Secondary market trading between Clearstream Customers and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depository on the one hand, and directly or indirectly through Clearstream Customers or Euroclear Participants, on the other, will be effected in the Depository in accordance with the Depository's rules on behalf of the relevant European international clearing system by its U.S. Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European, international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering interests in the Notes to or receiving interests in the Notes from the Depository, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depository. Clearstream Customers and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositories.

Because of time-zone differences, credits of interests in the Notes received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities

settlement processing and dated the business day following the Depositary settlement date. Such credits or any transactions involving interests in such Notes settled during such processing will be reported to the relevant Clearstream Customers or Euroclear Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the Notes by or through a Clearstream Customer or a Euroclear Participant to a DTC participant will be received with value on the Depositary settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in the Depositary.

Although the Depositary, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Notes among participants of the Depositary, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

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## UNITED STATES TAXATION

### General

This section summarizes the material U.S. federal tax consequences of ownership and disposition of the Notes. However, the discussion is limited in the following ways:

The discussion only covers you if you buy your Notes in the initial offering at the price set forth on the cover page.

The discussion only covers you if you hold your Notes as capital assets (that is, for investment purposes), and if you do not have a special tax status such as:

certain financial institutions;

insurance companies;

dealers in securities;

U.S. Holders whose functional currency is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or

persons subject to the alternative minimum tax.

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of Notes.

The discussion is based on current law. Changes in the law may change the tax treatment of the Notes possibly with a retroactive effect.

The discussion does not cover state, local or foreign law.

We have not requested a ruling from the Internal Revenue Service (the "IRS") on the tax consequences of owning and disposing of the Notes. As a result, the IRS could disagree with portions of this discussion.

**If you are considering buying Notes, we suggest that you consult your tax advisor about the tax consequences of holding the Notes in your particular situation.**

### Tax Consequences to U.S. Holders

This section applies to you if you are a "U.S. Holder." A "U.S. Holder" is a beneficial owner of a Note that is for U.S. federal income tax purposes:

an individual U.S. citizen or resident alien;

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a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state);

an estate whose world-wide income is subject to U.S. federal income tax; or

a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons has the authority to control all substantial decisions of the trust or (ii) the trust has in effect a valid election to be treated as a U.S. person under applicable Treasury regulations.

If a partnership holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding Notes, we suggest that you consult your tax advisor.

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### *Interest*

If you are a cash method taxpayer (including most individual holders), you must report interest on the Notes as ordinary income when you receive it.

If you are an accrual method taxpayer, you must report interest on the Notes as ordinary income as it accrues.

### *Sale, Redemption or Retirement of Notes*

On your sale, redemption or retirement of your Note:

You will have taxable gain or loss equal to the difference between the amount realized by you and your tax basis in the Note. Your tax basis in the Note is your cost, subject to certain adjustments.

Your gain or loss will generally be capital gain or loss, and will be long term capital gain or loss if you held the Note for more than one year.

If you sell the Note between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the Note but has not yet been paid by the sale date. That amount is treated as ordinary interest income as described above under " Interest."

### *Information Reporting and Backup Withholding*

Under the tax rules concerning information reporting to the IRS:

Assuming you hold your Notes through a broker or other securities intermediary, the intermediary must provide information to the IRS and to you on IRS Form 1099 concerning interest and retirement proceeds on your Notes as well as on proceeds from sale or other disposition of the Notes, unless an exemption applies.

Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

If you are subject to these requirements but do not comply, the intermediary must withhold at a rate currently equal to 28% (and scheduled to increase to 31% in 2011) of all amounts payable to you on the Notes (including principal payments and sale proceeds). This is called "backup withholding". If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.

All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

### **Tax Consequences to Non-U.S. Holders**

This section applies to you if you are a "Non-U.S. Holder." A "Non-U.S. Holder" is a beneficial owner of a Note (other than a partnership) that is not a U.S. Holder.

#### *Withholding Taxes*

Generally, payments of principal and interest on the Notes will not be subject to U.S. withholding taxes.





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However, in the case of interest, for the exemption from withholding taxes to apply to you, you must meet one of the following requirements:

You provide a completed Form W-8BEN (or substitute form) to the bank, broker or other intermediary through which you hold your Notes. The Form W-8BEN contains your name, address and a statement that you are the beneficial owner of the Notes and that you are not a U.S. person.

You hold your Notes directly through a "qualified intermediary," and the qualified intermediary has sufficient information in its files indicating that you are not a U.S. person. A qualified intermediary is a bank, broker or other intermediary that (1) is either a U.S. or non-U.S. entity, (2) is acting out of a non-U.S. branch or office and (3) has signed an agreement with the IRS providing that it will administer all or part of the U.S. tax withholding rules under specified procedures.

You are entitled to an exemption from withholding tax on interest under a tax treaty between the U.S. and your country of residence. To claim this exemption, you generally must complete Form W-8BEN and claim this exemption on the form. In some cases, you may instead be permitted to provide documentary evidence of your claim to the intermediary, or a qualified intermediary may already have some or all of the necessary evidence in its files.

The interest income on the Notes is effectively connected with the conduct of your trade or business in the U.S., and is not exempt from U.S. tax under a tax treaty. To claim this exemption, you must complete Form W-8ECI.

Even if you meet one of the above requirements, interest paid to you will be subject to withholding tax under any of the following circumstances:

The withholding agent or an intermediary knows or has reason to know that you are not entitled to an exemption from withholding tax. Specific rules apply for this test.

The IRS notifies the withholding agent that information that you or an intermediary provided concerning your status is false.

An intermediary through which you hold the Notes fails to comply with the procedures necessary to avoid withholding taxes on the Notes. In particular, an intermediary is generally required to forward a copy of your Form W-8BEN (or other documentary information concerning your status) to the withholding agent for the Notes. However, if you hold your Notes through a qualified intermediary or if there is a qualified intermediary in the chain of title between yourself and the withholding agent for the Notes the qualified intermediary will not generally forward this information to the withholding agent.

You own 10% or more of the voting stock of IBM, are a "controlled foreign corporation" related directly or indirectly to IBM through stock ownership, or are a bank making a loan in the ordinary course of its business. In these cases, you will be exempt from withholding taxes only if you are eligible for a treaty exemption or if the interest income is effectively connected with the conduct of your trade or business in the U.S., and you provide us with a properly executed form W-8BEN or W-8ECI as discussed above.

Interest payments made to you will generally be reported to the IRS and to you on Form 1042-S. However, this reporting does not apply to you if you hold your Notes directly through a qualified intermediary and the applicable procedures are complied with.

The rules regarding withholding are complex and vary depending on your individual situation. They are also subject to change. In addition, special rules apply to certain types of non-U.S. holders of Notes, including partnerships, trusts and other entities treated as pass-through entities for U.S. federal

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income tax purposes. We suggest that you consult with your tax advisor regarding the specific methods for satisfying these requirements.

### *Sale, Redemption or Retirement of Notes*

If you sell a Note or it is redeemed, you will not be subject to U.S. federal income tax on any gain unless one of the following applies:

The gain is connected with a trade or business that you conduct in the U.S.

You are an individual, you are present in the U.S. for at least 183 days during the taxable year in which you dispose of the Note, and certain other conditions are satisfied.

The gain represents accrued interest, in which case the rules for interest would apply.

### *U.S. Trade or Business*

If you hold your Note in connection with a trade or business that you are conducting in the U.S.:

Any interest on the Note, and any gain from disposing of the Note, generally will be subject to income tax as if you were a U.S. person.

If you are a corporation, you may be subject to the "branch profits tax" on your earnings that are connected with your U.S. trade or business, including earnings from the Note. This tax rate is 30%, but may be reduced or eliminated by an applicable income tax treaty.

### *Estate Taxes*

If you are an individual and at the time of death you are not a citizen or resident of the United States (as defined for U.S. federal estate tax purposes), your Notes will not be subject to U.S. estate tax when you die. However, this rule only applies if, at your death, payments on the Notes were not effectively connected with a trade or business that you were conducting in the U.S. or you did not own, actually or constructively, 10% or more of the total combined voting power of IBM.

### *Information Reporting and Backup Withholding*

U.S. rules concerning information reporting and backup withholding are described above. These rules apply to Non-U.S. Holders as follows:

Principal and interest payments you receive will be automatically exempt from the usual rules if you are a Non-U.S. person exempt from withholding tax on interest, as described above. The exemption does not apply if the withholding agent or an intermediary knows or has reason to know that you should be subject to the usual information reporting or backup withholding rules. In addition, as described above, interest payments made to you may be reported to the IRS on Form 1042-S.

Sale proceeds you receive on a sale of your Notes through a broker may be subject to information reporting and/or backup withholding if you are not eligible for an exemption. In particular, information reporting and backup reporting may apply if you use the U.S. office of a broker, and information reporting (but not backup withholding) may apply if you use the foreign office of a broker that has certain connections to the U.S.

In general, you may file Form W-8BEN to claim an exemption from information reporting and backup withholding. We suggest that you consult your tax advisor concerning information reporting and backup withholding on a sale.



## UNDERWRITING

Barclays Capital Inc. and UBS Securities LLC are acting as joint bookrunning managers of the offering, and as representatives of the underwriters named below.

Subject to terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has severally agreed to purchase, and IBM has agreed to sell to that underwriter, the principal amount of Notes set forth opposite the underwriter's name.

Underwriter	Principal Amount of Notes
Barclays Capital Inc.	\$ 425,000,000
UBS Securities LLC	425,000,000
BBVA Securities Inc.	75,000,000
UniCredit Capital Markets, Inc.	75,000,000
<b>Total</b>	<b>\$ 1,000,000,000</b>

The underwriting agreement provides that the obligation of the several underwriters to pay for and accept delivery of the Notes is subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the Notes if any are taken.

IBM has been advised by the underwriters that the underwriters propose to offer the Notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and may offer some of the Notes to dealers at the public offering price less a concession not to exceed 0.060% of the principal amount of the Notes. Any underwriter may allow, and such dealers may reallow, a concession not in excess of 0.025% of the principal amount per Note to certain other dealers. After the initial offering of the Notes to the public, the representatives may change the public offering price. The offering of the Notes by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

The following table shows the underwriting discounts and commission that IBM is to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the Notes).