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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, 1998
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:

<u>Title of each class</u>	<u>Voting shares outstanding at March 1, 1999</u>	<u>Name of each exchange on which registered</u>
Capital stock, par value \$.50 per share	920,650,847	New York Stock Exchange Chicago Stock Exchange Pacific Stock Exchange
Depository shares each representing one-fourth of a share of 7½% preferred stock, par value \$.01 per share		New York Stock Exchange
6.375% Notes due 2000		New York Stock Exchange
7.25% Notes due 2002		New York Stock Exchange
6.45% Notes due 2007		New York Stock Exchange
5.375% Notes due 2009		New York Stock Exchange
7.50% Debentures due 2013		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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 1, 1999, was \$155.0 billion.

Documents incorporated by reference:

Portions of IBM's Annual Report to Stockholders for the year ended December 31, 1998, into Parts I, II and IV of Form 10-K.

Portions of IBM's definitive Proxy Statement dated March 23, 1999, into Part III of Form 10-K.

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PART I

Item 1. Business:

IBM was incorporated in the State of New York on June 15, 1911, as the Computer-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. In 1924, C-T-R adopted the name International Business Machines Corporation.

IBM is in the business of providing customer solutions through the use of advanced information technology. The company operates primarily in a single industry utilizing several segments that create value by offering a variety of solutions that include, either singularly or in some combination, technologies, systems, products, services, software and financing.

Organizationally, the company's major operations consist of three hardware segments: Technology, Personal Systems and Server; a Global Services segment; a Software segment; a Global Financing segment and a series of Enterprise Investments.

IBM offers its products through its global sales and distribution organization. The sales and distribution organization has both a geographic focus (in the Americas, Europe/Middle East/Africa, and Asia Pacific) and a specialized and global industry focus. In addition, this organization includes a global sales and distribution organization devoted exclusively to small and medium businesses. IBM also offers its products through a variety of third party distributors and resellers.

While IBM's various proprietary intellectual property rights are important to its success, IBM believes its business as a whole is not materially dependent upon any particular patent or license, or any particular group of patents or licenses. IBM owns or is licensed under a number of patents relating to its products. Licenses under patents owned by IBM have been and are being granted to others under reasonable terms and conditions. IBM protects its intellectual property rights in a variety of ways. These protections may not prevent competitors from independently developing products and services similar to or duplicative of the company's nor can there be any assurance that these protections will adequately deter misappropriation or improper use of the company's technology. There can also be no assurances that IBM will be able to obtain from third parties the licenses it needs in the future.

IBM's businesses employ a wide variety of components, supplies and raw materials from a substantial number of suppliers around the world. To date, the company has found that the components, supplies and raw materials necessary for the manufacture, production and delivery of its products and services have been available in the quantities required. Certain of the company's businesses may rely on a single or limited number of suppliers, although the company makes every effort to assure the alternative sources are available if the need arises. The failure of the company's suppliers to deliver components, supplies and raw material in sufficient quantities and in a timely manner could adversely affect the company's business.

IBM's revenues are affected by such factors as the introduction of new products, the length of the sales cycles and the seasonality of technology purchases. As a result, the company's results are difficult to predict and the seasonality of technology purchases have historically resulted in first quarter revenues lower than revenues for the immediately preceding fourth quarter.

The value of unfilled orders is not a meaningful indicator of future revenues due to the significant proportion of revenue from services, the volume of products delivered from shelf inventories, and the shortening of product delivery schedules. Therefore, the company believes that backlog information is not material to an understanding of its business.

The company operates in businesses that are subject to intense competitive pressures. The company's businesses face a significant number of competitors, ranging from Fortune 50 companies to an increasing number of relatively small, rapidly growing and highly specialized organizations. The company believes

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that its combination of technology, performance, quality, reliability, price and the breadth of products and service offerings are important competitive factors.

Intense competitive pressures could affect prices or demand for IBM's products and services, resulting in reduced profit margins and/or loss of market opportunity. Unlike many of its competitors, IBM has a portfolio of businesses and must allocate resources across these businesses while competing with companies that specialize in one or more of these product lines. As a result, IBM may not fund or invest in certain of its businesses to the same degree that its competitors do and these companies may have greater financial, technical and marketing resources available to them than the businesses of IBM against which they compete.

IBM operates in more than 150 countries worldwide and derives more than half of its revenues from sales outside the United States. Changes in the laws or policies of the countries in which IBM operates could affect its business in that country and its results of operations. IBM's results of operations could also be affected by economic changes in those countries and by macroeconomic changes, including recessions and inflation. For example, weakness in the Asian and Latin American economies has had an adverse impact on IBM's business in 1998.

The following information is included in IBM's 1998 Annual Report to Stockholders and is incorporated herein by reference:

- Segment information and revenue by classes of similar products or services—Pages 84 through 89.
- Financial information by geographic areas—Page 89.
- Amount spent during each of the last three years on research and development activities—Page 78.
- Financial information regarding environmental activities—Page 76.
- The number of persons employed by the registrant—Page 62.
- The management discussion overview—Page 54.

Forward-looking and Cautionary Statements: Certain statements contained in this Annual Report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). 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. In accordance with the Reform Act, set forth below are cautionary statements that accompany those forward-looking statements. Readers should carefully review these 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. The following cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Annual Report, in the company's filings with the Securities and Exchange Commission or in materials incorporated herein or therein by reference.

New Products and the Pace of Technological Change: The company's results of operations depend upon the continued successful development and marketing of new and innovative products and services. The development of new products and services requires significant capital investments by the company's various businesses and the success of these products and services depends on their acceptance by customers and business partners. Further, the company's businesses are characterized by rapid technological changes and corresponding shifts in customer demand, resulting in unpredictable product transitions, shortened life cycles and an increasing emphasis on being first to market with new products and services.

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There can be no assurance that the company will successfully introduce new products and services, that these products and services will be accepted by customers, or that the company's businesses will recoup or realize a return on their capital investments. In addition, from time to time the company may experience difficulties or delays in the development, production or marketing of new products and services.

Volatility of Stock Prices: The company's stock price is affected by a number of factors, including quarterly variations in results, the competitive landscape, general economic and market conditions and estimates and projections by the investment community. As a result, like other technology companies, the company's stock price is subject to significant volatility.

Dependence on Key Personnel: Much of the future success of the company depends on the continued service and availability of skilled personnel, including technical, marketing and staff positions. Experienced personnel in the information technology industry are in high demand and competition for their talents is intense. There can be no assurance that the company will be able to successfully retain and attract the key personnel it needs.

Currency and Customer Financing Risks: The company derives a significant percentage of its non-U.S. revenues from its affiliates operating in local currency environments and its 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 risk and the creditworthiness of the customer, interest rate and currency fluctuations on the associated debt and liabilities and the determination of residual values. The company employs a number of strategies to manage these risks, including the use of derivative financial instruments. Derivatives involve the risk of non-performance by the counterparty. In addition, there can be no assurance that the company's efforts to manage these risks will be successful.

Distribution Channels: The company offers its products directly and through a variety of third party distributors and resellers. Changes in the financial or business condition of these distributors and resellers could subject the company to losses and affect its ability to bring its products to market.

Acquisitions and Alliances: The company has made and expects to continue to make acquisitions or enter into alliances from time to time. 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.

Item 2. Properties:

At December 31, 1998, IBM's manufacturing and development facilities in the United States had aggregate floor space of 41.7 million square feet, of which 34.0 million were owned and 7.7 million were leased. Of these amounts, 3.1 million square feet were vacant and 1.9 million square feet were being leased to non-IBM businesses. Similar facilities in 17 other countries totaled 18.0 million square feet, of which 13.7 million were owned and 4.3 million were leased. Of these amounts, .9 million square feet were vacant and .6 million square feet were being leased to non-IBM businesses.

Although improved production techniques, productivity gains, and infrastructure reduction actions have resulted in reduced manufacturing floor space, continuous upgrading of facilities is essential to maintain technological leadership, improve productivity and meet customer demand. For additional information on expenditures for plant, rental machines and other property, refer to "Investments" on page 59 of IBM's 1998 Annual Report to Stockholders which is incorporated herein by reference.

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Executive Officers of the Registrant (at March 29, 1999):

	<u>Age</u>	<u>Officer since</u>
Chairman of the Board of Directors and Chief Executive Officer		
Louis V. Gerstner, Jr.(1)	57	1993
Senior Vice Presidents		
J. Thomas Bouchard, Human Resources	58	1994
Nicholas M. Donofrio, Group Executive	53	1995
William A. Etherington, Group Executive	57	1998
J. Bruce Harreld, Strategy	48	1995
Paul M. Horn, Research	52	1996
Abby F. Kohnstamm, Marketing	45	1998
Douglas L. Maine, Chief Financial Officer	50	1998
Samuel J. Palmisano, Group Executive	47	1997
Lawrence R. Ricciardi, General Counsel	58	1995
Robert M. Stephenson, Group Executive	60	1995
David M. Thomas, Group Executive	49	1998
John M. Thompson, Group Executive	56	1989
James T. Vanderslice, Group Executive	58	1998
Vice Presidents		
Mark Loughridge, Controller	45	1998
Daniel E. O'Donnell, Secretary	51	1998
Jeffrey D. Serkes, Treasurer	40	1994

(1) Member of the Board of Directors.

All 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 officer named above, with the exception of J. Thomas Bouchard, J. Bruce Harreld, Douglas L. Maine, Lawrence R. Ricciardi and Jeffery D. Serkes, has been an executive of IBM or its subsidiaries during the past five years.

Mr. Bouchard was senior vice president, human resources, of U.S. West, Inc., a telecommunications company, from 1989 until joining IBM in 1994. Prior to 1989, he spent 15 years with United Technologies Corporation in a variety of executive positions, including senior vice president of human resources.

Mr. Harreld was president of Boston Chicken, Inc., a company which operates and franchises foodservice stores, from 1993 until joining IBM in 1995. Prior to that he was senior vice president, marketing and information services, at Kraft General Foods, Inc. where he also served as the company's chief information officer from 1989 to 1992.

Mr. Maine was chief financial officer and executive vice president of MCI Communications, a long-distance telecommunications company, from 1992 until joining IBM in 1998. Prior to that he also served in several executive positions, including controller, senior vice president-finance and president of a 14 state operating division.

Mr. Ricciardi was president of RJR Nabisco, Inc., an international consumer products company, from 1993 until joining IBM in 1995. From 1989 to 1993, he also served as executive vice president and general counsel at RJR Nabisco, Inc. Prior to 1989, he was executive vice president and general counsel of American Express Travel Related Services Company, Inc.

Mr. Serkes was vice president and deputy treasurer at RJR Nabisco, Inc., an international consumer products company, from 1993 until joining IBM in 1994. From 1987 to 1993, he also served as vice president and assistant treasurer, corporate finance; director, capital markets; and manager, foreign exchange at RJR Nabisco, Inc.

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Item 3. Legal Proceedings:

Refer to note P "Contingencies" on page 77 of IBM's 1998 Annual Report to Stockholders which is incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders:

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters:

Refer to pages 90 and 91 of IBM's 1998 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, Chicago Stock Exchange and Pacific Stock Exchange. There were 618,962 common stockholders of record at March 1, 1999.

Item 6. Selected Financial Data:

Refer to page 90 of IBM's 1998 Annual Report to Stockholders which is incorporated herein by reference.

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

Refer to pages 54 through 63 of IBM's 1998 Annual Report to Stockholders which are incorporated herein by reference.

Item 7a. Quantitative and Qualitative Disclosures About Market Risks:

Refer to the section titled "Market Risk" on pages 60 and 61 of IBM's 1998 Annual Report to Stockholders which is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data:

Refer to pages 52 and 53, and 64 through 89 of IBM's 1998 Annual Report to Stockholders which are incorporated herein by reference. Also refer to the Financial Statement Schedule on page S-1 of this Form.

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

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant:

Refer to pages 5 through 7 of IBM's definitive Proxy Statement dated March 23, 1999, which are incorporated herein by reference. Also refer to Item 2 entitled "Executive Officers of the Registrant" in Part I of this Form.

Item 11. Executive Compensation:

Refer to pages 12 through 20 of IBM's definitive Proxy Statement dated March 23, 1999, which are incorporated herein by reference.

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Item 12. Security Ownership of Certain Beneficial Owners and Management:

(a) Security Ownership of Certain Beneficial Owners:

Not applicable.

(b) Security Ownership of Management:

Refer to the section entitled "Ownership of Securities—Common Stock and Total Stock-Based Holdings" appearing on pages 10 and 11 of IBM's definitive Proxy Statement dated March 23, 1999, which are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions:

Refer to the section entitled "Other Relationships" appearing on page 9 of IBM's definitive Proxy Statement dated March 23, 1999, which is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K:

(a) The following documents are filed as part of this report:

1. Financial statements from IBM's 1998 Annual Report to Stockholders which are incorporated herein by reference:

Report of Independent Accountants (page 53).

Consolidated Statement of Earnings for the years ended December 31, 1998, 1997 and 1996 (page 64).

Consolidated Statement of Financial Position at December 31, 1998 and 1997 (page 65).

Consolidated Statement of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996 (pages 66 and 67).

Consolidated Statement of Cash Flows for the years ended December 31, 1998, 1997 and 1996 (page 68).

Notes to Consolidated Financial Statements (pages 69 through 89).

2. Financial statement schedules required to be filed by Item 8 of this Form:

<u>Page</u>	<u>Schedule Number</u>	
11		Report of Independent Accountants on Financial Statement Schedule
S-1	II	Valuation and Qualifying Accounts

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

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3. Exhibits:

Included in this Form 10-K:

I—Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

II—Parents and Subsidiaries.

III—Consent of Independent Accountants.

IV—Additional Exhibits (a) Quarterly Consolidated Statement of Earnings—Restated 1998.

V—IBM's 1998 Annual Report to Stockholders, certain sections of which have been incorporated herein by reference.

VI—Powers of Attorney.

VII—Financial Data Schedule.

Not included in this Form 10-K:

—The Certificate of Incorporation of IBM is Exhibit (3)(i) to Form 8-K dated April 29, 1997, and is hereby incorporated by reference.

—The By-laws of IBM as amended through October 27, 1998, is Exhibit 3 to Form 10-Q for the quarter ended September 30, 1998, and is hereby incorporated by reference.

—The IBM 1997 Long-Term Performance plan, a compensatory plan, is contained in Registration Statement No. 333-31305 on Form S-8, filed on July 15, 1997, and is hereby incorporated by reference.

—The IBM 1994 Long-Term Performance Plan, a management compensatory plan, is contained in Registration Statement No. 33-53777 on Form S-8, filed on May 24, 1994, and is hereby incorporated by reference.

—Board of Directors compensatory plans, as described under "Directors' Compensation" on pages 9 and 10 of IBM's definitive Proxy Statement dated March 23, 1999, which is incorporated herein by reference.

—IBM Board of Directors Deferred Compensation and Equity Award Plan is Exhibit X to Form 10-K for the year ended December 31, 1996, and is hereby incorporated by reference.

—The Employment Agreement for L.V. Gerstner, Jr. is Exhibit 19 to Form 10-Q dated March 31, 1993, and is hereby incorporated by reference.

—Amendment to Employment Agreement for L.V. Gerstner, Jr. dated as of January 1, 1996, is Exhibit XI to Form 10-K for the year ended December 31, 1996, and is hereby incorporated by reference.

—Second Amendment to Employment Agreement for L.V. Gerstner, Jr. dated as of November 17, 1997, is Exhibit VI to Form 10-K for the year ended December 31, 1997, and is hereby incorporated by reference.

—The instruments defining the rights of the holders of the 7.25% Notes due 2002 are Exhibits 4(a) through 4(l) to Registration Statement No. 33-33590 on Form S-3, filed on February 22, 1990, and are hereby incorporated by reference.

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- The instruments defining the rights of the holders of the 6.375% Notes due 2000 and the 7.50% Debentures due 2013 are Exhibits 4(a) through 4(l) to Registration Statement No. 33-49475(1) on Form S-3, filed May 24, 1993, and are hereby incorporated by reference.
- The instruments defining the rights of holders of the 8.375% Debentures due 2019 are Exhibits 4(a)(b)(c) and (d) to Registration Statement 33-31732 on Form S-3, filed on October 24, 1989, and are hereby incorporated by reference.
- The instruments defining the rights of holders of the 7.00% Debentures due 2025 and the 7.00% Debentures due 2045 are Exhibits 2 and 3 to Form 8-K, filed on October 30, 1995, and are hereby incorporated by reference.
- The instrument defining the rights of 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 instruments defining the rights of the holders of the 6.45% Notes due 2007 and the 6.22% Debentures due 2027 are Exhibits 2 and 3 to Form 8-K, filed on August 1, 1997, and is hereby incorporated by reference.
- The instruments 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 5.375% Notes due 2009 is Exhibit 2 to Form 8-K, filed on January 29, 1999, and is hereby incorporated by reference.
- The IBM Supplemental Executive Retirement Plan is Exhibit IX to Form 10-K for the year ended December 31, 1994, and is hereby incorporated by reference.
- The IBM Extended Tax Deferred Savings Plan is Exhibit X to Form 10-K for the year ended December 31, 1994, and is hereby incorporated by reference.
- IBM's definitive Proxy Statement dated March 23, 1999, certain sections of which have been incorporated herein by reference.

(b) Reports on Form 8-K:

A Form 8-K dated October 20, 1998, was filed with respect to the company's financial results for the periods ended September 30, 1998, and included unaudited consolidated financial statements for the period ended September 30, 1998.

A Form 8-K dated December 16, 1998, was filed for the press release announcing the execution of definitive agreements between IBM and AT&T, pursuant to which, among other things, AT&T will acquire the assets of the IBM Global Network from IBM, is hereby incorporated by reference.

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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/ LOUIS V. GERSTNER, JR.
 (Louis V. Gerstner, Jr.
*Chairman of the Board of Directors
 and Chief Executive Officer*)

Date: March 29, 1999

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u> /s/ DOUGLAS L. MAINE </u> (Douglas L. Maine)	Senior Vice President, Chief Financial Officer	March 29, 1999
<u> /s/ MARK LOUGHRIDGE </u> (Mark Loughridge)	Vice President and Controller	March 29, 1999

CATHLEEN BLACK Director
 KENNETH I. CHENAULT Director
 JUERGEN DORMANN Director
 NANNERL O. KEOHANE Director
 CHARLES F. KNIGHT Director
 MINORU MAKIHARA Director
 LUCIO A. NOTO Director
 JOHN B. SLAUGHTER Director
 ALEX TROTMAN Director
 LODEWIJK C. van WACHEM Director
 CHARLES M. VEST Director

By: /s/ DANIEL E. O'DONNELL
 (Daniel E. O'Donnell)
Attorney-in-fact
 March 29, 1999

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**REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULE**

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

Our audits of the consolidated financial statements referred to in our report dated January 21, 1999, appearing on page 53 of the 1998 Annual Report to Stockholders of International Business Machines Corporation, (which report and consolidated financial statements are incorporated by reference in Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule in Item 14(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
1301 Avenue of the Americas
New York, N.Y. 10019
January 21, 1999

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SCHEDULE II

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

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Net change(A)</u>	<u>Balance at end of period</u>
1998			
Account deducted from assets:			
Allowance for doubtful accounts			
—Current	\$775	\$ 19	\$794
—Non-current	\$164	\$ 31	\$195
1997			
Account deducted from assets:			
Allowance for doubtful accounts			
—Current	\$787	\$ (12)	\$775
—Non-current	\$164	\$ 0	\$164
1996			
Account deducted from assets:			
Allowance for doubtful accounts			
—Current	\$790	\$ (3)	\$787
—Non-current	\$174	\$ (10)	\$164

(A) Includes additions charged to costs and expenses less accounts written off and translation adjustments.

Note—

The receivables upon which the above allowances are based are highly diversified by geography, industry and individual customer. The allowances for receivable losses at year-end 1998 approximate less than three percent of the company's current receivables and less than one and one-half percent the company's non-current receivables. The allowances for receivable losses at year-end 1997 approximate less than three and one-quarter percent of the company's current receivables and less than one and one-half percent of the company's non-current receivables. The allowances for receivable losses at year-end 1996 approximate less than three and one-half percent of the company's current receivables and one and one-half percent of the company's non-current receivables.

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EXHIBIT INDEX

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)	<p>Certificate of Incorporation and By-laws.</p> <p>The Certificate of Incorporation of IBM is Exhibit (3)(i) to Form 8-K dated April 29, 1997, and is hereby incorporated by reference.</p> <p>The By-laws of IBM as amended through October 27, 1998, is Exhibit 3 to Form 10-Q for the quarter ended September 30, 1998, and is hereby incorporated by reference.</p>	
(4)	<p>Instruments defining the rights of security holders.</p> <p>The instruments defining the rights of the holders of the 7.25% Notes due 2002 are Exhibits 4(a) through 4(l) to Registration Statement No. 33-33590 on Form S-3, filed February 22, 1990, and are hereby incorporated by reference.</p> <p>The instruments defining the rights of the holders of the 6.375% Notes due 2000 and the 7.50% Debentures due 2013 are Exhibits 4(a) through 4(l) to Registration Statement No. 33-49475(1) on Form S-3, filed on May 24, 1993, and are hereby incorporated by reference.</p> <p>The instruments defining the rights of the holders of the 8.375% Debentures due 2019 are Exhibits 4(a)(b)(c) and (d) to Registration Statement No. 33-31732 on Form S-3, filed on October 24, 1989, are hereby incorporated by reference.</p> <p>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 to Form 8-K, filed on October 30, 1995, and are hereby incorporated by reference.</p> <p>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.</p> <p>The instruments defining the rights of the holders of the 6.5% Notes due 2007 and the 6.22% Debentures due 2027 are Exhibits 2 and 3 to Form 8-K, filed on August 1, 1997, and is hereby incorporated by reference.</p> <p>The instrument defining the rights of the holders of the 6.5% Debentures due 2028 is Exhibit 2 to Form 8-K, filed on January 8, 1998, and is hereby incorporated by reference.</p> <p>The instrument defining the rights of the holders of the 5.375% Notes due 2009 is Exhibit 2 to Form 8-K, filed on January 29, 1999, and is hereby incorporated by reference.</p>	
(9)	Voting trust agreement.	Not applicable
(10)	<p>Material contracts.</p> <p>The IBM 1997 Long-Term Performance plan, a compensatory plan, is contained in Registration Statement No. 333-31305 on Form S-8, filed on July 15, 1997, and is hereby incorporated by reference.</p> <p>A copy of the IBM 1994 Long-Term Performance Plan is contained in Registration Statement No. 33-53777 on Form S-8, filed on May 24, 1994, and is hereby incorporated by reference.</p>	

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Reference Number per Item 601 of Regulation S-K	Description of Exhibits	Exhibit Number in this Form 10-K
	Board of Directors compensatory arrangements as described under “Directors’ Compensation” on pages 9 and 10 of IBM’s definitive Proxy Statement dated March 23, 1999, and is hereby incorporated by reference.	
	The IBM Supplemental Executive Retirement Plan is Exhibit IX to Form 10-K for the year ended December 31, 1994, and is hereby incorporated by reference.	
	The IBM Extended Tax Deferred Savings Plan is Exhibit X to Form 10-K for the year ended December 31, 1994, and is hereby incorporated by reference.	
	The IBM Board of Directors Deferred Compensation and Equity Award Plan is Exhibit X to Form 10-K for the year ended December 31, 1996, and is hereby incorporated by reference.	
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	The Employment Agreement for L.V. Gerstner, Jr. is Exhibit 19 to Form 10-Q dated March 31, 1993, and is hereby incorporated by reference.	
	Amendment to Employment Agreement for L.V. Gerstner, Jr. dated as of January 1, 1996, is Exhibit XI to Form 10-K for the year ended December 31, 1996, and is hereby incorporated by reference.	
	Second Amendment to Employment Agreement for L.V. Gerstner, Jr., dated as of November 17, 1997, is Exhibit VI to Form 10-K for the year ended December 31, 1997, and is hereby incorporated by reference.	
(11)	Statement re computation of per share earnings. The statement re computation of per share earnings is note T “Earnings Per Share of Common Stock” on page 79 of IBM’s 1998 Annual Report to Stockholders, which is incorporated herein by reference.	
(12)	Statement re computation of ratios.	I
(13)	Annual report to security holders.	V
(18)	Letter re change in accounting principles.	Not applicable
(19)	Previously unfiled documents.	Not applicable
(21)	Subsidiaries of the registrant.	II
(22)	Published report regarding matters submitted to vote of security holders.	Not applicable
(23)	Consents of experts and counsel.	III
(24)	Powers of attorney.	VI
(27)	Financial Data Schedule.	VII
(28)	Information from reports furnished to state insurance regulatory authorities.	Not applicable
(99)	Additional exhibits.	IV

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EXHIBIT I

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
 EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
 (Unaudited)**

	Year Ended December 31:				
	1998	1997	1996	1995	1994
	(Dollars in Millions)				
Earnings before income taxes and change in accounting principles(1)	\$ 8,997	\$ 9,054	\$ 8,599	\$7,910	\$5,253
Add:					
Fixed charges, excluding capitalized interest	<u>2,036</u>	<u>2,000</u>	<u>1,942</u>	<u>1,972</u>	<u>2,450</u>
Earnings as adjusted	<u>\$11,033</u>	<u>\$11,054</u>	<u>\$10,541</u>	<u>\$9,882</u>	<u>\$7,703</u>
Fixed charges:					
Interest expense	\$ 1,559	\$ 1,573	\$ 1,545	\$1,591	\$2,025
Capitalized interest	28	32	31	23	20
Portion of rental expense representative of interest . .	477	427	397	381	425
Total fixed charges	<u>\$ 2,064</u>	<u>\$ 2,032</u>	<u>\$ 1,973</u>	<u>\$1,995</u>	<u>\$2,470</u>
Preferred stock dividends(2)	<u>29</u>	<u>29</u>	<u>32</u>	<u>37</u>	<u>144</u>
Combined fixed charges and preferred stock dividends .	<u>\$ 2,093</u>	<u>\$ 2,061</u>	<u>\$ 2,005</u>	<u>\$2,032</u>	<u>\$2,614</u>
Ratio of earnings to fixed charges	5.3	5.4	5.3	5.0	3.1
Ratio of earnings to combined fixed charges and preferred stock dividends	5.3	5.4	5.3	4.9	2.9

- (1) Earnings before income taxes and changes in accounting principle excludes both amortization expense of capitalized interest as well as the company's share in the income and losses of less-than-fifty-percent-owned affiliates.
- (2) The company reported preferred stock dividends of \$20 million for year-end 1998, 1997 and 1996, respectively. Excluded from the ratio computation for the year end 1995 are transaction costs of \$42 million relating to the repurchase of Series A 7½ percent preferred stock depository shares. Included are preferred stock dividends of \$20 million, for 1998, 1997, and 1996, respectively, or \$29 million for 1998 and 1997 and \$32 million for 1996 representing the pre-tax income which would be required to cover such dividend requirements based on the company's effective tax rate for year end 1998, 1997 and 1996, respectively. For the 1995 and 1994 year ends, preferred stock dividends are also on a pre-tax basis.

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EXHIBIT II

PARENTS AND SUBSIDIARIES

PARENTS AND SUBSIDIARIES

As of December 31, 1998

	State or country of incorporation or organization	Percentage of voting securities owned by its immediate parent
Registrant:		
International Business Machines Corporation	New York	
Subsidiaries:		
IBM Credit Corporation	Delaware	100
Lotus Development Corporation	Massachusetts	100
Tivoli Systems Inc.	Delaware	100
IBM World Trade Corporation	Delaware	100
IBM Asia Pacific Service Corporation	Japan	100
IBM China/Hong Kong Corporation	Delaware	100
IBM World Trade Asia Corporation	Delaware	100
WTC Insurance Corporation, Ltd.	Bermuda	100
IBM Argentina, S.A.	Argentina	100(C)
IBM Australia Ltd.	Australia	100
IBM Bahamas Ltd.	Bahamas	100
IBM de Bolivia, S.A.	Bolivia	100
IBM Brasil-Industria, Maquinas e Servicos Ltda	Brazil	100(C)
IBM Foreign Sales Corporation	Barbados	100
General Business Machines Corp.	British V.I.	10
IBM Canada Credit Services Company	Canada	100
IBM Canada Limited—IBM Canada Limitee	Canada	100
IBM China Company Limited	China	100
IBM de Chile, S.A.C	Chile	100(C)
IBM de Colombia, S.A.	Colombia	90(C)
IBM Middle East FZE	United Arab Emirates	100
IBM Middle East Dubai Airport Free Zone FZE	United Arab Emirates	100
IBM del Ecuador, C.A.	Ecuador	100
IBM Global Services India Pvt. Ltd	India	80(E)
Tata IBM Ltd.	India	50
IBM Japan, Ltd.	Japan	100
IBM Korea, Inc.	Korea (South)	100
Mesiniaga Berhad	Malaysia	10
Sunway Computer Services Sdn. Bhd	Malaysia	20
Arrendadora de Tecnologia e Informatica, S.A. de C.V., Organizacion Auxiliar del Credito	Mexico	86(C)
Financiera de Tecnologia e Informatica S.A. de C.A., Sociedad Financiera del Objecto Limitado Filial	Mexico	100(C)
Grupo IBM Mexico, S.A. de C.V	Mexico	100(A)
IBM de Mexico, S.A.	Mexico	100(A)
IBM New Zealand Ltd.	New Zealand	100
IBM del Peru, S.A.	Peru	100
IBM World Trade Asia-Pacific Corp.	Philippines	98(A)
IBM Philippines, Incorporated	Philippines	100(A)

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PARENTS AND SUBSIDIARIES

	State or country of incorporation or organization	Percentage of voting securities owned by its immediate parent
IBM Romania Srl	Romania	100
IBM Taiwan Corporation	Taiwan	100(A)
Thai Systems Corporation Ltd.	Thailand	100
IBM Thailand Company Ltd.	Thailand	100(A)
IBM del Uruguay, S.A.	Uruguay	100
IBM de Venezuela, S.A.	Venezuela	100
IBM Vietnam Company	Vietnam	100
IBM Central Europe & Russia Inc.	Delaware	100
IBM Oesterreich Internationale Bueromaschinen Gesellschaft m.b.H.	Austria	100
IBA (International Belarussia Alliance)	Belarus Republic	45
International Business Machines of Belgium S.A.	Belgium	100(C)
IBM Botswana (PTY) Limited	Botswana	100
IBM Bulgaria Ltd.	Bulgaria	100
IBM Croatia Ltd./ IBM Hrvatska d.o.o.	Croatia	100
IBM Ceska Republika spol. s.r.o.	Czech Republic	100
IBM Eesti Osauhing (IBM Estonia Ou)	Estonia	100
Compagnie IBM France, S.A.	France	100(A)
IBM Eurocoordination	France	—(B)
IBM Europe Middle East Africa	France	100(C)
IBM Beteiligungs GmbH	Germany	100
IBM Deutschland GmbH	Germany	82(C)
International Business Machines Corporation Magyarorszagi Kft	Hungary	100
IBM International Treasury Services Company	Ireland	—(D)
IBM Ireland Ltd.	Ireland	100
IBM Italia S.p.A	Italy	96(C)
IBM Hellas Information Handling Systems S.A.	Greece	100(C)
IBM Israel Ltd.	Israel	100(C)
Companhia IBM Portuguesa, S.A.	Portugal	100
IBM (International Business Machines) Turk Ltd. Sirketi	Turkey	98(C)
IBM South Africa Group Ltd.	South Africa	95(C)
IBM East Africa Limited	Kenya	67(C)
Sabiedriba ar irobezotu IBM Latvija	Latvia	100
QuanTech S.A.L.	Lebanon	15
IBM Lietuva	Lithuania	100
IBM Global Holdings B.V	Netherlands	100
IBM International Centre for Asset Management N.V.	Netherlands	100
IBM Nederland N.V.	Netherlands	100
IBM Polska Sp. z.o.o.	Poland	100
International Business Machines A/S	Norway	60(C)
IBM East Europe/Asia Ltd.	Russia	100
IBM Slovensko spol.s.r.o.	Slovak Republic	100
IBM Slovenija d.o.o.	Slovenia	100
International Business Machines, S.A.	Spain	100(C)
IBM Nordic Aktiebolag	Sweden	100
IBM Danmark A/S	Denmark	100

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PARENTS AND SUBSIDIARIES

	State or country of incorporation or organization	Percentage of voting securities owned by its immediate parent
Oy International Business Machines AB	Finland	100
IBM Svenska Aktiefbolag	Sweden	100
IBM International Centre for Asset Management A.G.	Switzerland	100
IBM (Schweiz)—IBM (Suisse)— IBM (Svizzera)—		
IBM (Switzerland)	Switzerland	100
IBM North Africa	Tunisia	99(C)
IBM United Kingdom Holdings Ltd.	United Kingdom	100
International Business Machines Limited	United Kingdom	100
IBM Zimbabwe (Private) Ltd.	Zimbabwe	100

- (A) Minor percentage held by other IBM shareholders, subject to repurchase option.
- (B) IBM Eurocoordination, is owned approximately 14% each by subsidiaries located in France, Germany, Italy and the United Kingdom and approximately 4% each by subsidiaries located in Austria, Belgium, Denmark, Finland, Ireland, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland and by four other minority shareholders.
- (C) Remaining percentage owned by another wholly-owned IBM company.
- (D) IBM France and IBM Finland each own 16.6% and IBM Denmark and IBM Switzerland each own 33.3% of IBM International Treasury Services Company.
- (E) Minor percentage held by another IBM shareholder.

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EXHIBIT III

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 2-77235, 33-29022, 33-33458, 33-34406, 33-53777, 33-60225, 33-60227, 33-60237, 33-60815, 333-01411, 333-09055, 333-23315, 333-31305, 333-41813, 333-44981 and 333-48435) and the Prospectuses constituting part of the Registration Statements on Form S-3 (Nos. 33-50537, 33-65119, 33-65119(1), 333-03763, 333-21073, 333-27669, 333-40669 and 333-70521) of International Business Machines Corporation of our report dated January 21, 1999, appearing on page 53 of the 1998 Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 11 of this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, N.Y. 10019
March 26, 1999

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EXHIBIT IV

**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
ADDITIONAL EXHIBITS**

Effective December 31, 1998, the company adopted Statement of Financial Accounting Standards 131, "Disclosures About Segments of an Enterprise and Related Information." As a result of adopting this standard the company has changed its revenue and cost lines in the Consolidated Statement of Earnings generally aligning with the new segment information. The 1998 quarterly Consolidated Statements of Earnings are restated in Exhibit IVa. Additional information about the company's segments can be found in note Y, "Segment Information," on pages 84 through 89 of the 1998 Annual Report to Stockholders.

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EXHIBIT IV(a)

INTERNATIONAL BUSINESS MACHINES CORPORATION
 AND SUBSIDIARY COMPANIES
 QUARTERLY CONSOLIDATED STATEMENT OF EARNINGS-RESTATED*
 1998

	First Quarter+	Second Quarter+	Third Quarter+	Fourth Quarter+	Full Year
	(Dollars in millions)				
Revenue:					
Hardware segments	\$7,318	\$7,714	\$8,920	\$11,467	\$35,419
Global Services segment	6,341	6,969	7,046	8,560	28,916
Software segment	2,644	2,866	2,808	3,545	11,863
Global Financing segment	719	712	679	767	2,877
Enterprise Investments segment/Other	596	562	642	792	2,592
Total revenue	17,618	18,823	20,095	25,131	81,667
Cost:					
Hardware segments	\$5,219	\$5,347	\$6,101	\$ 7,547	24,214
Global Services segment	4,630	5,065	5,222	6,208	21,125
Software segment	540	548	544	628	2,260
Global Financing segment	380	377	351	386	1,494
Enterprise Investments segment/Other	399	340	410	553	1,702
Total cost	11,168	11,677	12,628	15,322	50,795
Gross profit	6,450	7,146	7,467	9,809	30,872
Operating expenses:					
Selling, general and administrative	3,719	3,812	4,057	5,074	16,662
Research, development and engineering	1,179	1,220	1,240	1,407	5,046
Total operating expenses	4,898	5,032	5,297	6,481	21,708
Operating income	1,552	2,114	2,170	3,328	9,164
Other income, principally interest	150	130	122	187	589
Interest expense	179	161	160	213	713
Income before income taxes	1,523	2,083	2,132	3,302	9,040
Provision for income taxes	487	631	638	956	2,712
Net income	1,036	1,452	1,494	2,346	6,328
Preferred stock dividends	5	5	5	5	20
Net income applicable to common shareholders	<u>\$1,031</u>	<u>\$1,447</u>	<u>\$1,489</u>	<u>\$ 2,341</u>	<u>\$ 6,308</u>

* See text in Exhibit IV

+ Unaudited

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EXHIBITS OMITTED FROM THIS COPY

IBM's 1998 ANNUAL REPORT TO STOCKHOLDERS

IBM's DEFINITIVE PROXY STATEMENT DATED MARCH 23, 1999

POWERS OF ATTORNEY

FINANCIAL DATA SCHEDULE

Copies of these exhibits may be obtained without charge from the First Chicago Trust Company, a division of EquiServe, Mail Suite 4688, P.O. Box 2530, Jersey City, New Jersey 07303-2530.

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