

INTERNATIONAL BUSINESS MACHINES CORP

Form 10-K405

March 11, 2002

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, 2001

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:

TITLE OF EACH CLASS -----	VOTING SHARES OUTSTANDING AT MARCH 1, 2002 -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Capital stock, par value \$.20 per share	1,716,941,848	New York Stock Exchange Chicago Stock Exchange Pacific 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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ 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. /X/

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 1, 2002 was \$176.9 billion.

Documents incorporated by reference:

Portions of IBM's Annual Report to Stockholders for the year ended December 31, 2001 into Parts I, II and IV of Form 10-K.

Portions of IBM's definitive Proxy Statement dated March 11, 2002 into Part III of Form 10-K.

PART I

ITEM 1. BUSINESS:

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. In 1924, C-T-R adopted the name International Business Machines Corporation.

IBM uses advanced information technology to provide customer solutions. The company operates primarily in a single industry using 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 comprise a Global Services segment; three hardware product segments--Enterprise Systems, Personal and Printing Systems and Technology; a Software segment; a Global Financing segment and an Enterprise Investments segment. The segments are determined based on several factors, including customer base, homogeneity of products, technology and delivery channels.

IBM offers its products through its global sales and distribution organizations. The sales and distribution organizations have both a geographic focus (in the Americas, Europe/Middle East/Africa, and Asia Pacific) and a specialized and global industry focus. In addition, these organizations include a global sales and distribution effort devoted exclusively to small and medium businesses. IBM also offers its products through a variety of third party distributors and resellers, as well as through its on-line channels.

While the company's various proprietary intellectual property rights are important to its success, IBM believes its business as a whole is not materially dependent on any particular patent or license, or any particular group of patents or licenses. IBM owns or is licensed under a number of patents, which

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vary in duration, relating to its products. Licenses under patents owned by IBM have been and are being granted to others under reasonable terms and conditions. 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. Also, there can 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. Certain of the company's businesses rely on a single or limited number of suppliers, although the company makes every effort to assure that alternative sources are available if the need arises. The failure of the company's suppliers to deliver components, supplies and raw materials 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. These factors historically have resulted in lower revenue in the first quarter than in the immediately preceding fourth quarter.

The value of unfilled orders is not a meaningful indicator of future revenues from the company's product offerings due to the significant proportion of revenue from services, the volume of products delivered from shelf inventories, and the shortening of product delivery schedules. With respect to the company's Global Services segment, in 2001 the company signed contracts totaling \$51 billion, which contributed to a services backlog at December 31, 2001 of \$102 billion, compared with \$85 billion at the end of 2000.

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

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an increasing number of relatively small, rapidly growing and highly specialized organizations. The company believes 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 the company's products and services, resulting in reduced profit margins and /or loss of market opportunity. Unlike many of its competitors, the company 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, the company may not fund or invest in certain of its businesses to the same degree that its competitors do and these competitors may have greater financial, technical and marketing resources available to them than the businesses against which they compete.

The company 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 the company operates could affect the company's business in that country and the company's results of operations. The company's results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions and inflation.

The following information is included in IBM's 2001 Annual Report to Stockholders and is incorporated herein by reference:

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Segment information and revenue by classes of similar products or services--Pages 100 through 105.

Financial information by geographic areas--Page 105.

Amount spent during each of the last three years on research and development activities--Page 91.

Financial information regarding environmental activities--Page 88.

The number of persons employed by the registrant--Page 69.

The management discussion overview--Pages 55 and 56.

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. The company assumes no obligation to update or revise any 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 therein by reference.

New Products and the Pace of Technological Change: The company's results of operations depend on 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 and shortened life cycles and 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.

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Dependence on and Compensation of 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. Many of the company's key personnel receive a total compensation package that includes stock options and other equity awards. New regulations, volatility in the stock market and other factors could diminish the value of the company's equity awards, putting the company at a competitive disadvantage or forcing the company to use more cash compensation.

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, 2001, IBM's manufacturing and development facilities in the United States had aggregate floor space of 40.8 million square feet, of which 31.5 million was owned and 9.3 million was leased. Of these amounts, 2.4 million square feet was vacant and 1.9 million square feet was being leased to non-IBM businesses. Similar facilities in 15 other countries totaled 15.2 million square feet, of which 10.7 million was owned and 4.5 million was leased. Of these amounts, 0.6 million square feet was vacant and 0.9 million square feet was 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 pages 65 and 66 of IBM's 2001 Annual Report to Stockholders which is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT (AT MARCH 11, 2002):

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	AGE	OFFICER SINCE
	-----	-----
Chairman of the Board		
Louis V. Gerstner, Jr.(1).....	60	1993
President and Chief Executive Officer		
Samuel J. Palmisano(1).....	50	1997
Vice Chairman of the Board		
John M. Thompson(1).....	59	1989
Senior Vice Presidents:		
Nicholas M. Donofrio, Group Executive.....	56	1995
Douglas T. Elix, Group Executive.....	53	1999
J. Bruce Harreld, Strategy.....	51	1995
Paul M. Horn, Research.....	55	1996
Jon C. Iwata, Communications.....	39	2002
John R. Joyce, Chief Financial Officer.....	48	1999
John E. Kelly III, Group Executive.....	48	2000
Abby F. Kohnstamm, Marketing.....	48	1998
Joseph C. Lane, Group Executive.....	48	2001
J. Michael Lawrie, Group Executive.....	48	2001
Edward M. Lineen, General Counsel.....	61	2002
J. Randall MacDonald, Human Resources.....	53	2000
Steven A. Mills, Group Executive.....	50	2000
Robert W. Moffat, Jr., Group Executive.....	45	2002
Lawrence R. Ricciardi, General Counsel.....	61	1995
Linda S. Sanford, Group Executive.....	49	2000
William M. Zeitler, Group Executive.....	54	2000
Vice Presidents:		
Mark Loughridge, Controller.....	48	1998
Daniel E. O'Donnell, Secretary.....	54	1998
Robert F. Woods, Treasurer.....	46	2000

(1) Member of the Board of Directors.

All executive officers are elected by the Board of Directors and serve until the next election of officers in conjunction with the annual meeting of the stockholders as provided in the By-laws. Each executive officer named above, with the exception of Joseph C. Lane and J. Randall MacDonald have been an executive of IBM or its subsidiaries during the past five years.

Mr. Lane was with GATX Capital, a subsidiary of GATX Corporation, a holding company which provides railcar leasing and management, financial services, terminals and pipelines, and shipping and warehousing services, as president and CEO for four years prior to joining IBM in 1998. In previous assignments at GATX Capital, Mr. Lane led operations including five offices in Europe, two in Canada, four in Asia and two in Australia; was responsible for the newly created Technology Services Group, Corporate Finance Group, the Rail Group and GATX Air; was responsible for development of joint ventures and strategic alliances; and was responsible for sales, marketing and syndications.

Mr. MacDonald was with GTE (now Verizon Communications), a telecommunications company, as executive vice president of human resources and administration until joining IBM in 2000. He was with GTE for 17 years holding positions of increasing responsibility. Before joining GTE, Mr. MacDonald held

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human resources positions at Ingersoll-Rand Corporation and Sterling Drug, Inc.

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ITEM 3. LEGAL PROCEEDINGS:

Refer to note n "Contingencies and Commitments" on page 89 of IBM's 2001 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 106 and 107 of IBM's 2001 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 677,418 common stockholders of record at March 1, 2002.

ITEM 6. SELECTED FINANCIAL DATA:

Refer to page 106 of IBM's 2001 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 55 through 69 of IBM's 2001 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 68 and 69 of IBM'S 2001 Annual Report to Stockholders which is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA:

Refer to page 54 and 70 through 105 of IBM's 2001 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 8 of IBM's definitive Proxy Statement dated March 11 2002, 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:

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Refer to pages 13 through 21 of IBM's definitive Proxy Statement dated March 11, 2002, which are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT:

(a) Security Ownership of Certain Beneficial Owners:

Not applicable.

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(b) Security Ownership of Management:

Refer to the section entitled "Ownership of Securities--Common Stock and Total Stock-Based Holdings" appearing on pages 11 and 12 of IBM's definitive Proxy Statement dated March 11, 2002, which are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS:

Refer to the section entitled "Other Relationships" appearing on page 10 of IBM's definitive Proxy Statement dated March 11, 2002, 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 2001 Annual Report to Stockholders which are incorporated herein by reference:

Report of Independent Accountants (page 54).

Consolidated Statement of Earnings for the years ended December 31, 2001, 2000 and 1999 (page 70).

Consolidated Statement of Financial Position at December 31, 2001 and 2000 (page 71).

Consolidated Statement of Stockholders' Equity at December 31, 2001, 2000 and 1999 (pages 72 and 73).

Consolidated Statement of Cash Flows for the years ended December 31, 2001, 2000 and 1999 (page 74).

Notes to Consolidated Financial Statements (pages 75 through 105).

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

PAGE	SCHEDULE NUMBER	
10		Report of Independent Accountants on Financial Statement Schedules.
S-1	II	Valuation and Qualifying Accounts and Reserves.

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

3. Exhibits:

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 2001 (b) Quarterly Consolidated Statement of Earnings Restated 2000
V	--	IBM's 2001 Annual Report to Stockholders, certain sections of which have been incorporated herein by reference.
VI	--	Powers of Attorney.

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Not included in this Form 10-K:

- The Certificate of Incorporation of IBM is Exhibit (3)(i) to Form 8-K filed April 28, 1999, and is hereby incorporated by reference.
- The By-laws of IBM as amended through January 1, 2001, is Attachment III to Form 8-K dated January 17, 2001, and is hereby incorporated by reference.
- The IBM 1999 Long-Term Performance Plan, a compensatory plan, is contained in Registration Statement No. 333-30424 on Form S-8, filed on February 15, 2000, 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.
- Board of Directors compensatory plans, as described under "Directors' Compensation" on pages 10 and 11 of IBM's definitive Proxy Statement dated March 11, 2002, and is hereby incorporated 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.

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- The IBM Non-Employee Directors Stock Option Plan is Appendix B to IBM's definitive Proxy Statement dated March 14, 1995, and is hereby incorporated by reference.
- The IBM Executive Deferred Compensation Plan is contained in Registration Statement No. 333-33692 as Exhibit 4 on Form S-8, filed March 31, 2000, and is hereby incorporated by reference.
- The IBM Supplemental Executive Retention Plan is Exhibit VII to Form 10-K for the year ended December 31, 1999, 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 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, 1995, 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(1) 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 7.50% Debentures due 2013 are Exhibits 4(a) through 4(1) 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 Exhibit 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

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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 instruments 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.

-- IBM's definitive Proxy Statement dated March 11, 2002, certain sections of which have been incorporated herein by reference.

(b) Reports on Form 8-K:

The company filed Form 8-K on October 16, 2001, with respect to the company's financial results for the periods ended September 30, 2001, and included unaudited Consolidated Statement of Earnings, Consolidated Statement of Financial Position and Segment Data for the periods ended September 30, 2001. In addition, IBM's Chief Financial Officer John R. Joyce's third quarter earnings presentation to securities analysts on Tuesday, October 16, 2001, was filed as Attachment II of the Form 8-K.

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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/ SAMUEL J. PALMISANO_____
(Samuel J. Palmisano)
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

Date: March 11, 2002

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ JOHN R. JOYCE (John R. Joyce)	Senior Vice President, Chief Financial Officer	March 11,
/s/ MARK LOUGHRIDGE (Mark Loughridge)	Vice President and Controller	March 11,

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CATHLEEN BLACK	Director	
KENNETH I. CHENAULT	Director	
JUERGEN DORMANN	Director	
LOUIS V. GERSTNER, JR.	Chairman of the Board	
NANNERL O. KEOHANE	Director	
CHARLES F. KNIGHT	Director	
MINORU MAKIHARA	Director	By: /s/ DANIEL E. O'DONNELL
LUCIO A. NOTO	Director	(Daniel E. O'Donnell)
JOHN B. SLAUGHTER	Director	ATTORNEY-IN-FACT
SIDNEY TAUREL	Director	
JOHN M. THOMPSON	Vice Chairman of the Board	March 11, 2002
ALEX TROTMAN	Director	
LODEWIJK C. VAN WACHEM	Director	
CHARLES M. VEST	Director	

REPORT OF INDEPENDENT ACCOUNTANTS ON
FINANCIAL STATEMENT SCHEDULES

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 17, 2002, appearing on page 54 of the 2001 Annual Report to Stockholders of International Business Machines Corporation, (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a)2 of this Form 10-K. In our opinion, this Financial Statement Schedule present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
January 17, 2002

SCHEDULE II

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31:
(DOLLARS IN MILLIONS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS CHARGED TO COSTS AND EXPENSES	WRITE-OFFS	OTHER
-----	-----	-----	-----	-----
ALLOWANCE FOR DOUBTFUL ACCOUNTS				
2001				
--Current.....	\$860	\$418	\$269	\$(25)

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	====	====	====	====
--Noncurrent.....	\$ 87	\$ 73	\$ 49	\$ (14)
	====	====	====	====
2000				
--Current.....	\$854	\$286	\$247	\$ (33)
	====	====	====	====
--Noncurrent.....	\$158	\$ (15)	\$ 45	\$ (11)
	====	====	====	====
1999				
--Current.....	\$794	\$285	\$202	\$ (23)
	====	====	====	====
--Noncurrent.....	\$195	\$ 34	\$ 28	\$ (43)
	====	====	====	====
ALLOWANCE FOR INVENTORY LOSSES				
2001.....	\$695	\$590	\$582	\$ 23
	====	====	====	====
2000.....	\$869	\$527	\$643	\$ (58)
	====	====	====	====
1999.....	\$723	\$644	\$514	\$ 16
	====	====	====	====

 (A) Primarily comprises currency translation adjustments.

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EXHIBIT INDEX

REFERENCE NUMBER PER ITEM 601 OF REGULATION SK	DESCRIPTION OF EXHIBITS	EXHIBIT NUMBER IN THIS FORM 10-K
(2)	Plan of acquisition, reorganization, arrangement, liquidation or succession.....	Not applicable
(3)	Certificate of Incorporation and By-laws..... The Certificate of Incorporation of IBM is Exhibit (3) (i) to Form 8-K filed April 28, 1999, and is hereby incorporated by reference..... The By-laws of IBM as amended through January 1, 2001, is Attachment III to Form 8-K dated January 17, 2001, and is hereby incorporated by reference.....	
(4)	Instruments defining the rights of security holders..... The instruments defining the rights of the holders of the	

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7.25% Notes due 2002 are Exhibits 4(a) through 4(1) to Registration Statement No. 33-33590 on Form S-3, filed February 22, 1990, and are hereby incorporated by reference.....

The instruments defining the rights of the holders of the 7.50% Debentures due 2013 are Exhibits 4(a) through 4(1) 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 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, and are hereby incorporated by reference.....

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.....

The instrument defining the rights of the holders of the 7.125% Debentures due 2096 is Exhibit 2 to Form 8-K/A, filed on December 6, 1996, and is hereby incorporated by reference.....

The instruments defining the rights of the holders of the 6.45% Notes due 2007 and the 6.22% Debentures due 2027 are Exhibit 2 and 3 to Form 8-K, filed on August 1, 1997, and is hereby incorporated by reference.....

The instrument defining the rights of the holders of the 6.50% Debentures due 2028 is Exhibit 2 to Form 8-K, filed on January 8, 1998, and is hereby incorporated by reference.....

The instrument defining the rights of the holders of the 5.375% Notes due 2009 is Exhibit 2 to Form 8-K, filed on January 29, 1999, and is hereby incorporated by reference.....

(9) Voting trust agreement..... Not applicable

REFERENCE
NUMBER PER
ITEM 601 OF
REGULATION SK

DESCRIPTION OF EXHIBITS

EXHIBIT NUMBER
IN THIS FORM 10-K

(10) Material contracts.....

The IBM 1999 Long-Term Performance Plan, a compensatory plan, is contained in Registration Statement No. 333-30424 on Form S-8, filed on February 15, 2000, and is hereby incorporated by reference.....

The IBM 1997 Long-Term Performance Plan, a compensatory plan, is contained in Registration Statement No. 33-331305 on Form S-8, filed on July 15, 1997, and is hereby incorporated by reference.....

Board of Directors compensatory arrangements as described under "Directors' Compensation" on pages 10 and 11 of IBM's definitive Proxy Statement dated March 11, 2002, and is hereby incorporated by reference.....

The IBM Supplemental Executive Retention Plan is Exhibit VII to Form 10-K for the year ended December 31, 1999, and is hereby incorporated by reference.....

The IBM Executive Deferred Compensation Plan is contained in Registration Statement No. 333-33692 as Exhibit 4 on Form S-8, filed March 31, 2000, 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.....

The IBM Non-Employee Directors Stock Option Plan is Appendix B to IBM's definitive Proxy Statement dated March 14, 1995, 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 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, 1995, 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 r, "Earnings Per Share of Common Stock" on page 93 of IBM's 2001 Annual Report to Stockholders, and is hereby incorporated by reference.....

REFERENCE
NUMBER PER

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ITEM 601 OF REGULATION SK	DESCRIPTION OF EXHIBITS	EXHIBIT NUMBER IN THIS FORM 10-K
(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
(28)	Information from reports furnished to state insurance regulatory authorities.....	Not applicable
(99)	Additional exhibits.....	IV