

Exhibit 1

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

**FORM 10-K
ANNUAL REPORT**
pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934
FOR THE YEAR ENDED DECEMBER 31, 2007

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 February 8, 2008</u>	<u>Name of each exchange on which registered</u>
Capital stock, par value \$.20 per share	1,384,330,881	New York Stock Exchange Chicago Stock Exchange
5.375% Notes due 2009		New York Stock Exchange
4.00% Notes due 2011		New York Stock Exchange
4.95% Notes due 2011		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 if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes No

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

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.

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

Large accelerated filer
Smaller reporting company

Accelerated filer

Non-Accelerated filer
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter was \$144.1 billion.

Documents incorporated by reference:

Portions of IBM's Annual Report to Stockholders for the year ended December 31, 2007 into Parts I, II and IV of Form 10-K.

Portions of IBM's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held April 29, 2008 are incorporated by reference into Part III of Form 10-K.



PART I

Item 1. Business:

International Business Machines Corporation (IBM or the company) was incorporated in the State of New York on June 16, 1911, as the Computing-Tabulating-Recording Co. (C-T-R), a consolidation of the Computing Scale Co. of America, the Tabulating Machine Co. and The International Time Recording Co. of New York. Since that time, IBM has focused on the intersection of business insight and technological 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 is a globally integrated innovation company, serving the needs of enterprises and institutions worldwide. To help clients achieve growth, effectiveness, efficiency and the realization of greater value through innovation, IBM draws upon the world's leading systems, software and services capabilities.

* * *

Description of Business

IBM is a globally integrated enterprise that targets the intersection of technology and effective business. The company seeks to be a partner in its clients' success by enabling their own capacity for distinctive innovation. To help clients achieve growth, effectiveness, efficiency and the realization of greater value through innovation, IBM draws upon the world's leading systems, software and services capabilities.

IBM'S STRATEGY

In IBM's view, today's networked economy has created a global business landscape and a mandate for business change. Integrated global economies have opened markets of new opportunity and new sources of skills. The Internet has enabled communication and collaboration across the world and brought with it a new computing model premised on continuous global connection. In that landscape, companies can distribute work and technology anywhere in the world.

Given these opportunities, IBM is working with its clients to develop new business designs and technical architectures that allow their businesses the flexibility required to compete in this new landscape. The business is also adjusting its footprint towards emerging geographies, tapping their double-digit growth, providing the technology infrastructure they need, and taking advantage of the talent pools they provide to better service the company's clients.

IBM's strategy addresses this new era and delivers value to its clients through three strategic priorities:

Focus on Open Technologies and High-Value Solutions

The PC era has ended, representing a fundamental shift in the technology requirements of the company's clients. IBM is well positioned to provide its enterprise clients the open technologies and high-value solutions they will need to compete.

- *IBM is leveraging its leadership position in the convergence of software and services, in SOA, in virtualization, in high-performance chips, in open and modular IT—continuing its shift from commoditizing segments to higher value segments with better profit opportunity.*
- *The company continues to be a leading force in open source solutions to enable its clients to achieve higher levels of interoperability, cost efficiency and quality.*

Deliver Integration and Innovation to Clients

Changes in the market have caused IBM's clients to seek flexibility and innovation in everything from technical architecture to their business model. In response, IBM is focused on delivering integration and innovation to its clients—offering them technologies and services that support real value creation.

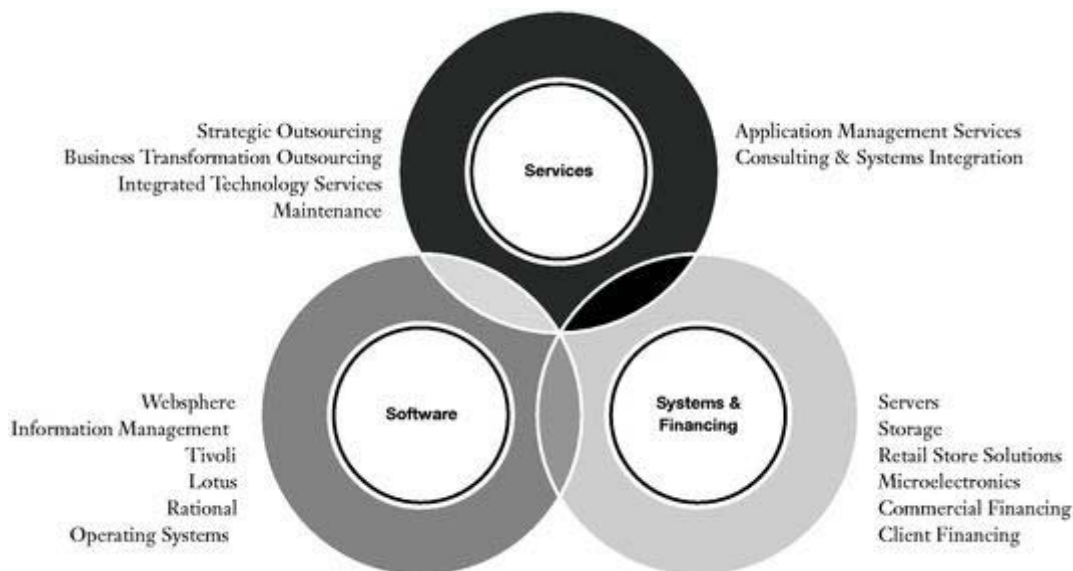
- *IBM has a long heritage of transforming the business operations of large enterprises and has earned the trust to be their innovation partner and global integrator.*
- *The company has a deep set of global assets and capabilities it is applying to improve services profitability, both for its clients and for itself.*

Become the Premier Globally Integrated Enterprise

As global networks and technology capabilities change business economics, legacy business designs can quickly become non-competitive. IBM believes a globally integrated enterprise, designed for this new landscape can compete effectively and will benefit from the opportunities offered.

- *To reshape its business for the global economy, IBM has replaced vertical hierarchies with horizontally integrated teams.*
- *Across the business, the company has made significant investments in emerging markets, taking core processes and functions that were once managed regionally and shifting them to a globally integrated model.*

Looking forward, IBM is confident it understands the economic shift of globalization, the evolution of the new computing model and the powerful role of innovation in this new landscape. Its unique capabilities are well adapted to help the company's clients innovate and compete effectively in the new landscape.



BUSINESS SEGMENTS AND CAPABILITIES

The company's major operations comprise a Global Technology Services segment; a Global Business Services segment; a Systems and Technology segment; a Software segment; and a Global Financing segment.

Global Services is a critical component of the company's strategy of providing IT infrastructure and business insight and solutions to clients. While solutions often include industry-leading IBM software and hardware, other suppliers' products are also used if a client solution requires it. Contracts for IBM services—commonly referred to as "signings"—can range from less than one year to over ten years. Within Global Services there are two reportable segments: Global Technology Services and Global Business Services.

Global Technology Services (GTS) segment primarily reflects IT infrastructure services and business process services, delivering value through the company's global scale, standardization and automation.

GTS Capabilities

Strategic Outsourcing Services. Comprehensive IT services integrated with business insight working with clients to reduce costs and improve productivity through the outsourcing of processes and operations.

Business Transformation Outsourcing. A range of offerings from standardized processing platforms and Business Process Outsourcing through transformational offerings that delivers improved business results to clients through the strategic change and/or operation of the client's business processes, applications and infrastructure.

Integrated Technology Services. Services offerings that help clients access, manage and support their technology infrastructures, through a combination of skilled resources, software and IBM's knowledge of business processes.

Maintenance. A number of support services from product maintenance through solution support to maintain and improve the availability of clients' IT infrastructure.

Global Business Services (GBS) segment primarily reflects professional services and application outsourcing services, delivering business value and innovation to clients through solutions which leverage industry- and business-process expertise.

GBS Capabilities

Consulting and Systems Integration. Delivery of value to clients through consulting services for client-relationship management, financial management, human capital management, business strategy and change, and supply-chain management.

Application Management Services. Application development, management, maintenance and support services for packaged software, as well as custom and legacy applications. Delivering value through the company's global resource capabilities, industry knowledge, and the standardization and automation of application development.

Systems and Technology segment provides IBM's clients with business solutions requiring advanced computing power and storage capabilities. Approximately 55 percent of the Systems and Technology's server and storage sales transactions are through the company's business partners; approximately 45 percent are direct to end-user clients, more than 40 percent of which are through the Internet at ibm.com. In addition, Systems and Technology provides leading semiconductor technology and products, packaging solutions and engineering technology services to clients and for IBM's own advanced technology needs. While not reported as external revenue, systems hardware is also deployed to support services solutions.

Systems and Technology Capabilities

Servers. IBM systems, which are typically connected to a network and provide the required infrastructure for business. These systems use both IBM and non-IBM operating systems and all IBM servers can also run Linux, a key open source operating system. (System z, System i, System p, System x and BladeCenter).

Storage. Information infrastructure products and solutions, which address critical client requirements for information retention and archiving, availability and virtualization, and security and compliance. The portfolio consists of a broad range of disk and tape storage systems and software.

Microelectronics. Semiconductor design and manufacturing for use in IBM systems and for sale to external clients.

Engineering and Technology Services. System and component design services, Blue Gene "supercomputer systems," outsourcing of clients' design teams and technology and manufacturing consulting services.

Retail Store Solutions. Point-of-sale retail systems (network connected cash registers) as well as solutions which connect them to other store systems (for example, inventory).

Software consists primarily of middleware and operating systems software. Middleware software enables clients to integrate systems, processes and applications across a standard software platform. IBM middleware is designed to open standards which allows the efficient integration of disparate client applications that may have been built internally, or provided by package software vendors or system integrators. Operating systems are the software engines that run computers. In addition, Software includes Product Lifecycle Management software which primarily serves the Industrial sector. Approximately two-thirds of external software segment revenue is annuity-based, coming from recurring license charges and on-going subscription and support from one-time charge (OTC) arrangements. The remaining one-third of external revenue relates to OTC arrangements, in which the client pays one up-front payment for a perpetual license. Typically, arrangements for the sale of OTC software include one year of maintenance. The client can also purchase ongoing maintenance after the first year, which includes product upgrades and technical support. While not reported as external revenue, software is also deployed to support services solutions.

Software Capabilities

WebSphere Software. Management of a wide variety of business processes using open standards to interconnect applications, data and operating systems. Provides the foundation for Web-enabled applications and is a key product set in deploying a Services Oriented Architecture.

Information Management Software. Advanced database, content management and information integration software that helps companies integrate, manage and gain value from their business information.

Tivoli Software. Software for infrastructure management, including security and storage management that will help organizations better manage their IT infrastructure to more effectively deliver IT services.

Lotus Software. Collaboration, messaging and social networking software that enables businesses to communicate, collaborate and increase productivity.

Rational Software. Software tools that help clients manage their software development processes and capabilities.

Operating Systems. Software engines that manage the fundamental processes that make computers run.

Global Financing is described on pages 50 and 51 in IBM's 2007 Annual Report to Stockholders.

Global Financing Capabilities

Commercial Financing. Short-term inventory and accounts receivable financing to dealers and remarketers of IT products.

Client Financing. Lease and loan financing to external and internal clients for terms generally between two and seven years.

Remarketing. The sale and lease of used equipment (primarily sourced from the conclusion of lease transactions) to new or existing clients.

IBM WORLDWIDE ORGANIZATIONS

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

- *Sales and Distribution Organization*
- *Research, Development and Intellectual Property*
- *Integrated Operations*

Sales and Distribution Organization

The company's Sales and Distribution organization manages a strong global footprint, with dedicated country based operating units focused on delivering client value. Within these units, client relationship professionals work with integrated teams of consultants, product specialists and delivery fulfillment teams to improve clients' business performance. These teams deliver value by understanding the client's business and needs, and then bring together capabilities from across IBM and an extensive network of Business Partners to develop and implement solutions for clients.

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

The majority of IBM's revenue, excluding the company's original equipment manufacturer (OEM) technology business, occurs in industries that are broadly grouped into six sectors:

- *Financial Services: Banking, Financial Markets, Insurance*
- *Public: Education, Government, Healthcare, Life Sciences*
- *Industrial: Aerospace and Defense, Automotive, Chemical and Petroleum, Electronics*
- *Distribution: Consumer Products, Retail, Travel and Transportation*
- *Communications: Telecommunications, Media and Entertainment, Energy and Utilities*
- *Small and Medium Business: Mainly companies with less than 1,000 employees*

Research, Development and Intellectual Property

IBM's research and development (R&D) operations differentiate the company from its competitors. IBM annually spends approximately \$6 billion for R&D, focusing its investments in high-growth, high-value opportunities. In 2007, the company's investment in R&D was approximately 15 percent of its combined hardware and software revenue. As a result of innovations in these and other areas, IBM was once again awarded more U.S. patents in 2007 than any other company. This marks the 15th year in a row that IBM achieved this distinction.

In addition to producing world-class hardware and software products, IBM innovations are a major differentiator in providing solutions for the company's clients through its growing services activities. The company's investments in R&D also result in intellectual property (IP) income of approximately \$1 billion annually. Some of IBM's technological breakthroughs are used exclusively in IBM products, while others are licensed and may be used in either/both IBM products and/or the products of the licensee.

INTEGRATED OPERATIONS

IBM's ability to deliver differentiating innovation to its clients is being greatly enhanced by the company's global integration which is simultaneously giving the company better economics and deeper capabilities, while eliminating redundancies that were built up over fifty years as a growing multinational enterprise. The company operates in 170 countries, with approximately 69 percent of its employees outside the U.S. As a globally integrated enterprise, the company organizes work based on the right costs, the right skills and the right business environment, integrating deeply with its partners, suppliers and clients. Being global is about gaining access to talent and skills and then scaling them globally to develop new, distinctive capabilities. The company's integrated operations enable IBM to be the most efficient, responsive and globally integrated enterprise—able to instantly leverage its expertise and capabilities—anywhere, at any time. Although bound by a common mission and principles, Integrated Operations is comprised of three distinct units, each with very specific objectives closely aligned with the IBM businesses they support.

Integrated Supply Chain

Just as IBM works to transform its clients' supply chains for greater efficiency and responsiveness to global market conditions, the company continues to derive business value from its own globally integrated supply chain, reinvented as a strategic advantage for the company to create value for clients and shareholders. IBM leverages its supply-chain expertise for clients through its supply-chain business transformation outsourcing service to optimize and help operate clients' end-to-end supply-chain processes, from procurement to logistics.

IBM spends approximately \$38 billion annually through its supply chain, procuring materials and services around the world. The company's supply, manufacturing and logistics and customer fulfillment operations are integrated in one operating unit that has reduced inventories, improved response to marketplace opportunities and external risks and converted fixed to variable costs. Simplifying and streamlining internal processes has improved operations, sales force productivity and processes, and these actions have improved client satisfaction.

Integrated Technology Delivery

Integrated Technology Delivery (ITD) brings together all of the company's worldwide service delivery capabilities for Strategic Outsourcing with strong local and regional management teams supported by a set of global competencies. ITD leverages the company's global scale and advanced technology to deliver standardized solutions that are automated, repeatable and globally integrated.

Through the company's global position, clients gain cost advantages, access to industry-leading skills and access to IBM's scale and overall flexibility. ITD manages the world's largest privately-owned IT infrastructure with employees in over 30 countries supporting over 400 data centers.

Integrated Managed Business Process Delivery

Integrated Managed Business Process Delivery (IMBPD) provides highly efficient, world class delivery capabilities in IBM's business process delivery operations, which include Business Transformation Outsourcing, Business Process Outsourcing, Business Process Services and Application on Demand. IMBPD has employees and delivery centers in over 40 countries worldwide.

KEY BUSINESS DRIVERS

The following are some of the key drivers of the company's business.

Economic Environment and Corporate Spending Budgets

Global demand for systems, software and services is a key driver of the company's business and financial performance. IBM's diverse set of products and offerings is designed to provide more consistent results in both strong and weak economic environments. The company accomplishes this by not only having a mix of offerings with long-term cash and income streams, as well as cyclical transaction-based sales, but also by continually developing competitive products and solutions and effectively managing a skilled resource base. IBM continues to transform itself to take advantage of shifting demand trends, focusing on client- or industry-specific solutions, business performance and open standards.

Internal Business Transformation and Global Integration Initiatives

IBM is committed to its transformation to a globally integrated enterprise. The company continues to drive greater productivity, flexibility and cost savings by transforming and globally integrating its own business processes and functions. In addition to eliminating redundancies and overhead structures to drive productivity, this integration has improved IBM's capacity to innovate by providing greater clarity of key priorities around shared goals and objectives and led to a sharper focus for the company on learning, development and knowledge sharing.

Innovation Initiatives

IBM invests to improve its ability to help its clients innovate. Investment may occur in the research and development of new products and services, as well as in the establishment of new collaborative and co-creation relationships with developers, other companies and other institutions. Examples include IBM's leadership positions in the design of smaller, faster and energy-efficient semiconductor devices; systems virtualization, Green Data Centers and the design of "grid" computing networks that allow computers to share processing power.

Open Standards

The broad adoption of open standards is essential to the computing model for an on demand business and is a significant driver of collaborative innovation across all industries. Without interoperability among all manner of computing platforms, the integration of any client's internal systems, applications and processes remains a monumental and expensive task. The broad-based acceptance of open standards—rather than closed, proprietary architectures—also allows the computing infrastructure to more easily absorb (and thus benefit from) new technical innovations. IBM's support of open standards is evidenced by the enabling of its products to support open standards such as Linux,

and the development of Rational software development tools, which can be used to develop and upgrade other companies' software products.

Investing in Growth Opportunities

The company is continuing to refocus its business on the higher value segments of enterprise computing—providing technology and transformation services to clients' businesses. Consistent with that focus, the company continues to significantly invest in growth opportunities as a way to drive revenue growth and market share gains. Areas of investment include strategic acquisitions, primarily in software and services, focused client- and industry-specific solutions, maintaining technology leadership and emerging growth countries worldwide.

Forward-looking and Cautionary Statements

Certain statements contained in this Form 10-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Reform Act"). 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 under Item 1A. "Risk Factors" on pages 10 through 14 are cautionary statements that accompany those forward-looking statements. Readers should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. Those cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Form 10-K, in the company's filings with the Securities and Exchange Commission or in materials incorporated therein by reference.

The following information is included in IBM's 2007 Annual Report to Stockholders and is incorporated herein by reference:

Segment information and revenue by classes of similar products or services—pages 116 to 119.

Financial information by geographic areas—page 119.

Amount spent during each of the last three years on R&D activities—page 99.

Financial information regarding environmental activities—page 92.

The number of persons employed by the registrant—page 50.

The management discussion overview—pages 16 and 17.

Available information—page 124.

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

Executive Officers of the Registrant (at February 22, 2008):

	<u>Age</u>	<u>Officer since</u>
Chairman of the Board, President and Chief Executive Officer: Samuel J. Palmisano(1)	56	1997
Executive Vice President: Nicholas M. Donofrio, Innovation and Technology	62	1995
Senior Vice Presidents: Rodney C. Adkins, Development and Manufacturing	49	2007
Michael E. Daniels, Global Technology Services	53	2005
Douglas T. Elix, Group Executive, Sales and Distribution	59	1999
J. Bruce Harreld, Marketing and Strategy	57	1995
Jon C. Iwata, Communications	45	2002
John E. Kelly, III, Research and Intellectual Property	54	2000
Mark Loughridge, Chief Financial Officer	54	1998
J. Randall MacDonald, Human Resources	59	2000
Steven A. Mills, Group Executive, Software Group	56	2000
Robert W. Moffat, Jr., Integrated Operations	51	2002
Virginia M. Rometty, Global Business Services	50	2005
Linda S. Sanford, Enterprise On Demand Transformation	55	2000
Robert C. Weber, Legal and Regulatory Affairs, and General Counsel	57	2006
William M. Zeitler, Group Executive, Systems and Technology Group	60	2000
Vice President: Timothy S. Shaughnessy, Controller	50	2004

(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 Robert C. Weber, has been an executive of IBM or its subsidiaries during the past five years.

Mr. Weber was a partner at Jones Day, an international law firm, until joining IBM in 2006. He was with Jones Day for almost 30 years, and his career included counseling corporations, individuals and boards of directors, as well as extensive experience in corporate derivative litigation, federal and state enforcement actions and commercial litigation.