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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, 2009**

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 10, 2010</u>	<u>Name of each exchange on which registered</u>
Capital stock, par value \$.20 per share	1,299,003,390	New York Stock Exchange Chicago Stock Exchange
4.00% Notes due 2011		New York Stock Exchange
4.95% Notes due 2011		New York Stock Exchange
6.625% Notes due 2014		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

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: The company creates business value for clients and solves business problems through integrated solutions that leverage information technology and deep knowledge of business processes. IBM solutions typically create value by reducing a client's operational costs or by enabling new capabilities that generate revenue. These solutions draw from an industry leading portfolio of consulting, delivery and implementation services, enterprise software, systems and financing.

STRATEGY

Despite the volatility of the information technology (IT) industry over the past decade, IBM has consistently delivered superior performance, with a steady track record of sustained earnings per share growth. The company has shifted its business mix, exiting commoditized segments while increasing its presence in higher-value areas such as services, software and integrated solutions. As part of this shift, the company has acquired over 100 companies this past decade, complementing and scaling its portfolio of products and offerings.

IBM's clear strategy has enabled steady results in core business areas, while expanding its offerings and addressable markets. The key tenets of this strategy are:

- Deliver value to enterprise clients through integrated business and IT innovation
- Build/expand strong positions in growth initiatives
- Shift the business mix to higher-value software and services
- Become the premier globally integrated enterprise

These priorities reflect a broad shift in client spending away from "point products" and toward integrated solutions, as companies seek higher levels of business value from their IT investments. IBM has been able to deliver this enhanced client value thanks to its industry expertise, understanding of clients' businesses and the breadth and depth of the company's capabilities.

IBM's growth initiatives, like its strengthened capabilities, align with these client priorities. These initiatives include Smarter Planet and Industry Frameworks, Growth Markets, Business Analytics and Cloud Computing. Each initiative represents a significant growth opportunity with attractive profit margins for IBM.

Smarter Planet and Industry Frameworks

Smarter planet is an overarching strategy that highlights IBM's differentiated capabilities and generates broad-based demand for the company's products and services. Smarter Planet encapsulates IBM's view of enterprise IT's next major revolution: the instrumentation and integration of the world's processes and infrastructures—from energy grids and pipelines to supply chains and traffic systems. The massive amount of data these systems are generating can now be captured and analyzed. This infusion of intelligence enables more efficiency, productivity and responsiveness.

Clients seeking these "smart" solutions value IBM's deep industry and process expertise, powerful back-end systems and data analytics, complex systems integration capability and unique research capacity.

IBM's Industry Frameworks create a flexible software foundation for developing, acquiring and deploying smart industry solutions. Each framework supports multiple solutions, enabling fast, efficient and tailored capabilities in support of clients' business needs. These frameworks represent a proven technique for the company to engage with its clients, driving sustained growth and high business value. They cover a wide variety of industries and domains, most of which are directly tied to Smarter Planet.

Growth Markets

The company has benefited from its investments over the past several years in growth markets. The focus now is on geographic expansion of IBM's presence; on specific industry verticals of the highest impact and opportunity; on countries' build-out of infrastructure aligned with their national agendas; and on creating markets and new business models to serve the different requirements that exist in these emerging countries.

In order to support this growth, IBM is continuing to invest significantly in these markets to expand capacity and develop talent. At the same time, IBM is expanding and benefiting from large teams of talent with global missions of delivery. The company continues to deepen its research and development (R&D) teams to design for the unique challenges and rapid growth facing these markets.

Business Analytics and Optimization

Business optimization through the application of advanced analytics is emerging as another major category of business value. It succeeds earlier generations of back-office automation, basic enterprise resource planning and traditional business intelligence. Advanced analytics allow clients to see patterns in data they could not see before, understand their exposure to risk and predict the outcomes of business decisions with greater certainty.

IBM's approach is end-to-end, providing cross-enterprise as well as industry-based analytics solutions. IBM has established the Business Analytics and Optimization practice, leveraging IBM consulting capabilities and software products, along with systems and research assets. IBM's breadth of expertise uniquely positions the company for revenue and profit growth.

Cloud Computing

"Cloud" is an emerging consumption and delivery model for many IT-related services. Clients are attracted to its improved economics, flexibility and user experience. Traditional enterprise IT will increasingly integrate with these new cloud deployments, delivered as services via the Internet (also known as public clouds) or behind a firewall (private clouds). In discussions with enterprise clients, most are initially focused on private cloud implementations, the middle ground between the traditional enterprise IT and public clouds.

IBM is helping clients determine how to leverage cloud computing to achieve business advantage. The company provides a full set of capabilities, from support in designing and implementing cloud solutions, to services for running and managing them if desired. IBM is applying its deep experience in critical areas such as security, reliability and innovation to deliver differentiated value. The company is also investing in new cloud initiatives tailored to particular industries, in conjunction with its partners and clients, to deliver cloud business services directly to the market. By providing deployment choice, optimizing solutions based on workload characteristics and delivering complete service management capabilities, IBM is positioned as the leading cloud service and infrastructure provider for enterprises.

BUSINESS MODEL

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

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

The business model is flexible, adapting to the continuously changing market and economic environment. The company continues to divest commoditizing businesses and strengthen its position through strategic investments and acquisitions in higher value segments like business analytics, smarter planet and cloud computing. In addition, the company has transformed itself into a globally integrated enterprise which has improved overall productivity and is driving investment and participation in the world's fastest growing markets. As a result, the company is a higher performing enterprise today than it was several years ago.

The business model, supported by the company's long-term financial model, has enabled the company to deliver consistently strong earnings, cash flows and returns to shareholders in changing economic environments.

BUSINESS SEGMENTS AND CAPABILITIES

The company's major operations comprise: a Global Technology Services segment; a Global Business Services segment; a Software segment; a Systems and Technology 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 systems, other suppliers' products are also used if a client solution requires it. Approximately 60 percent of external Global Services segment revenue is annuity-based, coming primarily from outsourcing, maintenance and custom application management services arrangements. The Global Services backlog provides a solid revenue base entering each year. Within Global Services, there are two reportable segments: Global Technology Services and Global Business Services.

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

GTS CAPABILITIES

Strategic Outsourcing Services. Comprehensive IT outsourcing services dedicated to transforming clients' existing infrastructures to ensure better quality, cost control, adaptability, security and compliance. IBM integrates long-standing experience in service management, technology and industry applications with new technologies, such as cloud computing and virtualization, to enable new capabilities for clients.

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

Integrated Technology Services. Project-based portfolio of services that enable clients to optimize their IT environments by driving efficiency, flexibility and productivity, while reducing costs. The

standardized portfolio is built around key assets and patented software, and incorporates best practices and proven methodologies that ensure predictive quality of delivery, security and compliance.

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

The GTS outsourcing businesses are supported by integrated worldwide delivery organizations:

Integrated Technology Delivery (ITD) is responsible for worldwide service delivery supporting the Strategic Outsourcing business. It manages the world's largest privately-owned IT infrastructure with employees in over 40 countries, supporting over 450 data centers. ITD operates a globally integrated delivery model which supports regional client-facing teams by utilizing a global network of competencies and centers. Each competency provides industry-leading, standardized, integrated tools and processes. By leveraging IBM's global scale, skills and technology which is combined with the innovation from IBM research, clients gain access to leading edge, high-quality services with improved productivity, flexibility and cost.

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

Global Business Services (GBS) primarily provides 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. In 2009, the company announced the creation of a new consulting service line dedicated to the market for advanced business analytics and business optimization.

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

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 on open standards, making it easier to integrate disparate business applications, developed by different methods and implemented at different times. Operating systems are the software engines that run computers. Approximately two-thirds of external software segment revenue is annuity-based, coming from recurring license charges and ongoing subscription and support from one-time charge (OTC) arrangements. The remaining one-third relates to OTC arrangements in which clients pay one, up-front payment for a perpetual license. Typically, arrangements for the sale of OTC software include one year of subscription and support. Clients can also purchase ongoing subscription and support after the first year, which includes product upgrades and technical support.

SOFTWARE CAPABILITIES

WebSphere Software. Delivers capabilities that enable clients to integrate and manage business processes across their organizations with the flexibility and agility they need to respond to changing

conditions quickly. With a services-oriented architecture (SOA), businesses can more easily link together their fragmented data and business processes to extract value from their existing technology.

Information Management Software. Enables clients to integrate, manage and use their information to gain business value and improve their outcomes. Solutions include advanced database management, enterprise content management, information integration, data warehousing, business analytics and intelligence, performance management and predictive analytics.

Tivoli Software. Helps clients manage their technology and business assets by providing visibility, control and automation across their organizations. With solutions for identity management, data security, storage management and the ability to provide automation and provisioning of the datacenter, Tivoli helps build the infrastructure needed to make the world's systems—from transportation to water, energy and telecommunications—run smarter.

Lotus Software. Enables businesses to connect people and processes for more effective communication and increased productivity through collaboration, messaging and social networking software. By remaining at the forefront of collaboration tools, Lotus helps organizations reap the benefits of social networking and other Web 2.0 modalities.

Rational Software. Supports software development for both IT and embedded system solutions with a suite of Application Lifecycle Management products. Jazz, Rational's technology platform, transforms the way people work together to build software, making software delivery more collaborative, productive and transparent.

Operating Systems. Software that manages the fundamental processes that make computers run.

Systems and Technology provides clients with business solutions requiring advanced computing power and storage capabilities. Approximately 55 percent of 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. In addition, Systems and Technology provides leading semiconductor technology, products and packaging solutions to clients and for IBM's own advanced technology needs.

SYSTEMS AND TECHNOLOGY CAPABILITIES

Systems. A range of general purpose and integrated systems designed and optimized for specific business, public and scientific computing needs. These systems—System z, converged System p and System x—are typically the core technology in data centers that provide required infrastructure for business and institutions. Also, these systems form the foundation for IBM's integrated offerings, such as IBM Smart Business Storage Cloud, IBM Smart Analytics Cloud, IBM Smart Analytics System and IBM CloudBurst. IBM servers use both IBM and non-IBM microprocessor technology and operating systems. All IBM servers run Linux, a key open-source operating system.

Storage. IBM provides data storage products and solutions that allow clients to retain and manage rapidly growing, complex volumes of digital information. These solutions address critical client requirements for information retention and archiving, data deduplication, availability and virtualization, and security and compliance. The portfolio consists of a broad range of disk and tape storage systems and software, including the next-generation, ultra-scalable disk storage system XIV.

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

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

Global Financing facilitates clients' acquisition of IBM systems, software and services. Global Financing invests in financing assets, leverages with debt and manages the associated risks with the objective of

generating consistently strong returns on equity. The primary focus on the company's offerings and clients mitigates many of the risks normally associated with a financing company. Global Financing has the benefit of both a deep knowledge of its client base and a clear insight into the products and services that are being financed. This combination allows Global Financing to effectively manage two of the major risks (credit and residual value) that are normally associated with financing.

GLOBAL FINANCING CAPABILITIES

Client Financing. Lease and loan financing to end users and internal clients for terms generally between two and seven years. Internal financing is predominantly in support of Global Services' long-term client service contracts. Global Financing also factors a selected portion of the company's accounts receivable, primarily for cash management purposes. All internal financing arrangements are at arm's-length rates and are based upon market conditions.

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

Remarketing. The sale and lease of used equipment to new or existing clients both externally and internally. This equipment is primarily sourced from the conclusion of lease transactions. Externally remarketed equipment revenue represents sales or leases to clients and resellers. Internally remarketed equipment revenue primarily represents used equipment that is sold or leased internally to the Systems and Technology and Global Services segments. The Systems and Technology segment may also sell the equipment that it purchases from Global Financing to external clients.

IBM WORLDWIDE ORGANIZATIONS

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

- Sales and Distribution
- Research, Development and Intellectual Property
- Integrated Supply Chain

Sales and Distribution

IBM has a significant global presence, operating in more than 170 countries, with an increasingly broad-based geographic distribution of revenue. 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 clients' businesses and needs, and then bring together capabilities from across IBM and an extensive network of Business Partners to develop and implement solutions.

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

In 2008, the company implemented a new growth markets organization to increase its focus on the emerging markets around the world that have market growth rates greater than the global average—countries within Southeast Asia, Eastern Europe, the Middle East and Latin America. The company's major markets include the United States (U.S.), Canada, the United Kingdom (U.K.), France,

Germany, Italy, Japan, Denmark, Sweden, Switzerland, Austria, Belgium, Finland, Greece, Ireland, the Netherlands, Portugal, Cyprus, Norway, Israel, Spain, the Bahamas and the Caribbean region.

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
- General Business: Mainly companies with fewer than 1,000 employees

Research, Development and Intellectual Property

IBM's R&D operations differentiate the company from its competitors. IBM annually invests approximately \$6 billion for R&D, focusing on high-growth, high-value opportunities. As a result of innovations in these and other areas, IBM was once again awarded more U.S. patents in 2009 than any other company, the 17th consecutive year IBM has been the patent leader. IBM's 4,914 patents in 2009 were the most U.S. patents ever awarded to one company in a single year. Consistent with the shift in the company's business mix, approximately 70 percent of these patents were for software and services. The company will continue to actively seek intellectual property protection for its innovations, while increasing emphasis on other initiatives designed to leverage its intellectual property leadership and promote innovation.

In addition to producing world-class systems, software and technology products, IBM innovations are also a major differentiator in providing solutions for the company's clients through its services businesses. 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. 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 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.

Integrated Supply Chain

Consistent with the company's work with clients to transform their 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, thereby providing a strategic advantage for the company to create value for clients. IBM leverages its supply-chain expertise for clients through its supply-chain business transformation outsourcing service to optimize and help operate clients' end-to-end supply-chain processes, from procurement to logistics.

IBM spends approximately \$35 billion annually through its supply chain, procuring materials and services globally. The supply, manufacturing and logistics and customer fulfillment operations are integrated in one operating unit that has optimized inventories over time, improved response to marketplace opportunities and external risks and converted fixed costs to variable costs. Simplifying and streamlining internal processes has improved operations, sales force productivity and processes.

COMPETITION

The company is a globally-integrated enterprise, doing business in more than 170 countries. The company participates in the highly competitive information technology (IT) industry, where its competitors vary by industry segment, and range from large multinational enterprises to smaller, more narrowly focused entities. Overall, across its business segments, the company recognizes hundreds of competitors worldwide.

The markets for each of the company's business segments is characterized by aggressive competition among all types of competitors. Across its business, the company's principal methods of competition are: technology innovation; performance; price; quality; brand; its broad range of capabilities, products and services; client relationships; the ability to deliver business value to clients; and, service and support. In order to maintain leadership in the IT industry, a corporation must continue to invest, innovate and integrate. Over the past several years, the company has been executing a strategy to transform its business, including shifting to higher value market segments and offerings and increasing its capabilities through internal investments and strategic acquisitions. Overall, the company is the leader or among the leaders in each of its business segments.

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

Global Services:

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

Software:

The enterprise management software market is highly competitive and the key competitive factors in this segment include: functionality, ease of use, scalability, compliance with open standards and total cost of ownership. The company's leadership in these areas provides it with competitive advantages. The company's software business includes middleware, operating systems and related software provided to all industry segments worldwide. The middleware portfolio is the broadest in the industry and it also covers both mainframe and distributed computing environments. The depth and breadth of the company's software offerings, coupled with its global sales and technical support infrastructure differentiate the company's software business from its competitors. In addition, the company's research and development capabilities and intellectual property patent portfolio contribute to this segment's leadership. The company's principal competitors in this segment include BMC Software, CA, Inc., Microsoft Corporation and Oracle Corporation. In addition, the company competes with smaller, niche competitors in specific geographic or product markets worldwide.

Consolidated Statement of Earnings

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(\$ in millions except per share amounts)

For the year ended December 31:	Notes	2009	2008	2007
Revenue:				
Services		\$ 55,128	\$ 58,892	\$ 54,057
Sales		38,300	42,156	42,202
Financing		2,331	2,582	2,526
Total revenue		<u>95,758</u>	<u>103,630</u>	<u>98,786</u>
Cost:				
Services		37,146	40,937	39,160
Sales		13,606	15,776	16,552
Financing		1,220	1,256	1,345
Total cost		<u>51,973</u>	<u>57,969</u>	<u>57,057</u>
Gross profit				
Expense and other income:				
Selling, general and administrative		20,952	23,386	22,060
Research, development and engineering	Q	5,820	6,337	6,153
Intellectual property and custom development income		(1,177)	(1,153)	(958)
Other (income) and expense		(351)	(298)	(626)
Interest expense	K&L	402	673	611
Total expense and other income		<u>25,647</u>	<u>28,945</u>	<u>27,240</u>
Income from continuing operations before income taxes				
		18,138	16,715	14,489
Provision for income taxes	P	4,713	4,381	4,071
Income from continuing operations				
		13,425	12,334	10,418
Discontinued operations:				
Income/(loss) from discontinued operations, net of tax		—	—	(00)
Net income				
		<u>\$ 13,425</u>	<u>\$ 12,334</u>	<u>\$ 10,418</u>
Earnings/(loss) per share of common stock:				
Assuming dilution:				
Continuing operations	R	\$ 10.01	\$ 8.89*	\$ 7.15*
Discontinued operations	R	—	—	(0.00)
Total	R	<u>\$ 10.01</u>	<u>\$ 8.89*</u>	<u>\$ 7.15*</u>
Basic:				
Continuing operations	R	\$ 10.12	\$ 9.02*	\$ 7.27*
Discontinued operations	R	—	—	(0.00)
Total	R	<u>\$ 10.12</u>	<u>\$ 9.02*</u>	<u>\$ 7.27*</u>
Weighted-average number of common shares outstanding:				
Assuming dilution		1,341,352,754	1,387,797,198*	1,456,880,751*
Basic		1,327,157,410	1,369,367,069*	1,433,935,221*

* Reflects the adoption of the Financial Accounting Standards Board (FASB) guidance in determining whether instruments granted in share-based payment transactions are participating securities. See note B, "Accounting Changes," on pages 79 to 82 for additional information.

The accompanying notes on pages 70 through 126 are an integral part of the financial statements.

Consolidated Statement of Financial Position
INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(\$ in millions except per share amounts)

At December 31:	Notes	2009	2008
Assets			
Current assets:			
Cash and cash equivalents		\$ 12,183	\$ 12,741
Marketable securities	E	1,791	166
Notes and accounts receivable — trade (net of allowances of \$217 in 2009 and \$226 in 2008)		10,736	10,906
Short-term financing receivables (net of allowances of \$438 in 2009 and \$351 in 2008)	G	14,914	15,477
Other accounts receivable (net of allowances of \$15 in 2009 and \$55 in 2008)		1,143	1,172
Inventories	F	2,494	2,701
Deferred taxes	P	1,730	1,542
Prepaid expenses and other current assets		3,946	4,299
Total current assets		<u>48,935</u>	<u>49,004</u>
Plant, rental machines and other property	H	39,596	38,445
Less: Accumulated depreciation	H	25,431	24,140
Plant, rental machines and other property — net	H	14,165	14,305
Long-term financing receivables (net of allowances of \$97 in 2009 and \$179 in 2008)	G	10,644	11,183
Prepaid pension assets	U	3,001	1,601
Deferred taxes	P	4,195	7,270
Goodwill	J	20,190	18,226
Intangible assets — net	J	2,513	2,878
Investments and sundry assets	I	5,379	5,058
Total assets		<u>\$ 109,022</u>	<u>\$ 109,524</u>
Liabilities and equity			
Current liabilities:			
Taxes	P	\$ 3,826	\$ 2,743
Short-term debt	K&L	4,168	11,236
Accounts payable		7,436	7,014
Compensation and benefits		4,505	4,623
Deferred income		10,845	10,239
Other accrued expenses and liabilities		5,223	6,580
Total current liabilities		<u>36,002</u>	<u>42,435</u>
Long-term debt	K&L	21,932	22,689
Retirement and nonpension postretirement benefit obligations	U	15,953	19,452
Deferred income		3,562	3,171
Other liabilities	M	8,819	8,192*
Total liabilities		<u>86,267</u>	<u>95,939*</u>
Contingencies and Commitments	O		
Equity:	N		
IBM Stockholders' equity:			
Common stock, par value \$.20 per share and additional paid-in capital		41,810	39,129
Shares authorized: 4,687,500,000			
Shares issued (2009 — 2,127,016,668; 2008 — 2,096,981,860)			
Retained earnings		80,900	70,353
Treasury stock, at cost (shares: 2009 — 821,679,245; 2008 — 757,885,937)		(81,243)	(74,171)
Accumulated other comprehensive income/(loss)		(18,830)	(21,845)
Total IBM stockholders' equity		<u>22,637</u>	<u>13,465*</u>
Noncontrolling interests*		118	119*
Total equity		<u>22,755</u>	<u>13,584*</u>
Total liabilities and equity		<u>\$ 109,022</u>	<u>\$ 109,524</u>

* Reflects the adoption of the FASB guidance on noncontrolling interests in consolidated financial statements. See note B, "Accounting Changes," on pages 79 to 82 for additional information.

The accompanying notes on pages 70 through 126 are an integral part of the financial statements.

65

Consolidated Statement of Cash Flows

INTERNATIONAL BUSINESS MACHINES CORPORATION AND SUBSIDIARY COMPANIES

(\$ in millions)

For the year ended December 31:	2009	2008	2007
Cash flow from operating activities from continuing operations:			
Net income	\$ 13,425	\$ 12,334	\$ 10,418
(Income)/loss from discontinued operations	—	—	00
Adjustments to reconcile income from continuing operations to cash provided by operating activities:			
Depreciation	3,773	4,140	4,038
Amortization of intangibles	1,221	1,310	1,163
Stock-based compensation	558	659	713
Deferred taxes	1,773	1,900	740
Net gain on asset sales and other	(395)	(338)	(89)
Change in operating assets and liabilities, net of acquisitions/divestitures:			
Receivables (including financing receivables)	2,131	274	(1,408)
Retirement related	(2,465)	(1,773)	(228)
Inventories	263	(102)	182
Other assets/other liabilities	319	1,268	706
Accounts payable	170	(860)	(142)
Net cash provided by operating activities from continuing operations	20,773	18,812	16,094
Cash flow from investing activities from continuing operations:			
Payments for plant, rental machines and other property	(3,447)	(4,171)	(4,630)
Proceeds from disposition of plant, rental machines and other property	330	350	537
Investment in software	(630)	(716)	(875)
Purchases of marketable securities and other investments	(5,604)	(4,590)	(24,117)
Proceeds from disposition of marketable securities and other investments	3,599	6,100	24,984
Non-operating finance receivables-net	(184)	(16)	125
Divestiture of businesses, net of cash transferred	400	71	310
Acquisition of businesses, net of cash acquired	(1,194)	(6,313)	(1,009)
Net cash used in investing activities from continuing operations	(6,729)	(9,285)	(4,675)
Cash flow from financing activities from continuing operations:			
Proceeds from new debt	6,683	13,829	21,744
Payments to settle debt	(13,495)	(10,248)	(11,306)
Short-term (repayments)/borrowings less than 90 days-net	(651)	(6,025)	1,674
Common stock repurchases	(7,429)	(10,578)	(18,828)
Common stock transactions-other	3,052	3,774	4,123
Cash dividends paid	(2,860)	(2,585)	(2,147)
Net cash used in financing activities from continuing operations	(14,700)	(11,834)	(4,740)
Effect of exchange rate changes on cash and cash equivalents	98	58	294
Net cash used in discontinued operations from: operating activities	—	—	(5)
Net change in cash and cash equivalents	(558)	(2,250)	6,969
Cash and cash equivalents at January 1	12,741	14,991	8,022
Cash and cash equivalents at December 31	\$ 12,183	\$ 12,741	\$ 14,991
Supplemental data:			
Income taxes paid-net of refunds received	\$ 1,567	\$ 2,111	\$ 2,608
Interest paid on debt	\$ 1,240	\$ 1,460	\$ 1,485
Capital lease obligations	\$ 15	\$ 41	\$ 57

The accompanying notes on pages 70 through 126 are an integral part of the financial statements.