

INTERNATIONAL BUSINESS MACHINES CORP  
Form 11-K  
June 28, 2005

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-2360

A. Full title of the plan and address of the plan, if different from that of the issuer named below:

**IBM Savings Plan**

**Director of Compensation and Benefits**

**Capital Accumulation Programs**

**IBM Corporation**

**North Castle Drive**

**Armonk, New York 10504**

- B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

**INTERNATIONAL BUSINESS MACHINES CORPORATION**

**New Orchard Road**

**Armonk, New York 10504**

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December 31, 2004

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\* Other schedules required by Section 2520.103-10 of the Department of Labor Rules and Regulations for Reporting and Disclosures under the Employee Retirement Income Security Act of 1974 are omitted because they are not applicable.

**SIGNATURE**

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed by the undersigned hereunto duly authorized.

**IBM Savings Plan**

Date: June 27, 2005

By:

/s/ Timothy S. Shaughnessy

Timothy S. Shaughnessy  
Vice President and Controller

**Report of Independent Registered Public Accounting Firm**

To the Members of the International Business Machines Corporation (IBM) Retirement Plans Committee and the Participants of the IBM Savings Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of IBM Savings Plan (the Plan ) at December 31, 2004 and 2003, and the changes in net assets available for benefits for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

New York, NY  
June 22, 2005

## IBM SAVINGS PLAN

## STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

AT DECEMBER 31,

(Dollars in thousands)

	2004		2003
<b>Assets:</b>			
Investments, at fair value (Note 7)	\$ 27,045,734	\$	23,883,295
Participant loans, at contract value	293,193		281,679
Total investments	27,338,927		24,164,974
Receivables:			
Participant contributions	33,525		29,577
Employer contributions	10,559		9,966
Income and sales proceeds receivable	5,347		5,060
Total receivables	49,431		44,603
Total assets	27,388,358		24,209,577
<b>Liabilities:</b>			
Payable for cash collateral	1,932,125		1,628,363
Expenses payable	1,070		741
Total Liabilities	1,933,195		1,629,104
<b>Net assets available for benefits</b>	<b>\$ 25,455,163</b>	<b>\$</b>	<b>22,580,473</b>

The accompanying notes are an integral part of these financial statements.

## IBM SAVINGS PLAN

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31,

(Dollars in thousands)

	2004
<b>Additions to net assets attributed to:</b>	
Investment income:	
Net appreciation in fair value of investments (Note 7)	\$ 2,040,431
Interest income from investments	292,279
Dividends	69,678
	2,402,388
Contributions	
Participants	1,136,713
Employer	329,605
	1,466,318
Transfers from other benefits plans, net	124,310
Total additions	3,993,016
<b>Deductions from net assets attributed to:</b>	
Distributions to participants	1,095,912
Administrative expenses	22,414
Total deductions	1,118,326
<b>Net increase in net assets during the year</b>	<b>2,874,690</b>
<b>Net assets available for benefits:</b>	
Beginning of year	22,580,473
End of year	\$ 25,455,163

The accompanying notes are an integral part of these financial statements.

**IBM SAVINGS PLAN**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - DESCRIPTION OF THE PLAN**

The following description of the IBM Savings Plan (the Plan) provides only general information. Participants should refer to the Plan prospectus for a complete description of the Plan's provisions.

**General**

The Plan was established by resolution of IBM's Retirement Plans Committee (the Committee) effective July 1, 1983 and Plan assets are held in trust for the benefit of its participants. The Plan offers all eligible active, full-time and part-time regular and long term supplemental U.S. employees of IBM and certain of its domestic related companies and partnerships an opportunity to defer from one to eighty percent of their eligible compensation for contribution to any of twenty-three investment funds. The investment objectives of the twenty-three funds are described in Note 3, Description of Investment Funds. In addition, participants are able to contribute up to 10% of their eligible compensation on an after-tax basis. (After-tax contributions are not available for employees working in Puerto Rico.) Annual contributions are subject to the legal limits allowed by Internal Revenue Service (IRS) regulations.

Effective January 1, 2005, the Plan allows participants to invest their account balances in more than 175 mutual fund investment options through a mutual fund window. Participants may direct investments into this mutual fund window in addition to the various primary investment funds offered by the Plan.

Effective January 1, 2005, participants also have the choice to enroll in a disability protection program under which a portion of the participant's account is used to pay premiums to purchase term insurance (underwritten by Metropolitan Life Insurance Company), which will pay the amount of their 401(k) deferral contributions and/or matching contributions into their accounts in the event the participant becomes disabled while insured.

At December 31, 2004 and 2003, the number of active participants with an account balance in the Plan was 223,578 and 226,301, respectively.

The Plan qualifies under Section 401(a) of the Internal Revenue Code of 1986, as amended, and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.



## **Administration**

The Plan is administered by the Committee, which appointed certain officials of IBM to assist in administering the Plan. The Committee appointed State Street Bank and Trust Corporation (SSBT), as Trustee, to safeguard the assets of the funds and State Street Global Advisors (the institutional investment management affiliate of State Street Bank and Trust Corporation), The Vanguard Group and other investment managers to direct investments in the various funds. Hewitt Associates (Hewitt) is the provider of record keeping, participant services, and operator of the IBM Savings Plan Service Center in Lincolnshire, Illinois. Communications services are provided by Hewitt as well as The Vanguard Group.

Fidelity Investments Institutional Operations Company, Inc. is the provider of administrative services relating to the mutual fund window that became effective January 1, 2005,

## **Contributions**

For eligible employees hired prior to January 1, 2005 (and certain employees hired thereafter in connection with a particular transaction as noted in the IBM Savings Plan document), IBM contributes to the Plan a matching contribution equal to fifty percent of the first six percent of annual eligible compensation the employee defers (maximum match is three percent).

Effective January 1, 2005, other eligible employees (i.e., newly hired employees) participate in the IBM Savings Plan under certain new Plan provisions referred to as the IBM Pension Program offered through the IBM Savings Plan. These employees will be automatically enrolled to make 401(k) contributions at three percent of eligible compensation after approximately thirty days of employment with IBM unless they elect otherwise. IBM will contribute to the Plan a matching contribution equal to one hundred percent of the first six percent of annual eligible compensation the employee defers (maximum match is six percent). These employees must have one year of service with IBM before being eligible for the IBM matching contribution. IBM matching contributions for such employees will be automatically adjusted after year-end to provide the full IBM matching contribution for their aggregate 401(k) deferral contributions for the year.

Eligible compensation includes regular salary, commissions, overtime, shift premium and similar additional compensation payments for nonscheduled workdays, recurring payments under any form of employee variable compensation plan, regular IBM Short-Term Disability Income Plan payments, holiday pay, and vacation pay, but excludes payments made under any executive incentive pay plan.

Participants may choose to have their contributions invested entirely in one of, or in any combination of, the following funds in multiples of one percent. These funds and their investment objectives are more fully described in Note 3, Description of Investment Funds.

### **Life Strategy Funds (4)**

Income Plus Life Strategy Fund

Conservative Life Strategy Fund

Moderate Life Strategy Fund

Aggressive Life Strategy Fund

**Core Funds (6)**

Stable Value Fund

Inflation-Protected Bond Fund

Total Bond Market Fund

Total International Stock Market Index Fund

Total Stock Market Index Fund

Real Estate Investment Trust Index Fund

**Extended Choice Funds (13)**

Money Market Fund

Long-Term Corporate Bond Fund

Equity Income Fund

Vanguard European Stock Index Fund

Large Company Index Fund

Large-Cap Value Index Fund

Small-Cap Value Index Fund

Large-Cap Growth Index Fund

Vanguard Pacific Stock Index Fund

Small/Mid-Cap Stock Index Fund

Small-Cap Growth Index Fund

IBM Stock Fund

High Yield and Emerging Market Bond Fund

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IBM Savings Plan participants also have access to the mutual fund window investments effective January 1, 2005, as previously described.

Participants may change their deferral percentage and investment selection for future contributions at any time. The changes will take effect for the next eligible pay cycle so long as the request is completed before the respective cutoff dates. Also, the participant may transfer part or all of existing account balances among funds in the Plan once daily, but will incur a service fee for each transfer in excess of eight in a calendar year. However, participant balances in the Stable Value Fund may not be transferred directly into the Money Market Fund, and if such balances are transferred into another fund, they may not subsequently be transferred to the Money Market Fund for 90 days.

IBM is committed to preserving the integrity of the IBM Savings Plan as a long-term savings vehicle for its employees. Frequent, short-term trading that is intended to attempt to take advantage of pricing lags in mutual funds can harm long-term investors, or increase trading expense in general. Therefore, the IBM Savings Plan reserves the right to take appropriate action to curb short-term round trip transactions (buying/selling) into or out of the same fund within five (5) business days.

## Participant Accounts

The Plan record keeper (Hewitt) maintains an account in the name of each participant to which each participant's contributions and share of the net earnings, losses and expenses, if any, of the various investment funds are recorded. The earnings on the assets held in each of the funds and all proceeds from the sale of such assets are held and reinvested in the respective funds.

Participants may transfer rollover contributions of pre-tax dollars from other qualified savings plans or conduit Individual Retirement Accounts (IRAs that exclusively hold a pre-tax distribution from a qualified plan) into their Plan accounts. Rollovers must be made in cash within the time limits specified by the IRS; stock or in-kind rollovers cannot be accepted. These rollovers are limited to active employees on the payroll of IBM (or affiliated companies) who have existing accounts in the Plan. Retirees are not eligible for such rollovers, except that a retiree or separated employee who has an existing account in the Plan may rollover a lump-sum distribution from an IBM-sponsored qualified retirement plan, including the IBM Personal Pension Plan. After-tax funds may also be rolled over in the Plan. Participant contributions for 2004 of \$1,137 million include rollover activity totaling approximately \$74 million.

The interest of each participant in each of the funds is represented by units/shares credited to the participant's account.

On each valuation date, the unit/share value of each fund is determined by dividing the current market value of the assets in that fund on that date by the number of units/shares in the fund. In determining the unit/share value, new contributions that are to be allocated as of the valuation date are excluded from the calculation. The number of additional units to be credited to a participant's account for each fund, due to new contributions, is equal to the amount of the participant's new contributions to the fund divided by the unit value for the applicable fund as determined on the valuation date.

Contributions made to the Plan as well as interest, dividends or other earnings of the Plan are generally not included in the taxable income of the participant until withdrawal, at which time all earnings and contributions withdrawn generally are taxed as ordinary income to the participant. Additionally, withdrawals by the participant before attaining age 59 1/2 generally are subject to a penalty tax of 10 percent.

Consistent with provisions established by the IRS, the Plan's 2004 limit on employee salary deferrals was \$13,000 (the limit increases to \$14,000 for 2005). Those who were age 50 or older during 2004 could take advantage of a higher pre-tax contribution limit of \$16,000 (the limit increases to \$18,000 for 2005). The amount of the maximum contribution will be going up each year through 2006, when the contribution will reach \$15,000 for employees under age 50 and \$20,000 for those age 50 or over. The 2004 maximum annual deferral amount for employees residing in Puerto Rico was limited by local government regulations to the lesser of \$8,000 or ten percent of eligible compensation.

### **Vesting**

Participants in the Plan are at all times fully vested in their account balance, including deferral contributions, employer matching contributions and earnings thereon, if any.

### **Distributions**

Participants who have attained age 59 1/2 may request a distribution of all or part of the value in the account. Up to four distributions are allowed each year and the minimum amount of any such distribution shall be the lesser of the participant's account balance or \$500.

In addition, participants who (1) retire under the prior IBM Retirement Plan provisions of the IBM Personal Pension Plan, or (2) become eligible for benefits under the IBM Long-Term Disability Plan or the IBM Medical Disability Income Plan, or (3) separate and have attained age 55, may also elect to receive the balance of their account either in annual installments over a period not to exceed ten years or over the participant's life expectancy, recalculated annually, or defer distribution until age 70 1/2.

Withdrawals for financial hardship are permitted provided they are for a severe and immediate financial need, and the distribution is necessary to satisfy that need. Employees are required to fully use the Plan loan program, described below, before requesting a hardship withdrawal. Only an employee's deferral contributions are eligible for hardship withdrawal; earnings and IBM matching contributions are not eligible for withdrawal. Employees must submit evidence of hardship to Hewitt, who will determine whether the situation qualifies for a hardship withdrawal based on direction from IBM. A hardship withdrawal is taxed as ordinary income to the employee and may be subject to the 10 percent additional tax on early distributions.

Upon the death of a participant, the value of the participant's account will be distributed to the participant's beneficiary in a lump-sum payment. If the participant is married, the beneficiary must be the participant's spouse, unless the participant's spouse has previously given written, notarized consent to designate another person as beneficiary. If the participant marries or remarries, any prior beneficiary designation is canceled and the spouse automatically becomes the beneficiary. If the participant is single, the beneficiary may be anyone previously designated by the participant under the Plan. In the absence of an effective designation under the Plan at the time of death, the proceeds normally will be paid in the following order: the participant's spouse, the participant's children in equal shares, or to surviving parents equally. If no spouse, child, or parent is living, payments will be made to the executors or administrators of the participant's estate.

### **Participant Loans**

Participants may borrow up to one-half of the value of the account balance, not to exceed \$50,000 within a twelve month period. Loans will be granted in \$50 increments subject to a minimum loan amount of \$500. Participants are limited to two simultaneous outstanding Plan loans. Repayment of a loan shall be made through semi-monthly payroll deductions over a term of one to four years. The loan shall bear a fixed rate of interest, set quarterly, for the term of the loan, determined by the plan administrator to be 1.25 percent above the prime rate. The interest shall be credited to the participant's account as the semi-monthly repayments of principal and interest are made. Interest rates on outstanding loans at December 31, 2004 and 2003 ranged from 5.00 percent to 6.75 percent and 5.25 percent to 10.75 percent, respectively.



Participants may prepay the entire remaining loan principal after payments have been made for three full months. Employees on an approved leave of absence may elect to make scheduled loan payments directly to the Plan. Participants may continue to contribute to the Plan while having an outstanding loan, provided that the loan is not in default.

Participants who retire or separate from IBM and have outstanding Plan loans may make coupon payments to continue monthly loan repayments according to their original amortization schedule.

### **Termination of Service**

The value of the participant's account that is \$5,000 or less will be distributed to the participant in a lump-sum payment as soon as practical following the termination of the participant's employment with IBM. If the account balance is greater than \$5,000 at the time of separation, the participant may elect to defer distribution of the account until age 70 ½. The account value threshold was lowered to \$1,000 from \$5,000 effective for distributions made on or after March 28, 2005.

### **Termination of the Plan**

IBM reserves the right to terminate this Plan at any time by action of the Committee. In that event, each participant or beneficiary receiving or entitled to receive payments under the Plan would receive the balance of the account at such time and in such manner as the Committee shall determine at its discretion.

In the event of a full or partial termination of the Plan, or upon complete discontinuance of contributions under the Plan, the rights of all affected participants in the value of their accounts would be nonforfeitable.

### **Risks and Uncertainties**

The Plan provides for various investment options that include in any combination of mutual funds, commingled funds, life-cycle funds, equities, fixed income securities, synthetic guaranteed investment contracts (GICs), and derivative contracts. Investment securities are exposed to various risks, such as interest rates, credit and overall market volatility. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is reasonably possible that changes in risks in the near term could materially affect participants' account balances and the amounts reported.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Accounting**

The accompanying financial statements are prepared under the accrual basis of accounting, except distributions, which are recorded when paid.

### **Valuation of Investments**

The Plan's investments are stated at fair value, except benefit-responsive investment contracts, which are stated at contract value. Investments in mutual funds and commingled funds are valued at the net asset values per share as quoted by such companies or funds as of the valuation date. IBM common stock is valued daily at the New York Stock Exchange closing price. Other equity securities are valued at the last reported sales price or closing price. Short-term securities are valued at amortized cost, which includes cost and accrued interest, which approximates fair value. Participant loans are valued at contract value, which is cost plus accrued interest, which approximates fair value.

### **Investment Contracts**

The Plan entered into benefit-responsive investment contracts, such as synthetic investment contracts (GICs), (through the Stable Value Fund) with various third parties. Contract value represents contributions made to investment contracts, plus earnings, less participant withdrawals and administrative expenses.

A synthetic GIC provides for a fixed return on principal over a specified period of time, e.g., monthly crediting rate, through fully benefit-responsive wrapper contracts issued by a third party, which are backed by underlying assets owned by the Plan. The contract value of the synthetic GIC held by the Stable Value Fund was \$5,191 million and \$5,109 million at December 31, 2004 and 2003, respectively. Included in the contract value of the synthetic GIC is (\$274) million and (\$300) million at December 31, 2004 and 2003, respectively, attributable to wrapper contract providers representing the amounts by which the value of the investment contracts are less than the value of the underlying assets.

The average yield and crediting interest rates of the investment contracts was 5.42 percent and 5.02 percent at December 31, 2004 and 2003, respectively. Fully benefit-responsive investment contracts are reported at contract value, which approximates fair value.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosures of

contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### **Security Transactions and Related Investment Income**

Security transactions are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date, and interest income is recorded on the accrual basis.

### **Administrative Expenses and Investment Management Fees**

All administrative costs of the Plan are deducted from participants' account balances. These costs include (a) brokerage fees and commissions, which are included in the cost of investments and in determining net proceeds on sales of investments, (b) investment management fees, which are paid from the assets of the respective funds; those fees comprise fixed annual charges and charges based on a percentage of net asset value and are included as part of administrative expenses, and (c) operational expenses required for administration of the Plan including trustee, recordkeeping, participant reports and communications, and service center expenses, which are charged against the fund's assets on a pro rata basis throughout the year and are included as part of administrative expenses.

### **NOTE 3 - DESCRIPTION OF INVESTMENT FUNDS**

The objectives of the twenty-three investment funds to which employees may contribute monies are described below:

**Life Strategy Funds** - four blended funds that build a portfolio of diversified investments - U.S. stocks, international stocks, real estate equity stocks and fixed-income investments - from the existing core funds noted below. The funds are structured by the IBM Retirement Fund organization and managed by the underlying funds managers.

**Income Plus Life Strategy Fund** - target allocation 30% stocks, 70% bonds; seeks returns that modestly outpace inflation on a fairly consistent basis.

**Conservative Life Strategy Fund** - target allocation 50% stocks, 50% bonds; seeks returns that moderately outpace inflation over the long term.

**Moderate Life Strategy Fund** - target allocation 65% stocks, 35% bonds; seeks relatively high returns at a moderate risk level.

**Aggressive Life Strategy Fund** - target allocation 85% stocks, 15% bonds; seeks high returns over the long term. Returns may be relatively volatile from year to year.

**Core Funds** - six funds that provide an opportunity to custom-build a portfolio from a selection of broadly diversified U.S. and international stock funds and from funds tracking the fixed-income markets.

**Stable Value Fund** - seeks to preserve principal and provide income at a stable rate of interest that is competitive with intermediate-term rates of return. The fund is managed by multiple money managers.

**Inflation-Protected Bond Fund** - seeks over the long term to provide a rate of return over and above the rate of inflation, thereby preserving the long-term spending power of the money invested. The fund is managed by State Street Global Advisors.

**Total Bond Market Fund** - seeks to modestly exceed the return of its benchmark index (Lehman Brothers Aggregate Bond Index), which consists of more than 5,000 U.S. Treasury and federal agency, mortgage-backed, and corporate securities. The fund is managed by State Street Global Advisors.

**Total International Stock Market Index Fund** - seeks long-term capital growth with a market rate of return for a diversified group of non-U.S. equities in such major markets as Europe and Asia plus the emerging markets of the world. It attempts to match the performance of the Morgan Stanley Capital International All Country World Ex-U.S. Free Index. The fund is managed by State Street Global Advisors.

**Total Stock Market Index Fund** - seeks long-term growth of capital and income. It attempts to match the performance of the Wilshire 5000 Total Market Index. The fund is managed by The Vanguard Group.

**Real Estate Investment Trust (REIT) Index Fund** - seeks a total rate of return approximating the returns of the Morgan Stanley REIT index. Investment consists of U.S. publicly traded real estate equity securities. The fund is managed by Barclays Global Investors.

**Extended Choice Funds** - thirteen funds that provide an opportunity to fine tune an investment portfolio with funds that are less broadly diversified, focusing instead on discrete sectors of the stock and bond markets.

**Money Market Fund** - seeks liquidity and preservation of capital while providing a variable rate of income based on current short-term market interest rates. The fund is managed by State Street Global Advisors.

**Long-Term Corporate Bond Fund** - seeks a high and sustainable level of interest income by investing in a widely diversified group of long-term bonds issued by corporations with strong credit ratings. The fund is managed by State Street Global Advisors.

**Equity Income Fund** - seeks both long-term capital appreciation and dividend income by investing in large- and mid-cap U.S. stocks. The fund is managed by State Street Global Advisors.

**Vanguard European Stock Index Fund** - seeks long-term growth of capital that corresponds to an index of European stocks. It attempts to match the investment results of the Morgan Stanley Capital International Europe Index. The fund is managed by The Vanguard Group.

**Large Company Index Fund** - seeks long-term growth of capital and income from dividends by holding all the stocks that make up the Standard & Poor's 500 Index. The fund is managed by The Vanguard Group.

**Large-Cap Value Index Fund** - seeks long-term growth of capital and income from dividends. The fund holds all the stocks in the Russell 1000 Value Index in approximately the same proportion as those stocks represented in the index. The fund is managed by The Vanguard Group.

**Small-Cap Value Index Fund** - seeks long-term growth of capital by attempting to replicate the performance of the Russell 2000 Value Index. The fund is managed by The Vanguard Group.

**Large-Cap Growth Index Fund** - seeks long-term growth of capital by holding all the stocks in the Russell 1000 Growth Index in approximately the same proportion as those stocks represented in the index. The fund is managed by The Vanguard Group.

**Vanguard Pacific Stock Index Fund** - seeks long-term growth of capital by attempting to match the performance of the Morgan Stanley Capital International Pacific Free Index. The fund is managed by The Vanguard Group.

**Small/Mid-Cap Stock Index Fund** - seeks long-term growth of capital with a market rate of return from a diversified group of medium- and small-company stocks. The fund holds stocks in the Russell 3000 index that are not part of the Standard and Poor's 500 index and attempts to match the performance of the Russell SmallCap Completeness Index. The fund is managed by State Street Global Advisors.

**Small-Cap Growth Index Fund** - seeks long-term growth of capital by attempting to match the performance of the Russell 2000 Growth Index. The fund is managed by The Vanguard Group.

**IBM Stock Fund** - invests in IBM common stock and holds a small interest-bearing cash balance of approximately 0.25% for liquidity purposes. The fund is managed by State Street Global Advisors.

**High Yield and Emerging Market Bond Fund** - seeks to provide attractive returns, with somewhat less volatility than stocks. The fund invests in U.S. corporate and emerging market dollar funds and is managed by Pacific Investment Management Company, LLC (PIMCO).

#### Security Lending

Stock loan transactions are permitted with the objective to add investment return to the portfolio. Certain funds may lend securities held in that fund to unaffiliated broker-dealers registered under the Securities Exchange Act of 1934, or banks organized in the United States of America. At all times, the borrower must maintain cash or equivalent collateral equal in value to at least 102 percent of the value of the domestic securities loaned and 105 percent of the value of international securities loaned. The cash collateral is reinvested to generate income that is credited to the portfolio return. The primary risk in lending securities is a borrower may default during a sharp rise in the price of the security that was borrowed, resulting in a deficiency in the collateral posted by the borrower. The funds seek to minimize this risk by requiring that the value of the securities that are loaned to be computed each day and that additional collateral is furnished each day, if necessary. The addition of the securities lending provision does not change the investment objectives for the funds. The value of loaned securities in the State Street Bank agency program amounted to \$1,879 million and \$1,584 million at December 31, 2004 and 2003, respectively. The value of cash collateral obtained and reinvested in short-term investments of \$1,932 million and \$1,628 million for December 31, 2004 and 2003, respectively, is reflected as a liability in the Plan's financial statements. Securities lending is also permitted in the Vanguard and SSGA commingled funds.



**NOTE 4 - PLAN TRANSFERS**

The transfers below represent participant investment account balances attributable to employees transferred to IBM in 2004 primarily as a result of IBM acquisitions:

Significant transfers were:

Candle Corporation - net transfer totaling \$115,116,000

Alphablox Corporation - net transfer totaling \$3,538,000

Productivity Solutions, Inc. - net transfer totaling \$1,750,000

Trigo Technologies, Inc. - net transfer totaling \$1,132,000

In 2004, there were also transfers into the Plan totaling \$1,134,000 related to participant account balances from other companies. Total plan transfers were \$124,310,000, which includes participant loan balances in addition to the transfers noted above.

**NOTE 5 - TAX STATUS**

The Trust established under the Plan is qualified under Section 401(a) of the Internal Revenue Code and the Trustee intends to continue it as a qualified trust. The Plan received a favorable determination letter from the IRS on September 10, 2004. The Plan administrator continues to believe the Plan is designed and is being operated in compliance with the applicable requirements of the Internal Revenue Code. Accordingly, a provision for federal income taxes has not been made.

**NOTE 6 - RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of:

(Dollars in thousands)

	<b>2004</b>	<b>December 31,</b>	<b>2003</b>
Net assets available for benefits per the financial statements	\$ 25,455,163	\$	22,580,473
Benefit obligations currently payable		3,871	4,730
Net assets available for benefits per the Form 5500	\$ 25,451,292	\$	22,575,743

The following is a reconciliation of benefits paid to participants per the financial statements to the Form 5500:

(Dollars in thousands)

	<b>Year Ended December 31, 2004</b>
Benefits paid to participants per the financial statements	\$ 1,095,912
Less:	
Amounts payable at December 31, 2003	4,730
Plus:	
Amounts payable at December 31, 2004	3,871
Benefits paid to participants per the Form 5500	\$ 1,095,053

**NOTE 7 - INVESTMENT VALUATIONS**

The following schedules summarize the value of investments, and the related net appreciation in fair value of investments by type of investment:

(Dollars in thousands)

	Quoted Market Prices	Value Determined By		Total
		Contract Value		
<b>At December 31, 2004</b>				
<b>Investments at Fair Value</b>				
Commingled Funds	\$ 12,016,899		\$ 12,016,899	
Common Stock non-employer	4,574,368			4,574,368
IBM Common Stock	2,590,210			2,590,210
Short-Term Investments	2,188,918			2,188,918
Mutual Funds	481,377			481,377
Fixed Income Securities	3,397			3,397
Total	\$ 21,855,169		\$ 21,855,169	
<b>Investments at Contract Value</b>				
Investment contracts		\$ 5,190,565		5,190,565
Total	\$ 21,855,169	\$ 5,190,565	\$ 27,045,734	
<b>At December 31, 2003</b>				
<b>Investments at Fair Value</b>				
Commingled Funds	\$ 10,229,087		\$ 10,229,087	
Common Stock non-employer	3,802,726			3,802,726
IBM Common Stock	2,730,762			2,730,762
Short-Term Investments	1,793,630			1,793,630
Mutual Funds	211,671			211,671
Fixed Income Securities	6,810			6,810
Total	18,774,686			18,774,686
<b>Investments at Contract Value</b>				
Investment contracts		\$ 5,108,609		5,108,609
Total	\$ 18,774,686	\$ 5,108,609	\$ 23,883,295	

**Net Appreciation in Fair Value of Investments (including gains and losses on investments bought and sold, as well as held during the year):**

(Dollars in thousands)

	<b>2004</b>	
Investments at fair value as determined by quoted market price:		
Commingled Funds	\$	1,149,502
Common Stock non-employer		687,700
IBM Common Stock		156,218
Mutual Funds		47,011
Total	\$	2,040,431

**Investments**

The investments that represent 5% or more of the Plan's net assets available for benefits at December 31, 2004 and 2003 are as follows:

(Dollars in thousands)

	<b>2004</b>		<b>2003</b>	
Large Company Index Fund (Vanguard)	\$	4,883,337	\$	4,696,399
IBM Common Stock		2,590,210		2,730,762
Total Stock Market Index Fund (Vanguard)		2,004,369		1,574,802

**NOTE 8 - RELATED-PARTY TRANSACTIONS**

At December 31, 2004, a significant portion of the Plan's assets were invested in State Street Global Advisors funds. State Street Global Advisors' parent company, State Street Bank and Trust Corporation, also acts as the trustee for the Plan and, therefore, these investments qualify as party-in-interest transactions. The Plan also pays a fee to the trustee and the trustee also is a security lending agent. These transactions qualify as party-in-interest transactions as well.

At December 31, 2004, the Plan held 26,269,305 shares of IBM common stock valued at \$2,590,209,713. At December 31, 2003, the Plan held 29,464,414 shares of IBM common stock valued at \$2,730,761,890.

## IBM SAVINGS PLAN

## Schedule H, line 4i - Schedule of Assets (Held at End of Year)

AT DECEMBER 31, 2004

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
<b>IBM Stock Fund</b>				
*	Managed by State Street Global Advisors	IBM Common Stock* 26,269,305 shares	\$	2,590,209,713
*	Managed by State Street Global Advisors	SSBT Short-Term Investments*		2,304,984
<b>Mutual Funds</b>				
	Managed by Pacific Management Investment Company (PIMCO)	PIMCO High Yield and Emerging Markets Bond		41,024,495
	Managed by the Vanguard Group	Vanguard European Stock Index		226,989,893
	Managed by the Vanguard Group	Vanguard Pacific Stock Index		213,362,532
<b>Commingled Trust Funds</b>				
	Managed by The Vanguard Group	Vanguard Large Company Index		4,883,337,018
	Managed by The Vanguard Group	Vanguard Total Stock Market Index		2,004,369,355
*	Managed by State Street Global Advisors	SSBT Inflation Protected Bond*		978,427,936
*	Managed by State Street Global Advisors	SSBT Money Market*		904,975,913
	Managed by The Vanguard Group	Vanguard Small Cap Value Index		780,718,489

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
<b>Commingled Trust Funds - continued</b>				
*	Managed by State Street Global Advisors	SSBT Total Bond Market*	\$	731,925,821
	Managed by Barclays Global Investors	BGI Real Estate Investment Trust		528,279,620
	Managed by The Vanguard Group	Vanguard Large Cap Value Index		439,609,959
	Managed by The Vanguard Group	Vanguard Small Cap Growth Index		306,691,396
	Managed by The Vanguard Group	Vanguard Large Cap Growth Index		264,731,339
*	Managed by State Street Global Advisors	SSBT Long-Term Corporate Bond*		193,832,266
<b>Separately-Managed Funds IBM</b>				
*	Managed by State Street Global Advisors	SSBT Small/Mid Cap Stock Index* (refer to Exhibit A - list of investments)		3,000,384,753
*	Managed by State Street Global Advisors	SSBT Total International Stock Market Index* (refer to Exhibit B - list of investments)		1,534,616,747
*	Managed by State Street Global Advisors	SSBT Equity Income* (refer to Exhibit C - list of investments)		109,354,665

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
<b>Short-Term Investments</b>				
	Managed by JPMorgan Chase Bank N.A.	Short-Term Investments purchased with cash collateral from securities lending (refer to Exhibit D - list of investments)	\$	1,932,124,612
<b>Stable Value Fund-Investment Contracts</b>				
	Managed by various investment companies	Synthetic GIC Global Wrapper (Wrapper value is \$274 million, Rate of Interest 5.42%) (refer to Exhibit E - list of investments)		5,190,565,284
<b>Short-Term Investments</b>				
*	Managed by State Street Global Advisors	SSBT Short-Term Investments*		187,897,658
*	<b>Loans to Participants</b>	Interest rates range: 5.00% - 6.75%, Terms: one to four years		293,192,623

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\* Party-In-Interest

## EXHIBIT A - Small/Mid-Cap Stock Index

(Managed by State Street Global Advisors)

## IBM SAVINGS PLAN AT DECEMBER 31, 2004

## Schedule H, line 4i-Schedule of Assets (Held At End of Year)

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value
			(n / a)	
		Shares		
	AAON INC	COM	10,650	\$ 171,146
	AAR CORP	COM	31,600	430,392
	ABC BANCORP	COM	10,400	218,400
	A C MOORE ARTS + CRAFTS INC	COM	15,700	452,317
	ADE CORP MASS	COM	5,700	106,704
	ABM INDS INC	COM	43,500	857,820
	AGCO CORP	COM	105,200	2,302,828
	AGL RES INC	COM	83,600	2,778,864
	AK STL HLDG CORP	COM	120,727	1,746,920
	AMB PPTY CORP	COM	94,100	3,800,699
	AMLI RESIDENTIAL PPTYS TR	SH BEN INT	29,993	959,776
	AMN HEALTHCARE SVCS INC	COM	15,490	246,446
	AMR CORP DEL	COM	186,900	2,046,555
	A S V INC	COM	9,100	435,890
	ATMI INC	COM	31,700	714,201
	AVX CORP NEW	COM	62,000	781,200
	AARON RENTS INC	CL B	44,475	1,111,875
	AAMES INVT CORP MD	COM	41,000	438,700
	ABAXIS INC	COM	18,100	262,269
	ABERCROMBIE AND FITCH CO	COM CL A	104,630	4,912,379
	ABGENIX INC	COM	105,875	1,094,748
	ABIOMED INC	COM	20,000	308,800
	ABLE LABORATORIES INC	COM	20,300	461,825
	ACADIA RLTY TR	COM	19,800	322,740
	ACCELRY INC	COM	29,700	231,660
	ACCREDITED HOME LENDERS HLDG	COM	19,900	988,632
	ACCREDO HEALTH INC	COM	58,272	1,615,300
	ACE CASH EXPRESS INC	COM	7,657	227,107
	ACETO CORP	COM	15,850	301,784
	ACTIVISION INC NEW	COM	163,100	3,291,358
	ACTION PERFORMANCE COS INC	COM	19,000	208,810
	ACTEL CORP	COM	26,400	463,056
	ACTIVCARD CORP	COM	43,700	388,930
	ACTUATE CORP	COM	30,400	77,520
	ACTUANT CORP	CL A	28,600	1,491,490
	ACUITY BRANDS INC	COM	49,100	1,561,380
	ACXIOM CORP	COM	84,500	2,222,350
	ADAPTEC INC	COM	131,600	998,844
	ADESA INC	COM	105,500	2,238,710
	ADMINISTAFF INC	COM	23,100	291,291
	ADOLOR CORP	COM	47,242	468,641
	ADTRAN INC	COM	70,000	1,339,800

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ADVANCE AUTO PARTS	COM	82,100	3,586,128
ADVANCED DIGITAL INFORMATION	COM	76,000	761,520
ADVANCED MARKETING SVCS INC	COM	17,150	172,529
ADVANCED NEUROMODULATION SYS	COM	24,700	974,662
ADVO INC	COM	36,450	1,299,443
ADVISORY BRD CO	COM	21,400	789,232
ADVANCED MED OPTICS INC	COM	35,909	1,477,296
ADVANCIS PHARMACEUTICAL CORP	COM	5,400	20,628
AEROFLEX INC	COM	71,800	870,216
AEROPOSTALE	COM	60,900	1,792,287
ADVANTA CORP	CLASS B	24,200	587,334
ADVANCED ENERGY INDS INC	COM	20,600	188,078

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ADVENT SOFTWARE INC	COM	25,698	526,295
AFFILIATED MANAGERS GROUP INC	COM	26,649	1,805,203
AFFYMETRIX INC	COM	72,500	2,649,875
AFFORDABLE RESIDENTIAL CMNTYS	COM	21,900	314,265
AFTERMARKET TECHNOLOGY CORP	COM	15,061	242,482
AGERE SYS INC	CL B	2,012,700	2,717,145
AGILE SOFTWARE CORP DEL	COM	57,200	467,324
AGILYSYS INC	COM	35,180	602,985
AIRGAS INC	COM	72,000	1,908,720
AIRGATE PCS INC	COM	8,600	306,160
AIRTRAN HOLDINGS INC	COM	92,600	990,820
AIRSPAN NETWORKS INC	COM	3,600	19,548
AKAMAI TECHNOLOGIES INC	COM	127,248	1,658,041
AKSYS LTD	COM	35,900	199,604
ALABAMA NATL BANCORPORATION DE	COM	16,180	1,043,610
ALAMOSA HOLDINGS INC	COM	70,475	878,823
ALASKA AIR GROUP INC	COM	32,900	1,101,821
ALASKA COMMUNICATIONS SYS INC	COM	1,200	10,356
ALBANY INTL CORP	CLASS A	27,860	979,558
ALBANY MOLECULAR RESH INC	COM	34,300	382,102
ALBEMARLE CORP	COM	37,600	1,455,496
ALDERWOODS GROUP INC	COM	46,300	526,894
ALERIS INTL INC	COM	13,800	233,496
ALEXANDER + BALDWIN INC	COM	46,700	1,981,014
ALEXANDERS INC	COM	2,100	451,500
ALEXANDRIA REAL ESTATE EQUIT	COM	23,100	1,719,102
ALEXION PHARMACEUTICALS INC	COM	24,400	614,880
ALFA CORP	COM	40,400	613,474
ALICO INC	COM	3,600	210,672
ALIGN TECHNOLOGY INC	COM		