

INTERNATIONAL BUSINESS MACHINES CORP
Form 424B5
November 22, 2002

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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-37034

PROSPECTUS SUPPLEMENT

(To Prospectus Dated June 20, 2000)

\$2,000,000,000

**International Business
Machines Corporation**

Armonk, New York (914) 499-1900

\$1,400,000,000 4.750% Notes due 2012

\$600,000,000 5.875% Debentures due 2032

The Notes will bear interest at the rate of 4.750% per year. The Debentures will bear interest at the rate of 5.875% per year. Interest on the Notes and Debentures is payable on May 29 and November 29 of each year, beginning on May 29, 2003. The Notes will mature on November 29, 2012. The Debentures will mature on November 29, 2032.

The Notes and Debentures will be senior obligations of our company and will rank equally with all of our other unsecured senior indebtedness. International Business Machines Corporation may redeem the Notes and Debentures in whole or in part at its option and in whole if certain events occur involving changes in United States taxation, as set forth in this prospectus supplement. Application has been made to list the Notes and Debentures on the Luxembourg Stock Exchange.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total	Per Debenture	Total
Public Offering Price	98.204%	\$ 1,374,856,000	97.658%	\$ 585,948,000
Underwriting Discount	0.425%	\$ 5,950,000	0.875%	\$ 5,250,000
Proceeds to IBM (before expenses)	97.779%	\$ 1,368,906,000	96.783%	\$ 580,698,000

The underwriters expect to deliver the Notes and Debentures to purchasers in book entry form only through the Depository Trust Company, Clearstream, Luxembourg or the Euroclear System, as the case may be, on or about November 27, 2002.

JPMorgan

ABN AMRO Incorporated
 Banca IMI
 Bear, Stearns & Co. Inc.
 Credit Suisse First Boston
 Fleet Securities, Inc.
 HVB Corporates and Markets
 Merrill Lynch & Co.
 UBS Warburg
 November 20, 2002

Morgan Stanley

Banc of America Securities LLC
 Banca Nazionale del Lavoro
 BNP PARIBAS
 Deutsche Bank Securities
 Goldman, Sachs & Co.
 ING Financial Markets
 RBC Capital Markets
 Utendahl Capital Partners, L.P.

Salomon Smith Barney

Banc One Capital Markets, Inc.
 Barclays Capital
 Caboto IntesaBci
 Dresdner Kleinwort Wasserstein
 HSBC
 Lehman Brothers
 The Royal Bank of Scotland
 The Williams Capital Group, L.P.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

The Notes and Debentures are offered globally for sale in those jurisdictions in the United States, Canada, Europe, Asia and elsewhere where it is lawful to make such offers. See "Offering Restrictions."

TABLE OF CONTENTS

	Page
Prospectus Supplement	
International Business Machines Corporation	S-3
Use of Proceeds	S-4
Capitalization	S-4
Ratio of Earnings From Continuing Operations to Fixed Charges	S-4
Selected Financial Data	S-5
Management	S-6
Description of Notes and Debentures	S-8
United States Taxation	S-16
Underwriting	S-21
Offering Restrictions	S-23
Legal Opinions	S-24
Listing and General Information	S-24
Prospectus	
Summary	3
Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock	
Dividends	4
Where You Can Find More Information	5
Description of the Company	6
Use of Proceeds	6
Description of the Debt Securities	6
Description of the Preferred Stock	18
Description of the Depositary Shares	19
Description of the Capital Stock	22
Description of the Warrants	22
Plan of Distribution	24
Legal Opinions	24
Experts	24

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This prospectus supplement and the accompanying prospectus include particulars given in compliance with the rules governing the listing of securities on the Luxembourg Stock Exchange for the purpose of giving information with regard to the Company. The Company accepts full responsibility for the accuracy of the information contained in this prospectus supplement and the accompanying

S-2

prospectus and confirms, having made all reasonable inquiries, that to the best of its knowledge and belief, there are no other facts the omission of which would make any statement herein or in the prospectus misleading in any material respect.

We cannot guarantee that listing will be obtained on the Luxembourg Stock Exchange. Inquiries regarding our listing status on the Luxembourg Stock Exchange should be directed to our Luxembourg listing agent, Kredietbank S.A., Luxembourg, 43, Boulevard Royal, L-2955 Luxembourg.

The distribution of this prospectus supplement and prospectus and the offering of the Notes and Debentures in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus supplement and the prospectus come should inform themselves about and observe any such restrictions. This prospectus supplement and the prospectus do not constitute, and may not be used in connection with an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. See "Offering Restrictions."

References herein to "\$" and "dollars" are to the currency of the United States. The financial information presented herein has been prepared in accordance with Generally Accepted Accounting Principles in the United States.

INTERNATIONAL BUSINESS MACHINES CORPORATION

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

IBM uses advanced information technology to provide customer solutions. The Company operates primarily in a single industry using several segments that create value by offering a variety of solutions that include, either singularly or in some combination, technologies, systems, products, services, software and financing.

IBM is the ultimate parent for a group of companies, including subsidiaries and other organizations, operating in over 150 countries around the world. Organizationally, the Company's major operations comprise a Global Services segment; three hardware products segments Enterprise Systems, Personal and Printing Systems and Technology; a Software segment; a Global Financing segment; and an Enterprise Investment segment. The segments are determined based on several factors, including customer base, homogeneity of products, technology and delivery channels.

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

S-3

USE OF PROCEEDS

The net proceeds from the sale of the Notes and Debentures after deducting expenses are estimated to be \$1,949,054,000 and will be used for general corporate purposes.

CAPITALIZATION

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The following table sets forth the consolidated capitalization of IBM at September 30, 2002, and as adjusted to give effect to the issuance of the Notes and Debentures offered hereby.

	September 30, 2002	
	Outstanding	As Adjusted
	(Dollars in millions)	
Short-term debt	\$ 7,971	\$ 7,971
Long-term debt:		
International Business Machines Corporation	15,608	17,608
Consolidated subsidiaries	2,165	2,165
Total long-term debt	\$ 17,773	\$ 19,773
Stockholders' equity		
Common stock par value \$0.20 per share	14,572	14,572
Shares authorized: 4,687,500,000		
Shares issued: 1,918,678,874		
Retained earnings	31,653	31,653
Treasury stock at cost	(23,322)	(23,322)
Shares: 228,591,098		
Accumulated gains and losses not affecting retained earnings	(811)	(811)
Total stockholders' equity	22,092	22,092
Total capitalization	\$ 47,836	\$ 49,836

Notes:

Except as described in this prospectus supplement, the accompanying prospectus or the documents we incorporate by reference, there has been no material change to the consolidated capitalization and indebtedness of IBM since September 30, 2002 to the date of this document, other than an issuance of \$400 million of indebtedness by a subsidiary of IBM.

From January 31, 1995 through September 30, 2002 IBM repurchased approximately \$48.1 billion of its capital stock under a series of authorizations from IBM's Board of Directors that total \$52.0 billion.

RATIO OF EARNINGS FROM CONTINUING OPERATIONS TO FIXED CHARGES

The ratio of earnings from continuing operations to fixed charges has been computed by dividing earnings from continuing operations before income taxes (which excludes (a) amortization of capitalized interest and (b) IBM's share in the income and losses of less than 50% owned affiliates) and fixed charges (excluding capitalized interest) by fixed charges. "Fixed charges" consist of interest expense, capitalized interest and that portion of rental expense deemed to be representative of interest.

	Year Ended December 31,					
	Nine Months Ended September 30, 2002	2001	2000	1999	1998	1997
	5.9	7.9	7.0	7.0	4.9	5.1

Year Ended December 31,

Ratio of earnings from continuing operations to fixed charges

S-4

SELECTED FINANCIAL DATA

The following consolidated summary sets forth selected financial data for IBM and its subsidiaries for the nine-month period ended September 30, 2002 and each of the years in the five-year period ended December 31, 2001. The selected financial data for the interim period ended September 30, 2002 was derived from IBM's unaudited interim financial statements for the nine-month period ended September 30, 2002. The selected financial data for the years ended December 31, 1997 through December 31, 2001 has been derived from audited financial statements included in the Current Report on Form 8-K dated November 4, 2002. The following summary should be read in conjunction with the financial information incorporated in this prospectus supplement and accompanying prospectus by reference to other documents. See "Where You Can Find More Information" in the accompanying prospectus.

For the Period:	Nine Months Ended September 30, 2002	Year Ended December 31,				
		2001	2000	1999	1998	1997
(Dollars in millions except ratios and per share amounts)						
Revenue	\$ 57,502	\$ 83,067	\$ 85,089	\$ 83,334	\$ 77,548	\$ 75,802
Income from continuing operations	3,423	8,146	7,874	7,359	5,469	5,528
(Loss)/Income from discontinued operations	(862)	(423)	219	353	859	565
Net income	2,561	7,723	8,093	7,712	6,328	6,093
Earnings/(loss) per share of common stock:						
Assuming dilution						
Continuing operations	1.97	4.59	4.32	3.93	2.84	2.72
Discontinued operations	(0.50)	(0.24)	0.12	0.19	0.45	0.28
Total	1.47	4.35	4.44	4.12	3.29	3.00
Basic						
Continuing operations	2.01	4.69	4.45	4.06	2.92	2.80
Discontinued operations	(0.51)	(0.24)	0.12	0.20	0.46	0.29
Total	1.50	4.45	4.58	4.25	3.38	3.09
Cash dividends paid on common stock	751	956	909	859	814	763
Per share of common stock	0.44	0.55	0.51	0.47	0.43	0.3875
Investment in plant, rental machines and other property	3,644	5,660	5,616	5,959	6,520	6,793
Return on stockholders' equity	22.2%	35.1%	39.7%	39.0%	32.6%	29.7%
At End of Period:						
Total assets	\$ 83,956	\$ 88,313	\$ 88,349	\$ 87,495	\$ 86,100	\$ 81,499
Net investment in plant, rental machines and other property	14,451	16,504	16,714	17,590	19,631	18,347
Working capital	7,077	7,342	7,474	3,577	5,533	6,911

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Year Ended December 31,

Total debt	25,744	27,151	28,576	28,554	29,415	26,926
Stockholders' equity	22,092	23,614	20,624	20,511	19,433	19,816

Does not total due to rounding.

The documents incorporated by reference in this prospectus supplement and prospectus include IBM's annual consolidated financial statements for the years ended December 31, 2000 and 2001 and IBM's interim consolidated financial statements for the nine-month period ended September 30, 2002. Financial Statements which are incorporated by reference in the prospectus supplement may be obtained free of charge at the offices of the Paying Agent in Luxembourg.

S-5

MANAGEMENT

Board of Directors

The composition of IBM's Board of Directors as of the date of this prospectus supplement was:

Name	Principal Activities Outside of IBM
Cathleen Black	President, Hearst Magazines, a division of The Hearst Corporation
Kenneth I. Chenault	Chairman and Chief Executive Officer, American Express Company
Juergen Dormann	Chairman of the Board, President and Chief Executive Officer, ABB Ltd.
Louis V. Gerstner, Jr.	Member, Board of Directors, Bristol-Myers Squibb Company
Nannerl O. Keohane	President and Professor of Political Science, Duke University
Charles F. Knight	Chairman of the Board, Emerson Electric Company
Minoru Makihara	Chairman, Mitsubishi Corporation
Lucio A. Noto	Managing Partner, Midstream Partners LLC
Samuel J. Palmisano	Member, Board of Trustees, The Johns Hopkins University
John B. Slaughter	President and Chief Executive Officer, National Action Council for Minorities in Engineering, Inc.
Sidney Taurel	Chairman of the Board, President and Chief Executive, Eli Lilly and Company
Alex Trotman	Chairman, Imperial Chemical Industries, PLC
Charles M. Vest	President and Professor of Mechanical Engineering, Massachusetts Institute of Technology

The business address of each director is New Orchard Road, Armonk, New York 10504.

S-6

Executive Officers of IBM (as of the date of this prospectus supplement)

Chairman of the Board:

Louis V. Gerstner, Jr.(1)

President and Chief Executive Officer:

Samuel J. Palmisano(1)

Senior Vice Presidents:

Nicholas M. Donofrio, Group Executive

Douglas T. Elix, Group Executive

J. Bruce Harreld, Strategy

Paul M. Horn, Research

Jon C. Iwata, Communications

John R. Joyce, Chief Financial Officer

John E. Kelly III, Group Executive

Abby F. Kohnstamm, Marketing

J. Michael Lawrie, Group Executive

Edward M. Lineen, General Counsel

Mark Loughridge, Group Executive

J. Randall MacDonald, Human Resources

Steven A. Mills, Group Executive

Robert W. Moffat, Jr., Group Executive

Linda S. Sanford, Group Executive

William M. Zeitler, Group Executive

Vice Presidents:

Jesse J. Greene, Jr., Treasurer

Daniel E. O'Donnell, Secretary

Robert F. Woods, Controller

(1)

Member of the Board of Directors.

S-7

DESCRIPTION OF NOTES AND DEBENTURES

The following description of the particular terms of the Notes and Debentures supplements, and to the extent inconsistent, replaces the description of the general terms and provisions of the debt securities set forth in the prospectus.

General

The Notes and Debentures will be issued under an Indenture (the "Senior Indenture") dated as of October 1, 1993, between the Company and JPMorgan Chase Bank, as Trustee, as supplemented by the First Supplemental Indenture dated as of December 15, 1995, filed as an exhibit to the Registration Statement of which the accompanying prospectus is a part. The Notes and Debentures will be unsecured and will have the same rank as all of IBM's other unsecured and unsubordinated debt. The Notes and Debentures will bear interest from November 27, 2002, at the respective rates of interest stated on the cover page of this prospectus supplement. Interest on the Notes and Debentures will be payable semiannually on May 29 and November 29 commencing May 29, 2003, to the persons in whose names such securities are registered at the close of business on the May 14 or November 14 preceding each May 29 or November 29 payable in equal semi-annual installments. Interest on the Notes and Debentures will be computed on the basis of a 360-day year consisting of twelve 30-day months. Unless previously redeemed, repurchased or cancelled as provided below, the Notes will mature at par on November 29, 2012 and the Debentures will mature at par on November 29, 2032.

The Notes and Debentures will be subject to defeasance and covenant defeasance as provided in "Description of the Debt Securities Satisfaction and Discharge; Defeasance" in the accompanying prospectus. The Notes and Debentures will be issued in denominations of \$1,000 and integral multiples of \$1,000.

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IBM may, without the consent of the holders of Notes or Debentures, issue additional securities having the same ranking and the same interest rate, maturity and other terms as the applicable Notes or Debentures, provided however, that no such additional securities may be issued unless such additional securities are fungible with the applicable Notes or Debentures, as the case may be, for U.S. federal income tax purposes. Any additional securities having such similar terms, together with the applicable Notes or Debentures, as the case may be, will constitute a single series of securities under the Senior Indenture. No additional securities may be issued if an event of default has occurred with respect to the applicable series of Notes or Debentures.

IBM has appointed J.P. Morgan Bank Luxembourg S.A., as paying agent and transfer agent in Luxembourg with respect to the Notes and Debentures in definitive form. As long as the Notes or Debentures are listed on the Luxembourg Stock Exchange, the Company will maintain a paying agent and transfer agent in Luxembourg, and any change in the Luxembourg paying agent and transfer agent will be published in Luxembourg. See "Notices" below.

Optional Redemption

The Notes and Debentures will be redeemable, as a whole or in part, at IBM's option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice to holders of the Notes or Debentures given in accordance with "Notices" below, at a redemption price equal to the greater of:

100% of the principal amount of the Notes or Debentures, as the case may be, to be redeemed, plus accrued interest, if any, to the redemption date; or

the sum of the present values of the Remaining Scheduled Payments, as defined below, discounted, on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, as defined below, plus 12.5 basis points in the case of the Notes and

S-8

15 basis points in the case of the Debentures, plus, in each case, accrued interest to the date of redemption which has not been paid.

"Treasury Rate" means, with respect to any redemption date for the Notes or Debentures:

the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue; provided that if no maturity is within three months before or after the maturity date for the Notes or Debentures, as the case may be, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from those yields on a straight line basis rounding to the nearest month; or

if that release, or any successor release, is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

The Treasury Rate will be calculated on the third business day preceding the redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes or Debentures to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes or Debentures.

"Independent Investment Banker" means one of the Reference Treasury Dealers, to be appointed by IBM.

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"Comparable Treasury Price" means, with respect to any redemption date for the Notes or Debentures:

the average of four Reference Treasury Dealer Quotations for that redemption date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or

if the trustee obtains fewer than four Reference Treasury Dealer Quotations, the average of all quotations obtained by the trustee.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time on the third business day preceding such redemption date.

"Reference Treasury Dealer" means each of J.P. Morgan Securities Inc., Morgan Stanley & Co. Incorporated, Salomon Smith Barney Inc. and one other treasury dealer selected by IBM, and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. Government securities dealer, which we refer to as a "Primary Treasury Dealer," IBM will substitute therefor another nationally recognized investment banking firm that is a Primary Treasury Dealer.

"Remaining Scheduled Payments" means, with respect to each Note or Debenture to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that, if such redemption date

S-9

is not an interest payment date with respect to such Note or Debenture, the amount of the next succeeding scheduled interest payment thereon will be deemed to be reduced by the amount of interest accrued thereon to such redemption date.

On and after the redemption date, interest will cease to accrue on the Notes or Debentures or any portion thereof called for redemption, unless IBM defaults in the payment of the redemption price and accrued interest. On or before the redemption date, IBM will deposit with a paying agent, or the trustee, money sufficient to pay the redemption price of and accrued interest on the Notes or Debentures to be redeemed on such date. If less than all of the Notes or Debentures are to be redeemed, the Notes or Debentures to be redeemed shall be selected by the trustee by such method as the trustee shall deem fair and appropriate.

Notices

Notices to holders of the Notes and Debentures will be sent by mail to the registered holders and will be published, whether the Notes and Debentures are in global or definitive form, and so long as the Notes or Debentures are listed on the Luxembourg Stock Exchange, in a daily newspaper of general circulation in Luxembourg. It is expected that publication will be made in Luxembourg in the *Luxemburger Wort*. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication. So long as the Notes or Debentures are listed on the Luxembourg Stock Exchange, any appointment of or change in the Luxembourg paying agent and transfer agent will be published in Luxembourg in the manner set forth above.

Replacement Notes and Debentures

In case of mutilation, destruction, loss or theft of any definitive Note or Debenture, application for replacement is to be made at the office of the Trustee. Any such definitive Note or Debenture will be replaced by the Trustee in compliance with such procedures, and on such terms as to evidence any indemnity, as the Company and the Trustee may require and subject to applicable laws and regulations of the Luxembourg Stock Exchange. All costs incurred in connection with the replacement of any definitive Note or Debenture will be borne by the holder of the Note or Debenture. Mutilated or defaced definitive Notes or Debentures must be surrendered before new ones will be issued.

Applicable Law

The Notes and Debentures will be governed by and construed in accordance with the internal laws of the State of New York.

Payments of Additional Amounts

IBM will, subject to the exceptions and limitations set forth below, pay as additional interest on the Notes and Debentures such additional amounts as are necessary in order that the net payment by us or a paying agent of the principal of and interest on the Notes or Debentures to a holder who is not a United States person (as defined below), after deduction for any present or future tax, assessment or other governmental charge of the United States or a political subdivision or taxing authority of or in the United States, imposed by withholding with respect to the payment, will not be less than the amount provided in the Notes or Debentures to be then due and payable; provided, however, that the foregoing obligation to pay additional amounts shall not apply:

(1) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the holder, or a fiduciary, settlor, beneficiary, member or shareholder of the holder if

S-10

the holder is an estate, trust, partnership or corporation, or a person holding a power over an estate or trust administered by a fiduciary holder, being considered as:

(a) being or having been present or engaged in a trade or business in the United States or having had a permanent establishment in the United States;

(b) having a current or former relationship with the United States, including a relationship as a citizen or resident of the United States;

(c) being or having been a foreign or domestic personal holding company, a passive foreign investment company or a controlled foreign corporation with respect to the United States or a corporation that has accumulated earnings to avoid United States federal income tax;

(d) being or having been a "10-percent shareholder" of IBM as defined in section 871(h)(3) of the United States Internal Revenue Code or any successor provision; or

(e) being a bank receiving payments on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business;

(2) to any holder that is not the sole beneficial owner of the Notes or Debentures, or a portion of the Notes or Debentures, or that is a fiduciary or partnership, but only to the extent that a beneficiary or settlor with respect to the fiduciary, a beneficial owner or member of the partnership would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;

(3) to any tax, assessment or other governmental charge that is imposed otherwise or withheld solely by reason of a failure of the holder or any other person to comply with certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of the Notes or Debentures, if compliance is required by statute, by regulation of the United States Treasury Department or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge;

(4) to any tax, assessment or other governmental charge that is imposed otherwise than by withholding by us or a paying agent from the payment;

(5) to any tax, assessment or other governmental charge that is imposed or withheld solely by reason of a change in law, regulation or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(6) to any estate, inheritance, gift, sales, excise, transfer, wealth or personal property tax or similar tax, assessment or other governmental charge;

(7) to any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of principal of or interest on any Notes or Debentures, if such payment can be made without such withholding by any other paying agent;

(8) to any Notes or Debentures where such withholding is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th to 27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;

S-11

(9) to any Notes or Debentures presented for payment by, or on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Notes or Debentures to another paying agent in a member state of the European Union; or

(10) in the case of any combination of items (1), (2), (3), (4), (5), (6), (7), (8) and (9).

The Notes and Debentures are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation applicable to the Notes or Debentures. Except as specifically provided under this heading " Payments of Additional Amounts" and under the heading " Redemption for Tax Reasons," IBM shall not be required to make any payment with respect to any tax, assessment or other governmental charge imposed by any government or a political subdivision or taxing authority of, or in any government or political subdivision.

As used under this heading " Payments of Additional Amounts" and under the heading " Redemption for Tax Reasons", the term "United States" means the United States of America (including the states and the District of Columbia) and its territories, possessions and other areas subject to its jurisdiction, "United States person" means any individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States, any state of the United States or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), or any estate or trust the income of which is subject to United States federal income taxation regardless of its source.

Redemption for Tax Reasons

If, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated under the laws) of the United States (or any political subdivision or taxing authority of or in the United States), or any change in, or amendments to, an official position regarding the application or interpretation of such laws, regulations or rulings, which change or amendment is announced or becomes effective on or after the date of this prospectus supplement, IBM becomes, or based upon a written opinion of independent counsel selected by IBM, will become obligated to pay additional amounts as described herein under the heading " Payments of Additional Amounts" with respect to the Notes or Debentures, then IBM may at its option redeem, in whole, but not in part, such Notes or Debentures, as the case may be, on not less than 30 nor more than 60 days prior notice, at a redemption price equal to 100% of their principal amount, together with interest accrued but unpaid on those Notes or Debentures to the date fixed for redemption.

Book-Entry, Delivery and Form

The Notes and Debentures will be issued separately in the form of one or more fully registered Global Securities (the "Global Securities") which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the "Depository" or "DTC") and registered in the name of Cede & Co., the Depository's nominee. Beneficial interests in the Global Securities will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository.

Investors may elect to hold interests in the Global Securities through the Depository, Clearstream Banking Luxembourg S.A. ("Clearstream") or Euroclear Bank S.A., as operator of the Euroclear System ("Euroclear") if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries, which in turn will hold such interests in customers' securities accounts in the depositaries' names on the books of the Depository. Citibank, N.A. will act as depositary for Clearstream and JPMorgan Chase Bank will act as depositary for Euroclear (in such

S-12

capacities, the "U.S. Depositaries"). Except as described below, the Global Securities may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

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The Depository has advised IBM as follows: the Depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. The Depository holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depository's participants include securities brokers and dealers (including the Underwriters), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the Depository. Access to the Depository book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Clearstream advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream holds securities for its customers ("Clearstream Customers") and facilitates the clearance and settlement of securities transactions between Clearstream Customers through electronic book-entry transfers between their accounts. Clearstream provides to Clearstream Customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Clearstream's U.S. customers are limited to securities brokers and dealers and banks. Indirect access to Clearstream is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Customer.

Distributions with respect to the Notes and Debentures held through Clearstream will be credited to cash accounts of Clearstream Customers in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream.

Euroclear advises that it was created in 1968 to hold securities for its participants ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A. (the "Euroclear Operator"), under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the Underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

S-13

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the Notes and Debentures held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Euroclear further advises that investors that acquire, hold and transfer interests in the Notes and Debentures by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the Global Securities.

The Euroclear Operator advises as follows: Under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Participants credited with such interests in securities on the Euroclear Operator's records, all Participants having an amount of interests in

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securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their pro rata share of the amount of interests in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Individual certificates in respect of the Notes and Debentures will not be issued in exchange for the Global Securities, except in very limited circumstances. If DTC notifies IBM that it is unwilling or unable to continue as a clearing system in connection with the Global Securities, or ceases to be a clearing agency registered under the Exchange Act, and a successor clearing system is not appointed by IBM within 90 days after receiving such notice from DTC or upon becoming aware that DTC is no longer so registered, IBM will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the Notes and Debentures represented by such Global Securities upon delivery of such Global Securities for cancellation. In the event that individual certificates are issued, holders of the Notes and Debentures will be able to receive payments (including principal and interest) on the Notes and Debentures and effect transfer of the Notes and Debentures at the offices of IBM's paying agent and transfer agent in Luxembourg, J.P. Morgan Bank Luxembourg S.A.

Title to book-entry interests in the Notes and Debentures will pass by book-entry registration of the transfer within the records of Clearstream, Euroclear or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes and Debentures may be transferred within Clearstream and within Euroclear and between Clearstream and Euroclear in accordance with

S-14

procedures established for these purposes by Clearstream and Euroclear. Book-entry interests in the Notes and Debentures may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the Notes and Debentures among Clearstream and Euroclear and DTC may be effected in accordance with procedures established for this purpose by Clearstream, Euroclear and DTC.

A further description of the Depository's procedures with respect to the Global Securities is set forth in the prospectus under "Description of the Debt Securities Global Securities." The Depository has confirmed to IBM, the Underwriters and the trustee that it intends to follow such procedures.

Global Clearance and Settlement Procedures

Initial settlement for the Notes and Debentures will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using the Depository's Same-Day Funds Settlement System. Secondary market trading between Clearstream Customers and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depository on the one hand, and directly or indirectly through Clearstream Customers or Euroclear Participants, on the other, will be effected in the Depository in accordance with the Depository's rules on behalf of the relevant European international clearing system by its U.S. Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European, international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering interests in the Notes or Debentures to or receiving interests in the Notes or Debentures from the Depository, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depository. Clearstream Customers and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositories.

Because of time-zone differences, credits of interests in the Notes or Debentures received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the Depository settlement date. Such credits or any transactions involving interests in such Notes or Debentures settled during such processing will be reported to the relevant Clearstream Customers or Euroclear Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the Notes or Debentures by or through a Clearstream Customer or a Euroclear Participant to a DTC participant will be received with value on the Depository settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in the Depository.

Although the Depositary, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the Notes and Debentures among participants of the Depositary, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

S-15

UNITED STATES TAXATION

General

This section summarizes the material U.S. federal tax consequences of ownership and disposition of the Notes and Debentures. However, the discussion is limited in the following ways:

The discussion only covers you if you buy your Notes or Debentures in the initial offering at the price set forth on the cover page.

The discussion only covers you if you hold your Notes or Debentures as capital assets (that is, for investment purposes), and if you do not have a special tax status such as:

certain financial institutions;

insurance companies;

dealers in securities or foreign currencies;

persons holding notes as part of a hedge;

U.S. Holders whose functional currency is not the U.S. dollar;

partnerships or other entities classified as partnerships for U.S. federal income tax purposes; or

persons subject to the alternative minimum tax;

The discussion does not cover tax consequences that depend upon your particular tax situation in addition to your ownership of Notes or Debentures.

The discussion is based on current law. Changes in the law may change the tax treatment of the Notes or Debentures possibly with a retroactive effect.

The discussion does not cover state, local or foreign law.

We have not requested a ruling from the IRS on the tax consequences of owning and disposing of the Notes or Debentures. As a result, the IRS could disagree with portions of this discussion.

If you are considering buying Notes or Debentures, we suggest that you consult your tax advisor about the tax consequences of holding the Notes or Debentures in your particular situation.

Tax Consequences to U.S. Holders

This section applies to you if you are a "U.S. Holder." A "U.S. Holder" is a beneficial owner of a Note or Debenture that is for U.S. federal income tax purposes:

an individual U.S. citizen or resident alien;

a corporation or entity taxable as a corporation for U.S. federal income tax purposes that was created under U.S. law (federal or state); or

an estate or trust whose world-wide income is subject to U.S. federal income tax.

If a partnership holds Notes or Debentures, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. If you are a partner of a partnership holding Notes or Debentures, we suggest that you consult your tax advisor.

Interest

If you are a cash method taxpayer (including most individual holders), you must report interest on the Notes and Debentures as ordinary income when you receive it.

S-16

If you are an accrual method taxpayer, you must report interest on the Notes and Debentures as ordinary income as it accrues.

Sale or Retirement of Notes and Debentures

On your sale, redemption or retirement of your Note or Debenture:

You will have taxable gain or loss equal to the difference between the amount realized by you and your tax basis in the Note or Debenture. Your tax basis in the Note or Debenture is your cost, subject to certain adjustments.

Your gain or loss will generally be capital gain or loss, and will be long term capital gain or loss if you held the Note or Debenture for more than one year. For an individual, the maximum tax rate on long term capital gains is 20% (or 18% if the Note or Debenture is held for more than five years).

If you sell the Note or Debenture between interest payment dates, a portion of the amount you receive reflects interest that has accrued on the Note or Debenture but has not yet been paid by the sale date. That amount is treated as ordinary interest income as described above under " Interest."

Information Reporting and Backup Withholding

Under the tax rules concerning information reporting to the IRS:

Assuming you hold your Notes or Debentures through a broker or other securities intermediary, the intermediary must provide information to the IRS and to you on IRS Form 1099 concerning interest and retirement proceeds on your Notes or

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Debentures as well as on proceeds from sale or other disposition of the Notes or Debentures, unless an exemption applies.

Similarly, unless an exemption applies, you must provide the intermediary with your Taxpayer Identification Number for its use in reporting information to the IRS. If you are an individual, this is your social security number. You are also required to comply with other IRS requirements concerning information reporting.

If you are subject to these requirements but do not comply, the intermediary must withhold at a rate not to exceed 31% of all amounts payable to you on the Notes or Debentures (including principal payments and sale proceeds). This is called "backup withholding". If the intermediary withholds payments, you may use the withheld amount as a credit against your federal income tax liability.

All individuals are subject to these requirements. Some holders, including all corporations, tax-exempt organizations and individual retirement accounts, are exempt from these requirements.

Tax Consequences to Non-U.S. Holders

This section applies to you if you are a "Non-U.S. Holder." A "Non-U.S. Holder" is a beneficial owner of a Note or Debenture that is for U.S. federal income tax purposes:

an individual that is a nonresident alien;

a corporation or entity taxable as a corporation for U.S. tax purposes created under non-U.S. law; or

an estate or trust that is not taxable in the U.S. on its worldwide income.