

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

JUNE E. ADAMS IRREVOCABLE TRUST  
DATED 7/21/14 FBO EDWARD ROBERT  
ADAMS, individually and on behalf of all others  
similarly situated,

Plaintiff,

vs.

INTERNATIONAL BUSINESS MACHINES  
CORPORATION, VIRGINIA M. ROMETTY,  
MARTIN J. SCHROETER, JAMES J.  
KAVANAUGH and ARVIND KRISHNA

Defendants.

Civil Action No.: \_\_\_\_\_

CLASS ACTION

**CLASS ACTION COMPLAINT FOR  
VIOLATIONS OF THE FEDERAL  
SECURITIES LAWS**

DEMAND FOR JURY TRIAL

Plaintiff JUNE E. ADAMS IRREVOCABLE TRUST DATED 7/21/14 FBO EDWARD ROBERT ADAMS (“Plaintiff”), individually and on behalf of all other persons similarly situated, by its undersigned attorneys, alleges the following based upon personal knowledge as to itself and its own acts, and upon information and belief as to all other matters based on the investigation conducted by and through its attorneys, which included, among other things, a review of Securities and Exchange Commission (“SEC”) filings by International Business Machines Corporation (“IBM” or “Company”), Company press releases, media and reports about the Company, interviews with former employees, and other relevant litigation. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

**NATURE OF THE ACTION**

1. This is a federal securities class action on behalf of all persons and entities, other than Defendants, who purchased the securities of IBM during the period of April 4, 2017, and

October 20, 2021, both dates inclusive (the “Class Period”), seeking to recover compensable damages caused by Defendants’ violations of the federal securities laws (the “Class”). On behalf of itself and the Class, Plaintiff seeks to recover compensable damages caused by Defendants’ violations of the federal securities laws and to pursue remedies under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 10b-5 promulgated thereunder, against the Company and certain of its present and former officers and/or directors and who issued knowingly false statements during the Class Period, including Virginia M. Rometty (former Chief Executive Officer (“CEO”), President and Chairman), Martin J. Schroeter (former Sr. VP and Chief Financial Officer (“CFO”), James J. Kavanaugh (current CFO) and Arvind Krishna, (current CEO, Chairman).

### **JURISDICTION AND VENUE**

2. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), 78b-1 and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

3. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331.

4. Venue is proper in this Judicial District pursuant to Section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1391(b) as a substantial part of the conduct complained of herein occurred in this District. Defendant IBM maintains its headquarters and conducts business in this District.

5. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited

to, the mails, interstate telephone communications and the facilities of the national securities markets.

**PARTIES**

6. Plaintiff JUNE E. ADAMS IRREVOCABLE TRUST DATED 7/21/14 FBO EDWARD ROBERT ADAMS, as set forth in the certification attached hereto and incorporated herein by reference, purchased IBM securities during the Class Period and has been damaged thereby.

7. Defendant IBM is organized under the laws of the State of New York and headquartered in Armonk, New York. IBM ranks among the world's largest information technology companies, providing a wide spectrum of hardware, software and service offerings. The Company's common stock is listed on the NYSE, an efficient market, under the ticker symbol "IBM."

8. Defendant Virginia M. Rometty ("Rometty") served as an Officer of the Company from 2005 through December 2020. She served as CEO, President and Chairman of IBM from early 2012 through April 6, 2020, and then became Executive Chairman until her retirement on December 31, 2020. Rometty joined IBM in 1981. Rometty was elected Sr. V.P. of Global Business Services in 2005, Sr. V.P. of Sales and Distribution in 2009, Sr. V.P. and Group Executive of Sales, Marketing and Strategy in 2010, President and CEO of IBM in early 2012 and Chairman in late 2012. She is a member of the Business Roundtable, the Council on Foreign Relations, the President's Export Council, the Board of Trustees of Northwestern University and the Board of Overseers and Managers of Memorial Sloan-Kettering Cancer Center. Rometty's compensation: (i) 2013: \$13.9 million in total compensation (Cash: \$1.5 million salary, \$0 non-equity annual incentive plan compensation ("AIP")); (ii) 2014: \$19.3 million in total compensation (Cash: \$1.5

million salary, \$3.6 million AIP); (iii) 2015: \$19.8 million in total compensation (Cash: \$1.55 million salary, \$4.5 million AIP); (iv) 2016: \$32.7 million in total compensation (Cash: \$1.6 million salary, \$4.95 million AIP); (v) 2017: \$18.6 million in total compensation (Cash: \$1.6 million salary, 5.1 million AIP); (vi) 2018: \$17.6 million in total compensation (Cash: \$1.6 million salary, \$4.1 million AIP); (vii) 2019: \$20.2 million in total compensation (Cash: \$1.6 million salary, \$5 million AIP); 2020: \$21.1 million in total compensation (Cash: \$1.6 million salary, \$4.25 million AIP).

9. Defendant Martin J. Schroeter (“Schroeter”) served as an Officer of the Company since 2014. He served as CFO from January 2014 through December 2017. From January 2018 through April 2020 Schroeter served as IBM’s Senior Vice President, Global Markets. In January 2021, Schroeter was named the CEO of Kyndryl, the new independent company that was created following the spin-off of IBM’s Managed Infrastructure Services Business, which occurred in late 2021. Schroeter originally joined IBM in 1992 and served in various roles worldwide. Schroeter’s compensation: (i) 2014: \$5.3 million in total compensation (Cash: \$660K salary, \$750K AIP); (ii) 2015: \$13.1 million in total compensation (Cash: \$692K salary, \$880K AIP); (iii) 2016: \$6.8 million in total compensation (Cash: \$754K, \$1.04 million AIP); (iv) 2017: \$6.5 million in total compensation (Cash: \$828K, \$1.2 million AIP); (v) 2018: \$7 million in total compensation (Cash: \$905K salary, \$1.1 million AIP); (vi) 2019: \$10.2 million in total compensation (Cash: \$968K salary, \$948K AIP).

10. Defendant James J. Kavanaugh (“Kavanaugh”) has served as an Officer of the Company since 2008. Kavanaugh has served as Chief Financial Officer of the Company from January 2018 through the present, and also served as Senior V.P, Finance and Operations in 2017 as a Named Executive Officer. Kavanaugh compensation: (i) 2017: \$4.9 million in total

compensation (Cash: \$649K salary, \$919K AIP); (ii) 2018: \$5.9 million in total compensation (Cash: \$713K salary, \$814K AIP); (iii) 2019: \$7.1 million in total compensation (Cash: \$787K salary, \$1.06 million AIP); (iv) 2020: \$9.7 million in total compensation (Cash: \$899K salary, \$1.2 million AIP); (v) 2021: \$10.2 million in total compensation: (Cash: \$968K salary, \$1.44 million AIP).

11. Defendant Arvind Krishna (“Krishna”) has served the Company as CEO and a director since April 2020. He was elected chairman of the Board of Directors in December 2020. Krishna joined IBM in 1990. He led the IBM Cloud and Cognitive Software business unit from 2017 to April 2020 and was a principal architect of the acquisition of Red Hat. Krishna also served as the director of IBM’s Research division from 2015 to 2020. Previously, he was general manager of IBM’s Systems and Technology Group, IBM’s development and manufacturing organization. Prior to that, he built and led many of IBM’s data-related businesses. He has an undergraduate degree from the Indian Institute of Technology, Kanpur, and a PhD. in electrical engineering from the University of Illinois at Urbana-Champaign. Krishna’s compensation: (i) 2020: \$17 million in total compensation (Cash: \$1.36 salary, \$2.2 million AIP), (ii) 2021: \$17.6 million in total compensation (Cash: \$1.5 million salary, \$814 AIP).

12. Defendants Rometty, Schroeter, Kavanaugh and Krishna are collectively referred to herein as the “Individual Defendants.” IBM and the Individual Defendants are referred to herein, collectively, as “Defendants.”

13. Each of the Individual Defendants:

- (a) directly participated in the management of the Company;
- (b) was directly involved in the day-to-day operations of the Company at the

highest levels;

(c) was privy to confidential proprietary information concerning the Company and its business and operations;

(d) was involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;

(e) was aware that the false and misleading statements were being issued concerning the Company; and

(f) approved or ratified these statements in violation of the federal securities laws.

14. As officers, directors, and controlling persons of a publicly-held company whose common stock is and was registered with the SEC pursuant to the Exchange Act, and was traded on the NYSE and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate accurate and truthful information promptly with respect to the Company's business prospects and operations, and to correct any previously-issued statements that had become materially misleading or untrue so as to allow the market price of the Company's publicly-traded stock to reflect truthful and accurate information.

15. IBM is liable for the acts of the Individual Defendants and its employees under the doctrine of respondeat superior and common law principles of agency as all of the wrongful acts complained of herein were carried out within the scope of their employment and with authorization.

16. The scienter of the Individual Defendants and other employees and agents of the Company is similarly imputed to IBM under respondeat superior and agency principles.

## **SUBSTANTIVE ALLEGATIONS**

### **Background**

17. IBM was launched in 1911 and was originally named the C-T-R Company, which was the combination of the Computing Scale Company, the Tabulating Machine Company, and the Time Recording Company. In 1924, Thomas Watson took charge of the Company and renamed it International Business Machines or IBM. In the 1920's and 1930's IBM began its growth into a household name. It launched the first public address system, which became a staple in the American classroom. The Social Security Administration adopted the Company's punch card machines to help build its new network of Social Security numbers for all citizens. And in 1928 it invented the first calculator that could directly subtract.

18. In the 1940's IBM developed the first completely electronic computing machine, the Vacuum Tube Multiplier, which was the first device that was recognized as a modern computer.

19. In the 1950's and 1960's IBM developed the mainframe computer. A mainframe is a powerful central computer ("CPU"), linked to thousands of users through less powerful devices such as PC workstations or terminals (just monitor and keyboard). Mainframes are used among large organizations for mission-critical applications, which require high volumes of data processing. These systems are known for their large amount of storage and processing power. The mainframe hardware and software products are considered ideal for a growing number of transactions and data sets as they possess capabilities to allow huge numbers of users and applications to access the same data among each other simultaneously without any interference.

20. The mainframe computer, along with its embedded proprietary software, became IBM's staple product and has been used by businesses worldwide for decades. Indeed, from the

1970's forward, the term "mainframe computer" has been synonymous with IBM products due to its near monopolistic market share.

21. Prior to, during and subsequent to the Class Period, IBM's z Systems (*e.g.*, "mainframe") have continued to dominate the mainframe market, owing to significant adoption of IBM mainframe solutions among IBM's large institutional customer base. Among its tens of thousands of customers world-wide, 44 of the top 50 banks, healthcare organizations and government agencies in the U.S., as well as all the top 10 insurers, have been using IBM z mainframes for their business-critical applications. Indeed, IBM controls 90% of the mainframe market, giving it a virtual monopoly in the mainframe computing marketplace. From a practical standpoint, IBM is the mainframe market.

22. Although IBM's mainframe business continues to generate billions in revenues each year -- primarily from monthly licensing charges, usage-based data processing fees, and service and support offerings -- the market for mainframes has been waning ever since the advent of powerful PCs, mainframe offerings from IBM's competitors, and now cloud computing. Accordingly, by 2011 IBM's revenue and income had peaked and begun to decline.

23. By 2010 IBM began narrowing the focus of its reinvention from a mainframe supplier to a "cognitive solutions" and cloud computing platform company, highlighting its "networked, modularized and embedded technologies, as well as business intelligence and analytics" software offerings. *See, e.g.*, IBM 2010 Form 10-K, and Ex-13 thereto, filed with Securities & Exchange Commission on February 22, 2011. As a follow up, in 2011 IBM began marketing its Watson computing system as a brand for its artificial intelligence applications. Investors rewarded IBM for this more focused direction, driving IBM's stock price from \$123.48



on April 1, 2010, to \$208.65 on January 1, 2012.

24. After becoming IBM's CEO in 2012, Defendant Rometty attempted to further focus IBM's new direction, while struggling to overcome IBM's declining revenues and downward trending stock price. This effort included Defendants' business plan to increase its non-mainframe, strategic revenues. This included Defendants' identification of IBM's "Strategic Imperatives" to drive the Company's focus, and future, toward its reinvention around its cognitive solutions and cloud computing business lines, as well as Defendants' allocation of revenues from these business lines into distinct sectors of "Cloud," "Analytics," "Mobile," "Security," and "Social," collectively referred to as "CAMSS."

25. From 2015 through the end of 2018, Defendants' identification of IBM's "Strategic Imperatives" and CAMSS became the financial metrics through which they intended to convey to the investing public that IBM's reinvention to an IT services company was successful, profitable and would be the driving force for the Company's future. Accordingly, Defendants needed to demonstrate that IBM was delivering on these metrics. This is what the marketplace expected of IBM and what was required for IBM to maintain its market relevance and improve its stock price. To do so, Defendants improperly and in violation of Generally Accepted Accounting Principles ("GAAP") embarked on a fraudulent scheme to shift billions of dollars in revenues from its mainframe line of business to its Strategic Imperatives and CAMSS line of business. Subsequent to 2018 and continuing through at least the 3Q2021, Defendants continued the fraudulent scheme to shift billions in revenues from the mainframe non-strategic side of the business to the strategic side of the business in order to prop up strategic revenues, increase their long-term incentive compensation, and appease the investing community while waiting for their new business model to

come to fruition that started with the acquisition of Red Hat in late October 2018 in combination with other intellectual property.

26. IBM has never revealed this fraud, but first partially disclosed evidence of it in a pretextual nature to investors after the close of the market on October 16, 2018, when Defendants disclosed a shortfall in revenue and disappointing 3Q2018 growth associated with the Company's Strategic Imperatives and CAMSS lines of business, particularly its Cloud business line, causing IBM's stock price to decline approximately \$11.00 per share by the close of trading on October 17, 2018. After reporting its 4<sup>th</sup> quarter and year end 2018 results, IBM stopped reporting revenue on Strategic Imperatives and CAMSS metrics and replaced Strategic Imperative Revenue with Total Annual Revenue as a financial metric in calculating the Annual Incentive Plan paid in cash. Internally, the use of Strategic Imperatives had become troublesome with employees questioning the tactics used to shift revenues from non-strategic to strategic. Thousands of IBM account executives were terminated and other high-ranking executives moved to new departments or positions with the ultimate goal to cover up the fraudulent scheme and get the market to no longer focus on Strategic Imperatives as a financial metric or use it to gauge the Company's performance.

27. Defendants were motivated to engage in this conduct by the bonus compensation structure they created -- IBM's AIP (and other long-term incentive programs) -- and their desire to drive up IBM's stock price. Defendants helped ensure that their scheme would succeed by subjecting approximately 5,000 IBM account executives, and other high-level employees, into the same AIP bonus compensation plan that Defendants benefited from. IBM Strategic Imperatives brand sellers (Cloud, Analytics, Mobile, Security and Systems) worked on a salary and commission basis that incentivized them to sell as much Strategic Imperatives branded software as possible

and created an environment in which mainframe revenue was misclassified/reclassified as Strategic Imperatives Revenue in order to maximize the AIP and appease Wall Street's thirst for an IBM revenue stream unrelated to its mainframe line of business. Unbeknownst to the investing public was that IBM awarded AIP cash bonus compensation for revenues generated as IBM's Strategic Imperatives and CAMSS line of business, even though such revenues were cannibalized and misallocated from IBM's mainframe line of business. Beginning in 2019, Defendants ceased the use of Strategic Imperatives Revenue as a financial metric, stopped reporting CAMSS, but the fraudulent scheme to shift revenue from the non-strategic side of the business to the strategic side continued unabated while the Company and Defendants waited for the new business model to penetrate the marketplace.

28. Finally, on October 20, 2021, after the close of the market (the last day of the Class Period), The Company announced a shortfall in revenue for the 3Q2021 with Cognitive & Cloud the main culprit. The stock had previously closed at \$133.87 per share on October 20, 2021. After the news was announced concerning IBM's revenue shortfall, the stock fell dramatically, closing at \$121.07 per share on October 21, 2021, a drop of almost \$13.00 per share. The new business model was about to kick in and the revenue misclassification was curtailed or ceased altogether. In the 4Q2021, the Company announced revenues almost \$800 million above analyst consensus with Cognitive & Cloud (now coined software) leading the way. The new business model had finally started to produce substantial revenue.

### **Defendants Were Financially Motivated to Engage in the Misconduct**

29. Defendants and thousands of IBM sales executives were financially incentivized

prior to and during the Class Period to engage in this scheme. As the Executive Summary to IBM's proxy statement filed with the SEC on March 9, 2015, made clear, IBM specifically changed its bonus compensation plan, the AIP, in 2015 specifically to incentivize and reward the increase in non-mainframe sales that would boost the Company's Strategic Imperatives metrics:

The centerpiece of IBM's strategy is our business portfolio shift into five strategic imperatives that we believe are important to the future of enterprise information technology. In 2014, we made significant investments in these areas, launched new businesses such as the Watson Group, and forged landmark partnerships with Apple, Twitter and Tencent to drive long-term growth. Taken together, these five strategic imperatives now constitute 27% of IBM's revenues, posting double-digit growth for the year, as they did in every quarter in 2014....

Our overall executive compensation philosophy remains the same as prior years. We continue to align pay with the interests of stockholders while at the same time attracting and retaining top leadership talent. For 2015, we have made adjustments to the Annual Incentive Program to heighten the alignment of executive rewards with the strategic shifts needed for our ongoing transformation. Specifically, a strategic imperatives revenue metric replaces the overall revenue growth metric (both weighted at 20%) to ensure strategic focus on the portfolio shift. In addition, cash flow increases in importance, from a 20% to a 40% weighting, and we have replaced the free cash flow metric with operating cash flow to maintain our strong focus on strategic investment decisions. Operating net income continues as a metric, now weighted at 40%.

30. IBM's AIP was clearly effective in advancing Defendants' scheme as reflected by the apparent growth in IBM's Strategic Imperative Revenues as a percentage of IBM's total revenues over the period 2015 through 2018. These percentages are set forth in the following chart based upon IBM's representations in its public filings with the SEC covering that period:

<b>Fiscal Year</b>	<b>Strategic Imperatives revenue as % of total revenue</b>
2015	35%
2016	41%
2017	46%
2018	50%

31. Subsequently, from 2019 through the end of the Class Period strategic revenue

continued to indirectly impact incentive compensation and satisfy market expectations until the new business model based on hybrid cloud in combination with other intellectual property began to generate material revenue.

### Defendants' False and Misleading Statements

32. On January 19, 2017, IBM issued a press release reporting its preliminary financial results for the 4Q2016 and FY2016:

#### IBM REPORTS 2016 FOURTH-QUARTER AND FULL-YEAR RESULTS Continued Strong Growth in Strategic Imperatives Led by IBM Cloud

##### Highlights

Diluted EPS from continuing operations: GAAP of \$4.73; Operating (non-GAAP) of \$5.01

Revenue from continuing operations of \$21.8 billion

Strategic imperatives revenue for full-year 2016 of \$32.8 billion up 13 percent (up 14 percent adjusting for currency) represents 41 percent of IBM revenue

Cloud revenue of \$13.7 billion for full-year 2016, up 35 percent

Cloud as-a-service annual exit run rate of \$8.6 billion at year end, up 61 percent year to year (up 63 percent adjusting for currency)

2017 EPS Expectations: GAAP of at least \$11.95; Operating (non-GAAP) of at least \$13.80

ARMONK, N.Y., January 19, 2017 . . . IBM (NYSE: IBM) today announced fourth-quarter and full-year 2016 earnings results.

“In 2016, our strategic imperatives grew to represent more than 40 percent of our total revenue and we have established ourselves as the industry’s leading cognitive solutions and cloud platform company,” said Ginni Rometty, IBM chairman, president and chief executive officer. “IBM Watson is the world’s leading AI platform for business, and emerging solutions such as IBM Blockchain are enabling new levels of trust in transactions of every kind. More and more clients are choosing the IBM Cloud because of its differentiated capabilities, which are helping to transform industries, such as financial services, airlines and retail.”

In 2016, we again made substantial capital investments, increased our R&D spending and acquired 15 companies — a total of more than \$15 billion across these elements. The acquisitions further strengthened our capabilities in analytics, security, cognitive and cloud, while expanding our level of industry expertise with additions such as Truven Health Analytics and Promontory Financial Group,” said Martin Schroeter, IBM senior vice president and chief financial officer. “At the same time, we returned almost \$9 billion to shareholders through dividends and gross share repurchases.”

### Strategic Imperatives

Fourth-quarter cloud revenues increased 33 percent. The annual exit run rate for cloud as-a-service revenue increased to \$8.6 billion from \$5.3 billion at year-end 2015. Revenues from analytics increased 9 percent. Revenues from mobile increased 16 percent (up 17 percent adjusting for currency) and revenues from security increased 7 percent (up 8 percent adjusting for currency).

For the full year, revenues from strategic imperatives increased 13 percent (up 14 percent adjusting for currency). Cloud revenues increased 35 percent to \$13.7 billion. The annual exit run rate for cloud as-a-service revenue increased 61 percent (up 63 percent adjusting for currency) year to year. Revenues from analytics increased 9 percent. Revenues from mobile increased 34 percent (up 35 percent adjusting for currency) and from security increased 13 percent (up 14 percent adjusting for currency).

33. That same day after the market closed the Company held an earnings conference call. Defendant Schroeter led the call for IBM. Again, he emphasized the Company’s stellar performance in Strategic Imperatives (CAMSS). Schroeter stated in pertinent part:

So with that very brief context around our point of view, let me comment on what we achieved in the full-year of 2016. We made progress in building new businesses and creating new markets and continued to deliver strong results in our strategic imperatives. We invested at a high-level, and remixed our skills to address these new opportunity areas. ...

Looking at some of the highlights of the fourth quarter, we had terrific growth in cloud, with revenue up 33%. We also had good growth in our analytics, security, and mobile solutions. ...

We delivered 14% revenue growth in our strategic imperatives for the year, led by cloud. We finished the year with \$13.7 billion of cloud revenue, which was 17% of IBM’s revenues. Our strategic imperatives together generated \$33 billion of

revenue in 2016, and now represent 41% of our revenue. To put this in perspective, when we first established the strategic imperatives, we said they'd grow to \$40 billion, and represent over 40% of our revenue by 2018. The growth we achieved in 2016 keeps us ahead of track to the \$40 billion. In fact, a growth rate of 10% to 11% from here gets us to the \$40 billion in 2018. ...

We continue to aggressively shift our investments and resources to our digital practices, and growth in our strategic imperatives accelerated to 19% this quarter. Our cloud practice was up over 70%, mobile nearly 30%, and analytics was up 10%. ...

In 2016 we continued to make a lot of progress in the transformation of our own business. We had strong growth in our strategic imperatives, cloud, analytics, security and mobile. These offerings generated \$33 billion in revenue, and now represent over 40% of our revenue. ...

This confidence is reflected in our view of 2017. To simplify, we expect to stay on track in our strategic imperatives. We'll continue to invest at a high level, though as you saw in the fourth quarter, after ramping investment from 2015 through late 2016, we've wrapped on that higher level.

... we established this idea that the strategic imperatives were the path for revenue growth to resume and those continue to grow quite well.

34. The Company also filed IBM's 4Q2016 Earnings Presentation with the SEC on January 9, 2017 (attached to the Form 8-K), that contained financial information concerning Strategic Imperative Revenue contribution to the Company's Segments: (i) CS \$3.5 billion; (ii) GBS \$2.4 billion, (iii) TS&CP \$2.6 billion, and (iv) Systems \$1.1 billion. Total overall Strategic Imperatives Revenue for 4Q2016 was \$9.6 billion.

35. On February 28, 2017, Defendants filed IBM's Form 10-K (ex. 13) with the SEC that reported Q42016 and FY2016 financial results. Again, Strategic Imperatives led the way:

There are significant opportunities and shifts occurring in the IT industry, and the company believes that to be successful with enterprise clients, it needs to bring together cognitive technologies on cloud platforms that create industry-based solutions to solve real-world problems. In 2016, the company continued to

Deliver strong results in the strategic imperatives;

Make progress in building new businesses and creating new markets;

Deliver innovation in the more traditional businesses and monetize core technologies; and

Return capital to shareholders.

Total consolidated revenue in 2016 decreased 2.2 percent as reported and 1.6 percent year to year adjusted for currency. Annuity revenue increased as reported and adjusted for currency while transactional revenue declined year to year. In addition, acquisitions completed in the past 12 months contributed to revenue growth.

The 2016 results reflect the success the company is having in its strategic imperatives and the investments made to drive that shift. The company had continued strong revenue growth in cloud, analytics and engagement, which together grew 13 percent year to year as reported and 14 percent adjusted for currency. In 2016, the strategic imperatives generated \$32.8 billion in revenue, which represented 41 percent of the company's revenue, an increase of 6 points from 2015. Total Cloud revenue of \$13.7 billion increased 35 percent both as reported and adjusted for currency, with cloud as-a-Service revenue up 55 percent as reported and 57 percent adjusted for currency. The company exited 2016 with an annual run rate for cloud as-a-Service revenue of \$8.6 billion, up from \$5.3 billion at the end of 2015. Analytics revenue of \$19.5 billion increased 9 percent as reported and adjusted for currency. Mobile revenue increased 34 percent year to year as reported (35 percent adjusted for currency) and Security revenue increased 13 percent as reported (14 percent adjusted for currency).

From a segment perspective, Cognitive Solutions revenue increased 1.9 percent as reported and 3 percent adjusted for currency with growth in Solutions Software, led by an increase in Analytics and Security revenue; partially offset by a decline in Transaction Processing Software. Global Business Services (GBS) revenue decreased 2.7 percent as reported and 3 percent adjusted for currency primarily driven by a decline in Consulting revenue. Revenue performance continued to be impacted by the company's shift away from traditional businesses, such as ERP implementations. GBS strategic imperatives revenue had double-digit growth year to year as reported and adjusted for currency. Technology Services & Cloud Platforms revenue increased 0.6 percent as reported and 1 percent adjusted for currency led by growth in Infrastructure Services as the company assists clients in modernizing and transforming their infrastructures. Technology Services & Cloud Platforms strategic imperatives revenue was up 39 percent (40 percent adjusted for currency) year to year. Systems revenue decreased 19.2 percent (19 percent adjusted for currency) with z Systems down 27.1 percent (27 percent adjusted for currency) and Power Systems down 27.1 percent (27 percent adjusted for currency).



36. The 2016 Form 10-K (ex. 13) reported on the amount of Strategic Imperatives Revenue in each of the Company's Segments for FY2016: (i) Cognitive Solutions: Within Cognitive Solutions, total 2016 Strategic Imperatives revenue of \$11.7 billion grew 7 percent as reported (8 percent adjusted for currency) year to year. Cloud revenue of \$2.1 billion grew 53 percent as reported (54 percent adjusted for currency), with an as-a-Service exit run rate of \$1.8 billion; (ii) Within GBS, total 2016 Strategic Imperatives revenue of \$8.9 billion grew 16 percent as reported and adjusted for currency year to year. The Company continues to aggressively shift the business to the Strategic Imperatives, or digital practices in GBS; (iii) Within Technology Services & Cloud Platforms, total 2016 Strategic Imperatives revenue of \$8.7 billion grew 39 percent as reported (40 percent adjusted for currency) year to year. Cloud revenue of \$5.9 billion grew 49 percent as reported (50 percent adjusted for currency), with an as-a-Service exit run rate of \$5.8 billion; (iv) Systems, total 2016 Strategic Imperatives revenue of \$3.4 billion decreased 15 percent as reported and adjusted for currency year to year. Cloud revenue of \$2.7 billion decreased 11 percent as reported and adjusted for currency as a result of a strong 2015 with the mainframe cycle.

37. The 2016 Form 10-K also gave the 4Q2016 financial results on Strategic Imperatives: "In the quarter, the company continued to deliver strong revenue growth in the strategic imperatives. ... Within Cognitive Solutions, total fourth quarter 2016 strategic imperatives revenue of \$3.5 billion grew 6 percent (7 percent adjusted for currency) year to year. Cloud revenue of \$0.6 billion grew 52 percent (53 percent adjusted for currency), with an as-a-Service exit run rate of \$1.8 billion. Within GBS, total fourth quarter strategic imperatives revenue of \$2.4 billion grew 18 percent as reported (19 percent adjusted for currency) year to year. Cloud revenue of \$0.9 billion grew 78 percent as reported (77 percent adjusted for currency), with an as-

a-Service exit run rate of \$1.1 billion. Within Technology Services & Cloud Platforms, total fourth quarter strategic imperatives revenue of \$2.6 billion grew 36 percent (37 percent adjusted for currency) year to year. Cloud revenue of \$1.8 billion grew 48 percent as reported (50 percent adjusted for currency), with an as-a-Service exit run rate of \$5.8 billion. Within Systems, total fourth quarter strategic imperatives revenue of \$1.1 billion decreased 19 percent (18 percent adjusted for currency) year to year. Cloud revenue of \$0.9 billion decreased 15 percent (15 percent adjusted for currency). As the company continued to transform the GBS business in 2015, revenue from the strategic imperative practices grew at strong rates. However, overall revenue performance continued to be impacted by the company's shift away from traditional businesses, such as ERP. Clients are moving away from ERP engagements to initiatives that focus on digitizing their business with analytics, cloud and mobile technologies.”

38. In the Looking Forward section of the Form 10-K (ex. 13) it states:

In 2016, the company made significant progress in its transformation, including strong revenue growth in the strategic imperatives, repositioning of the core businesses, continued high levels of investment, both organic and through acquisitions, and remixing skills. The company had 13 percent growth as reported (14 percent adjusted for currency) in the strategic imperatives, generating \$33 billion of revenue, which represented 41 percent of total revenue. The growth rate achieved in 2016 keeps the company ahead of track of previous expectations of \$40 billion of revenue from the strategic imperatives in 2018.

39. On March 13, 2017, the Company filed its 2017 Proxy Statement with the SEC. Among the information presented was the importance that Strategic Imperatives Revenue had on the overall performance bonuses of Defendants Rometty and Schroeter. As to Rometty, the Compensation Committee noted the following personal leadership achievements, all of which were touted as clear signposts of the successful business portfolio shift: Directed investments to Strategic Imperatives — cloud, analytics, mobile, social and security — growing revenue to \$33

billion; Strategic Imperatives contributed 41% of IBM's total revenue. As to Schroeter, the Compensation Committee noted that: He was instrumental in shifting IBM's spending profile to focus on Strategic Imperatives; Invested \$15 billion across research & development, capital spending and 15 acquisitions, adding to IBM's capabilities in the high-growth areas of cognitive and cloud with industry focus.

40. The statements by Defendants in ¶¶ 32-39 were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Strategic Imperatives Revenue and growth, CAMSS and CAMSS Components' revenue and growth, and the Company's Segments' revenue and growth were artificially inflated as a result of the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives Revenue; (ii) the Company's present success and positive future growth prospects concerning its Strategic Imperative business strategy were being fueled by the the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperative Revenue and, as a result (iii) misled the market by portraying the Company's Strategic Imperative's financial performance and future prospects more favorable than they actually were as a result of the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives. These misstatements remained uncorrected in the marketplace at the beginning of the Class Period on April 4, 2017.

41. On April 18, 2017, the Company held an earnings conference call for 1Q2017. Defendant Schroeter presented the First Quarter earnings for the Company. In pertinent part, he stated:

In the first quarter, we continued to deliver strong performance in our strategic

imperatives, with revenue up 13 percent at constant currency. As is typical, I'll focus on constant currency growth rates throughout. Our cloud offerings were up 35 percent this quarter, led by Cloud as-a-Service, which was up over 60 percent. Analytics, the largest of our strategic areas was up seven percent. Mobile was up over 20 percent, and security up 10 percent.... And so our first quarter results once again reflect the success we're having in our strategic imperatives. We grew 13 percent in the quarter, which was compared to our strongest growth quarter last year. Over the last twelve months, our strategic imperatives together generated nearly \$34 billion in revenue, and now represent 42 percent of our total revenue. With over 14 and-a-half billion dollars in cloud revenue over the last twelve months, we're the global leader in enterprise cloud. We play an important role in running the critical processes of the largest enterprises, and so it's not surprising that each of the 10 largest global banks, 9 of the top 10 retailers, and 8 of the top 10 airlines are now IBM Cloud as-a-Service customers.

42. That same day the Company also filed IBM's 1Q2017 Earnings Presentation with the SEC (attached to the Form 8-K), that contained financial information concerning Strategic Imperative Revenue contribution to the Company's Segments: (i) CS \$2.6 billion; (ii) GBS \$2.2 billion, (iii) TS&CP \$2.4 billion, and (iv) Systems \$0.5 billion. Total overall Strategic Imperatives Revenue for 1Q2017 was \$7.7 billion.

43. On April 25, 2017, IBM filed its Form 10-Q for 1Q2017 with the SEC. As to the overall financial performance of the Company, the 1Q2017 stated as follows:

Financial Performance Summary:

In the first quarter of 2017, the company reported \$18.2 billion in revenue, \$1.8 billion in income from continuing operations and \$2.3 billion in operating (non-GAAP) earnings, resulting in diluted earnings per share from continuing operations of \$1.85 as reported and \$2.38 on an operating (non-GAAP) basis. The company generated \$4.0 billion in cash from operations and \$1.1 billion in free cash flow in the first quarter of 2017 and shareholder returns of \$2.6 billion in gross common stock repurchases and dividends.

Total consolidated revenue in the first quarter of 2017 decreased 2.8 percent as reported and 2.2 percent year to year adjusted for currency. The company continued to deliver strong performance in its strategic imperatives and also continued to deliver core capabilities to clients, running mission-critical systems and processes. Many of these products provide the foundation of hybrid environments, enabling clients to increase value from their on-premise data and applications.

The first quarter results continued to reflect the success the company is having in its strategic imperatives. The company had continued strong revenue growth in cloud, analytics and engagement, which together grew 12 percent as reported and 13 percent adjusted for currency. In the first quarter of 2017, the strategic imperatives generated \$7.8 billion in revenue, which represented 43 percent of the company's revenue, an increase of 6 points from the first quarter of 2016. Total Cloud revenue of \$3.5 billion increased 33 percent as reported and 35 percent adjusted for currency, with cloud as-a-Service revenue up 59 percent as reported and 61 percent adjusted for currency. The company exited the first quarter of 2017 with an annual run rate for cloud as-a-Service revenue of \$8.6 billion. Analytics revenue of \$4.5 billion increased 6 percent as reported and 7 percent adjusted for currency. Mobile revenue increased 20 percent (22 percent adjusted for currency) and Security revenue increased 9 percent (10 percent adjusted for currency).

44. The Form 10-Q for 1Q2017 broke down the Strategic Imperatives into the Company's Segments: (i) Within Cognitive Solutions, total first quarter Strategic Imperatives revenue of \$2.6 billion grew 6 percent as reported (7 percent adjusted for currency) year to year. Cloud revenue of \$0.6 billion grew 44 percent as reported (45 percent adjusted for currency), with an as-a-Service exit run rate of \$1.8 billion; (ii) Within GBS, total first quarter 2017 Strategic Imperatives revenue of \$2.2 billion grew 12 percent as reported (13 percent adjusted for currency) year to year. Cloud revenue of \$0.9 billion grew 56 percent as reported (57 percent adjusted for currency), with an as-a-Service exit run rate of \$1.0 billion; (iii) Within Technology Services & Cloud Platforms, total first quarter 2017 Strategic Imperatives revenue of \$2.4 billion grew 30 percent as reported (31 percent adjusted for currency) year to year. Cloud revenue of \$1.7 billion grew 41 percent as reported (42 percent adjusted for currency), with an as-a-Service exit run rate of \$5.7 billion. (iv) Within Systems, total first quarter Strategic Imperatives revenue of \$0.5 billion decreased 16 percent as reported (15 percent adjusted for currency) year to year. Cloud revenue of \$0.4 billion decreased 16 percent as reported and adjusted for currency.

45. The 1Q2017 also contained a section on "Looking Forward" that discussed the

Company's continued focus on Strategic Imperatives. It stated in pertinent part:

#### Looking Forward

The company's strategies, investments and actions are all taken with an objective of optimizing long-term performance. A long-term perspective ensures that the company is well-positioned to take advantage of the major shifts in technology, business and the global economy.

Within the IT industry, there are major shifts occurring—driven by cognitive; including data and analytics, cloud and changes in the ways individuals and enterprises are engaging. The company is bringing together its cognitive technologies on cloud platforms that create industry-based solutions in order to solve enterprise clients' real problems. The company continues to address the higher value areas of enterprise IT and is amassing a unique set of capabilities and is differentiating itself from other technology providers as it moves into new spaces, and in some cases, creating entirely new markets. IBM is more than a hardware, software and services company; it has emerged as a cognitive solutions and cloud platform company, focused on industry differentiation. The company's strategic imperatives— cloud, analytics, mobile, social and security solutions—are focused on these market shifts.

In 2017, the company will continue to focus on growing the strategic imperatives and the transformation of its core businesses, with a continued high level of investment, although the higher-level investment that began in 2015 has now fully wrapped on a year-to-year basis. While pre-tax income is expected to decline year to year on a GAAP basis due to higher non-operating pension expense, the company expects growth in operating (non-GAAP) pre-tax income in 2017. The company expects gross profit margin improvement from the first-quarter level. The company expects to continue to monetize its technology, including through IP licensing arrangements in 2017. Consistent with the long-term model, the company also expects over the course of 2017 to continue to acquire key capabilities, remix skills, invest in areas of growth and return value to shareholders. This is all taken into account in the full-year view. Overall, the company expects GAAP earnings per share from continuing operations for 2017 to be at least \$11.95. Excluding acquisition-related charges of \$0.75 per share and non-operating retirement-related items of \$1.10 per share, operating (non-GAAP) earnings per share is expected to be at least \$13.80. For the first half of 2017, the company expects operating (non-GAAP) earnings per share to be approximately 37 percent of the full year expectation.

During the first quarter of 2017, the company had strong growth in its strategic imperatives revenue, which grew 12 percent as reported and 13 percent adjusted for currency, compared to a high growth first-quarter 2016. Total Cloud revenue of \$3.5 billion increased 33 percent as reported and 35 percent adjusted for currency,

with cloud as-a-Service revenue up 59 percent as reported and 61 percent adjusted for currency. From a segment perspective, in the first quarter 2017, Cognitive Solutions revenue grew, led by Analytics and Security. GBS revenue declined year to year, however the decline improved sequentially in Consulting revenue, as the business continues to shift towards cognitive and digital. Technology Services & Cloud Platforms revenue decreased primarily driven by declines in Infrastructure Services and Integration Software revenue. The decline in Systems was driven by anticipated product cycle dynamics.

46. On July 18, 2017, the Company issued a press release reporting preliminary financial results for the 2Q2017 including that Strategic Imperatives had revenue of \$34.1 billion over the trailing 12 months, up 11 percent (up 12 percent adjusting for currency); representing 43 percent of IBM revenue. First half Strategic Imperative revenue was up 8 percent (up 10 percent adjusting for currency) and second quarter Strategic Imperative revenue was up 5 percent (up 7 percent adjusting for currency). The press release also reported that second-quarter cloud revenues increased 15 percent (up 17 percent adjusting for currency) to \$3.9 billion. Cloud revenue over the last 12 months was \$15.1 billion. The annual exit run rate for as-a-service revenue increased to \$8.8 billion from \$6.7 billion in the second quarter of 2016. Revenues from analytics increased 4 percent (up 6 percent adjusting for currency). Revenues from mobile increased 27 percent (up 29 percent adjusting for currency) and revenues from security increased 4 percent (up 5 percent adjusting for currency).

47. On July 18, 2017, the Company held an earnings conference call. Defendant Schroeder made the presentation for IBM. He stated in pertinent part:

In the second quarter, we delivered \$19.3 billion of revenue, operating pretax income of over \$3 billion, operating earnings per share of \$2.97, and free cash flow of over \$2.5 billion. The quarter played out as we expected with continued solid growth in our strategic imperatives which now really reflects organic growth. We wrapped on the acquisitive content and we're at the stage where we can start to get some efficiency as a result of bringing them into IBM while we build on the new content....



We've been focused on helping our enterprise clients transform their businesses to leverage their data for competitive advantage and to improve the efficiency and agility of their IT environments. Our strategic imperatives performance has been an indication of our progress in moving to these areas. As you know, our strategic imperatives are in separate businesses but signpost that represent the revenue across our business lines that work together to address demand for analytics, cloud security, mobile and social. Our clients are taking the productivity savings we're delivering to them in the more traditional areas of IT and reinvesting those savings to move into these new areas; these are the dynamics you've seen in our revenue.

In the quarter, our strategic imperatives revenue was up 7% at constant currency which as I said is pretty much all organic growth. Over the last twelve months, revenue from our strategic imperatives was up 12% to over \$34 billion and now represents 43% of IBM. As is typical, I'll focus on constant currency growth rates throughout. A large part of our strategic imperatives are delivered as a service. Our as a service revenue was up over 30% in the second, and we exited the quarter with an \$8.8 billion annual run rate. IBM's cloud revenue on a trailing twelve month basis is now over \$15 billion, that's nearly 20% of IBM's revenue. Let me spend a minute underscoring how we've been able to build cloud to a \$15 billion business, and why enterprises are increasingly moving to the IBM cloud.

48. That same day the Company also filed IBM's 2Q2017 Earnings Presentation with the SEC (attached to the Form 8-K), that contained financial information concerning Strategic Imperative Revenue contribution to the Company's Segments: (i) CS \$3.0 billion; (ii) GBS \$2.5 billion, (iii) TS&CP \$2.5 billion, and (iv) Systems \$0.8 billion. Total overall Strategic Imperatives Revenue for 1Q2017 was \$8.8 billion.

49. On July 25, 2017, the Company filed its Form 10-Q for the 2Q2017. The 2Q2017 Form 10-Q reported growth in Strategic Imperatives revenue of 11 percent (12 percent adjusted for currency) to \$34.1 billion over the prior 12 months representing 43 percent of the company's revenue. The 2Q2017 Form 10-Q further stated in pertinent part:

In the second quarter of 2017, the company had solid revenue growth in the strategic imperatives - cloud, analytics and engagement, which together grew 5 percent as reported and 7 percent adjusted for currency. The strategic imperatives generated \$8.8 billion in revenue, which represented 45 percent of the company's second-quarter revenue, an increase of 4 points from the second quarter of 2016.



Growth in the second quarter largely represents organic growth as the acquisitive content has leveled on a year-to-year basis. Total Cloud revenue of \$3.9 billion increased 15 percent as reported and 17 percent adjusted for currency, with as-a-Service revenue up 30 percent (32 percent adjusted for currency). The company exited the second quarter of 2017 with an annual run rate for as-a-Service revenue of \$8.8 billion. Analytics revenue of \$5.1 billion increased 4 percent as reported and 6 percent adjusted for currency. Mobile revenue increased 27 percent (29 percent adjusted for currency) and Security revenue increased 4 percent (5 percent adjusted for currency) year to year.

50. The 2Q2017 Form 10-Q discussed the performance of the Company's Segments relating to Strategic Imperatives revenue: (i) Cognitive Solutions total second quarter Strategic Imperatives revenue of \$3.0 billion was flat year to year as reported and grew 1 percent adjusted for currency. Cloud revenue of \$0.6 billion grew 23 percent as reported (24 percent adjusted for currency), with an as-a-Service exit run rate of \$1.9 billion. For the first six months of the year, total Strategic Imperatives revenue of \$5.6 billion grew 3 percent as reported (4 percent adjusted for currency) year to year. Cloud revenue of \$1.2 billion grew 32 percent as reported (33 percent adjusted for currency); (ii) Total second quarter 2017 GBS Strategic Imperatives revenue of \$2.5 billion grew 8 percent as reported (11 percent adjusted for currency) year to year. Cloud revenue of \$1.0 billion grew 36 percent as reported (39 percent adjusted for currency), with an as-a-Service exit run rate of \$1.1 billion. For the first six months of the year, total Strategic Imperatives revenue of \$4.7 billion grew 10 percent as reported (12 percent adjusted for currency) year to year. Cloud revenue of \$1.9 billion grew 45 percent as reported (47 percent adjusted for currency); (iii) Total Technology Services & Cloud Platforms second quarter 2017 Strategic Imperatives revenue of \$2.5 billion grew 20 percent as reported (22 percent adjusted for currency) year to year. Cloud revenue of \$1.7 billion grew 19 percent as reported (21 percent adjusted for currency), with an as-a-Service exit run rate of \$5.8 billion. For the first six months of the year, total Strategic Imperatives revenue of \$4.9 billion grew 25 percent as reported (26 percent adjusted for currency)

year to year. Cloud revenue of \$3.3 billion grew 29 percent as reported (31 percent adjusted for currency); and (iv) Total second quarter Systems Strategic Imperatives revenue of \$0.8 billion decreased 15 percent year to year as reported and adjusted for currency. Cloud revenue of \$0.6 billion decreased 18 percent as reported (17 percent adjusted for currency). For the first six months of the year, total Strategic Imperatives revenue of \$1.3 billion decreased 16 percent as reported (15 percent adjusted for currency) year to year. Cloud revenue of \$1.1 billion decreased 17 percent as reported (16 percent adjusted for currency).

51. In looking forward the 2Q2017 Form 10-Q stated:

Within the IT industry, there are major shifts occurring—driven by cognitive, including data and analytics, cloud and changes in the ways individuals and enterprises are engaging. The company is bringing together its cognitive technologies on cloud platforms to create industry-based solutions in order to solve enterprise clients' real problems. The company continues to address the higher value areas of enterprise IT and is amassing a unique set of capabilities and is differentiating itself from other technology providers as it moves into new spaces, and in some cases, creating entirely new markets. IBM is more than a hardware, software and services company; it has emerged as a cognitive solutions and cloud platform company, focused on industry differentiation. The company's strategic imperatives— cloud, analytics, mobile, social and security solutions—are focused on these market shifts.

In 2017, the company is continuing to focus on its strategic imperatives and the transformation of its core businesses. While pre-tax income is expected to decline year to year on a GAAP basis due to higher non-operating pension expense, the company expects growth in operating (non-GAAP) pre-tax income in 2017. The company is expecting to have improved trajectory in the revenue growth rate, gross profit margin and expense in the second half as compared to the first half of 2017. Consistent with the long-term model, the company also expects over the course of 2017 to continue to acquire key capabilities, remix skills, invest in areas of growth and return value to shareholders. This is all taken into account in the full-year view. Overall, the company continues to expect GAAP earnings per share from continuing operations for 2017 to be at least \$11.95. Excluding acquisition-related charges of \$0.75 per share and non-operating retirement-related items of \$1.10 per share, operating (non-GAAP) earnings per share is expected to be at least \$13.80. Typically, due to seasonality in the business, revenue declines from second to third quarter and in 2016, this decline was \$1 billion. As a result of the z14 mainframe launch and the new large services contracts signed in the first half, which should

generate incremental revenue in September, the company expects that impact to be mitigated by \$200 million to \$300 million. Both are expected to have a larger benefit to revenue and earnings per share in the fourth quarter.

In the first half of 2017, the company had continued solid growth in its strategic imperatives revenue, which grew 8 percent as reported and 10 percent adjusted for currency. Over the prior 12 months, strategic imperatives revenue increased 11 percent as reported (12 percent adjusted for currency) to \$34.1 billion and represented 43 percent of total IBM revenue. For the full year 2017, the company expects the trailing twelve-month growth rate to continue to be in the range of 10 to 11 percent. Total Cloud revenue for the first six months of 2017 of \$7.5 billion increased 23 percent as reported and 25 percent adjusted for currency, with as-a-Service revenue up 43 percent as reported and 45 percent adjusted for currency. From a segment perspective, in the first half of 2017, Cognitive Solutions had strong growth in annuity content, driven by SaaS. The focus continues on investing to combine organic and acquired content to build cloud-based cognitive offerings, build and scale platforms and drive vertical solutions. GBS revenue declined year to year, however declines are moderating, as the business continues to shift towards cognitive and digital, with signings growth for the second consecutive quarter and a strong pipeline of opportunities. Technology Services & Cloud Platforms revenue decreased primarily driven by declines in Infrastructure Services from contracts that concluded and from Integration Software revenue, however, the segment continued to deliver strong revenue growth in cloud, analytics, mobile and security. Given some large signings in the first half and the strong demand for IBM Cloud services, the company expects the revenue trajectory to improve in the second half of 2017. The decline in first-half Systems revenue was expected, driven by anticipated product cycle dynamics, however, the company's third quarter 2017 z14 product launch is expected to drive further improvement in second-half Systems revenue performance.

52. On October 17, 2017, IBM issued a press release announcing preliminary financial results for the 3Q2017. The Company reported Strategic Imperatives revenue of \$34.9 billion over the trailing 12 months, up 10 percent, representing 45 percent of IBM revenue, and that third quarter revenue was up 11 percent (up 10 percent adjusting for currency). As to CAMS, the press release stated that:

Third-quarter cloud revenues increased 20 percent to \$4.1 billion. Cloud revenue over the last 12 months was \$15.8 billion, including \$8.8 billion delivered as-a-service and \$7.0 billion for hardware, software and services to enable IBM clients to implement comprehensive cloud solutions. The annual exit run rate for as-a-service revenue increased to \$9.4 billion from \$7.5 billion in the third quarter of

2016. In the quarter, revenues from analytics increased 5 percent. Revenues from mobile increased 7 percent and revenues from security increased 51 percent (up 49 percent adjusting for currency).

53. That same day the Company also filed IBM's 3Q2017 Earnings Presentation with the SEC (attached to the Form 8-K), that contained financial information concerning Strategic Imperative Revenue contribution to the Company's Segments: (i) CS \$2.9 billion; (ii) GBS \$2.5 billion, (iii) TS&CP \$2.6 billion, and (iv) Systems \$0.9 billion. Total overall Strategic Imperatives Revenue for 3Q2017 was \$8.9 billion.

54. On October 31, 2017, the Company filed its 3Q2017 Form 10-Q. As to strategic alternatives concerning CAMS for the third quarter and nine months IBM reported:

In the third quarter of 2017, the company continued to deliver solid revenue growth in its strategic imperatives - cloud, analytics, mobile, security and social, which together generated \$8.8 billion of revenue and grew 11 percent as reported and 10 percent adjusted for currency, with double-digit growth in cloud and security. Strategic imperatives growth in the third quarter largely represented organic growth as the acquisitive content has leveled on a year-to-year basis. Total Cloud revenue of \$4.1 billion increased 20 percent as reported and adjusted for currency, with as-a-Service revenue up 25 percent (24 percent adjusted for currency). The annual exit run rate for as-a-Service revenue increased to \$9.4 billion in the third quarter of 2017 compared to \$7.5 billion in the third quarter of 2016. Analytics revenue of \$5.0 billion increased 5 percent both as reported and adjusted for currency. Mobile revenue increased 7 percent as reported and adjusted for currency and Security revenue increased 51 percent (49 percent adjusted for currency), driven by security software solutions and strong demand for the pervasive encryption capabilities in the new z14 mainframe. ... In the first nine months of 2017, the company's strategic imperatives revenue grew 9 percent year to year as reported and 10 percent adjusted for currency. Total Cloud revenue of \$11.6 billion was up 22 percent year to year as reported and 23 percent adjusted for currency, with as-a-Service revenue up 36 percent (37 percent adjusted for currency). Analytics revenue of \$14.5 billion increased 5 percent as reported and 6 percent adjusted for currency. Mobile revenue was up 17 percent year to year (19 percent adjusted for currency) and Security revenue increased 21 percent as reported and adjusted for currency.

55. The 3Q2017 Form 10-Q also reported results for the Company's Segments for the third quarter and nine months: (i) Cognitive Solutions total third-quarter Strategic Imperatives

revenue of \$2.9 billion grew 5 percent year to year as reported and adjusted for currency. Cloud revenue of \$0.6 billion grew 10 percent as reported and adjusted for currency, with an as-a-Service exit run rate of \$2.0 billion. For the first nine months of the year, total Strategic Imperatives revenue of \$8.5 billion grew 4 percent as reported and adjusted for currency year to year. Cloud revenue of \$1.8 billion grew 24 percent as reported and adjusted for currency; (ii) GBS total third-quarter Strategic Imperatives revenue of \$2.5 billion grew 10 percent as reported (11 percent adjusted for currency) year to year. Cloud revenue of \$1.0 billion grew 35 percent as reported and adjusted for currency, with an as-a-Service exit run rate of \$1.2 billion. For the first nine months of the year, total Strategic Imperatives revenue of \$7.2 billion grew 10 percent as reported (11 percent adjusted for currency) year to year. Cloud revenue of \$2.9 billion grew 41 percent as reported (43 percent adjusted for currency); (iii) Technology Services & Cloud Platforms third-quarter 2017 Strategic Imperatives revenue of \$2.6 billion grew 12 percent year to year as reported and adjusted for currency. Cloud revenue of \$1.8 billion grew 16 percent as reported and adjusted for currency, with an as-a-Service exit run rate of \$6.2 billion. For the first nine months of the year, total Strategic Imperatives revenue of \$7.4 billion grew 20 percent as reported (21 percent adjusted for currency) year to year. Cloud revenue of \$5.1 billion grew 24 percent as reported (25 percent adjusted for currency); and (iv) Third-quarter Systems Strategic Imperatives revenue of \$0.9 billion grew 26 percent year to year as reported (25 percent adjusted for currency). Cloud revenue of \$0.7 billion grew 24 percent as reported (23 percent adjusted for currency). For the first nine months of the year, total Strategic Imperatives revenue of \$2.2 billion decreased 3 percent as reported and adjusted for currency year to year, primarily a reflection of product cycle dynamics. Cloud revenue of \$1.7 billion decreased 5 percent as reported and adjusted for currency.

56. On January 11, 2018, IBM announced that Martin J. Schroeter, Senior Vice

President and Chief Financial Officer, will take a new role as Senior Vice President, Global Markets, effective January 11, 2018. In addition, James J. Kavanaugh would become Senior Vice President and Chief Financial Officer, effective January 11, 2018. Mr. Kavanaugh was the current Senior Vice President, Finance and Operations, and served as IBM's Vice President and Controller from 2008 to 2015.

57. On January 18, 2018, the Company issued a press release for its preliminary financial results for the 4Q2017 and FY2017. The Company reported that FY2017 Strategic Imperatives revenue of \$36.5 billion were up 11 percent, representing 46 percent of IBM revenue. 4Q2017 Strategic Imperatives revenue was up 17 percent (up 14 percent adjusting for currency). "IBM's strategic imperatives revenue again grew at a double-digit rate and now represents 46 percent of our total revenue, and we are pleased with our overall revenue growth in the quarter," said Ginni Rometty, IBM chairman, president and chief executive officer. "During 2017, we strengthened our position as the leading enterprise cloud provider and established IBM as the blockchain leader for business. Looking ahead, we are uniquely positioned to help clients use data and AI to build smarter businesses."

58. As to CAMSS, the press release reported on its 4Q2017 that fourth-quarter cloud revenues increased 30 percent to \$5.5 billion (up 27 percent adjusting for currency). Cloud revenue over the last 12 months was \$17.0 billion, including \$9.3 billion delivered as-a-service and \$7.8 billion for hardware, software and services to enable IBM clients to implement comprehensive cloud solutions. The annual exit run rate for as-a-service revenue increased to \$10.3 billion from \$8.6 billion in the fourth quarter of 2016. In the quarter, revenues from analytics increased 9 percent (up 6 percent adjusting for currency). Revenues from mobile increased 23 percent (up 21 percent adjusting for currency) and revenues from security increased 132 percent

(up 127 percent adjusting for currency).

59. That same day the Company also filed IBM's 4Q2017 Earnings Presentation with the SEC (attached to the Form 8-K), that contained financial information concerning Strategic Imperative Revenue contribution to the Company's Segments: (i) CS \$3.5 billion; (ii) GBS \$2.6 billion, (iii) TS&CP \$2.9 billion, and (iv) Systems \$2.1 billion. Total overall Strategic Imperatives Revenue for 1Q2017 was \$11.1 billion.

60. On February 27, 2018, the Company filed its 4Q2017 and FY2017 Form 10-K (ex.13) with the SEC. AS to CAMS for FY2017:

In 2017, the company continued to deliver solid revenue growth in its strategic imperatives which generated \$36.5 billion of revenue and grew 11 percent as reported and adjusted for currency, with double-digit growth in cloud, security and mobile, as the company continues to build new products and offerings and continuously reinvent its platforms. These are not separate businesses, they are offerings across the segments that address opportunities in analytics, cloud, security and mobile. The company is embedding cloud and cognitive capabilities across the business and the strategic imperatives reflect the progress being made in helping enterprise clients extract value from data and become digital businesses. Strategic imperatives growth in 2017 largely represented organic growth as the acquisitive content leveled on a year-to-year basis. Total Cloud revenue of \$17.0 billion increased 24 percent as reported and adjusted for currency, with as-a-Service revenue up 31 percent as reported and adjusted for currency. The annual exit run rate for as-a-Service revenue increased to \$10.3 billion in 2017 compared to \$8.6 billion in 2016. Analytics revenue of \$20.6 billion increased 6 percent as reported and adjusted for currency. Mobile revenue increased 19 percent as reported and adjusted for currency and Security revenue increased 55 percent (54 percent adjusted for currency), driven by security software solutions and strong demand for the pervasive encryption capabilities in the new z14 mainframe.

61. The 2017 Form 10-K (ex. 13) also reported CAMS fourth quarter results. As to CAMS 2017 fourth quarter results:

In the fourth quarter, the company continued to deliver solid growth in its strategic imperatives which generated \$11.1 billion of revenue and grew 17 percent as reported and 14 percent adjusted for currency, led by cloud and security, as the company continues to embed AI and cloud into its offerings. The strategic imperatives are not separate businesses, they are offerings across the segments that



address opportunities in analytics, cloud, security and mobile. Strategic imperatives growth in the fourth quarter continued to largely represent organic growth as the acquisitive content has leveled on a year-to-year basis. Total Cloud revenue of \$5.5 billion increased 30 percent as reported and 27 percent adjusted for currency as the company enables clients to implement comprehensive cloud solutions. Cloud-as-a-Service revenue was up 20 percent (18 percent adjusted for currency) and the annual exit run rate for as-a-Service revenue increased to \$10.3 billion in the fourth quarter of 2017 compared to \$9.4 billion in the third quarter of 2017. Analytics revenue of \$6.1 billion increased 9 percent as reported (6 percent adjusted for currency). Mobile revenue increased 23 percent (21 percent adjusted for currency) and Security revenue more than doubled year to year, reflecting the strong demand for the pervasive encryption capabilities in IBM Z and good performance in both managed security services within Technology & Cloud Platforms and in security software.

62. As to IBM's Segments, the Company reported 4Q2017 and FY2017 financial results for IBM Segments' Strategic Imperatives revenue: (i) Cognitive Solutions total fourth-quarter Strategic Imperatives revenue of \$3.5 billion was flat year to year as reported and decreased 3 percent adjusted for currency. Cloud revenue of \$0.7 billion grew 8 percent as reported and 6 percent adjusted for currency, with an as-a-Service exit run rate of \$2.1 billion. Cognitive Solutions total Strategic Imperatives revenue for FY2017 of \$12.0 billion grew 2 percent year to year as reported and adjusted for currency; Cloud revenue of \$2.5 billion grew 19 percent as reported and adjusted for currency, with an as-a-Service exit run rate of \$2.1 billion; (ii) GBS total fourth-quarter Strategic Imperatives revenue of \$2.6 billion grew 9 percent as reported (7 percent adjusted for currency) year to year. Cloud revenue of \$1.1 billion grew 19 percent as reported (17 percent adjusted for currency), with an as-a-Service exit run rate of \$1.3 billion. Within GBS, FY2017 total Strategic Imperatives Revenue of \$9.8 billion grew 10 percent as reported and adjusted for currency year to year. Cloud revenue of \$4.0 billion grew 34 percent as reported (35 percent adjusted for currency), with an as-a-Service exit run rate of \$1.3 billion; (iii) Technology Services & Cloud Platforms fourth quarter Strategic Imperatives Revenue of \$2.9 billion grew 15



percent year to year as reported (12 percent adjusted for currency). Cloud revenue of \$2.0 billion grew 13 percent as reported (10 percent adjusted for currency), with an as-a-Service exit run rate of \$6.9 billion; and (iv) Systems strategic fourth quarter imperatives revenue of \$2.1 billion grew 91 percent year to year as reported (86 percent adjusted for currency). Cloud revenue of \$1.7 billion grew 90 percent as reported (86 percent adjusted for currency).

63. On March 12, 2018, the Company filed its 2018 proxy statement. The Company kept, with Board approval, Strategic Imperatives as 1 of 3 key financial metrics for the AIP. The reason given was that it supports portfolio shift into a cognitive solutions and cloud platform company that will deliver the highest value opportunities for our clients and stockholders. Other highlights included: (i) Since 2015, IBM invested \$37 billion, reshaping their business profile with nearly 60% directed toward high growth Strategic Imperatives; (ii) Revenue from the Company's Strategic Imperatives of cloud, analytics, mobile, social and security has reached a critical mass in 2017, growing to \$36.5B, led by growth in cloud and security, representing 46% of IBM's total revenue; and (iii) Security revenue grew 23% compounded, nearly doubling in size. The fraudulent scheme would continue.

64. On April 7, 2018, IBM filed a Form 8-K with its preliminary results for 1Q2018. Attached to the Form 8-K was the Company's Earnings presentation. With regard to Strategic Imperatives contribution to IBM Segments revenue it reported the following: (i) CS \$2.8 billion; (ii) GBS \$2.5 billion; (iii) TS&CP \$3.0 billion; and (iv) Systems \$0.7. Total Strategic Imperative Revenue for 1Q2018 was \$9.0 billion.

65. On April 24, 2018, IBM filed its 1Q2018 Form 10-Q with the SEC. The MD&A was replete with praise for Strategic Imperatives and its growing revenue model and ever-increasing larger slice of the overall business. The MD&A stated in pertinent part:

In the first quarter of 2018, the company reported \$19.1 billion in revenue, \$1.7 billion in income from continuing operations and operating (non-GAAP) earnings of \$2.3 billion, resulting in diluted earnings per share from continuing operations of \$1.81 as reported and \$2.45 on an operating (non-GAAP) basis. The company also generated \$4.6 billion in cash from operations and \$1.3 billion in free cash flow in the first quarter of 2018 and delivered shareholder returns of \$2.2 billion through gross common stock repurchases and dividends. The first-quarter results demonstrate the work the company has done to reposition the business to lead in the high-value segments of IT, its differentiated value proposition and that its financial strategy and model are built to deliver to clients and shareholders over the long term.

Total consolidated revenue increased 5.1 percent as reported and was flat year to year adjusted for currency. The company continued to have solid revenue growth in its strategic imperatives, led by cloud and security. Year-to-year revenue performance in the first quarter of 2018 improved sequentially compared to the fourth quarter of 2017 growth rates in the Cognitive Solutions, Global Business Services (GBS) and Technology Services & Cloud Platforms segments.

From a segment perspective, Cognitive Solutions revenue increased 5.8 percent as reported and 2 percent adjusted for currency, compared to first-quarter 2017, with continued growth in security software and industry platforms and a return to growth in analytics. GBS revenue increased 4.2 percent as reported, but decreased 1 percent adjusted for currency. Consulting increased 5.5 percent as reported and was flat adjusted for currency and Application Management increased 4.1 percent as reported, but decreased 2 percent adjusted for currency. Within GBS, strategic imperatives revenue increased 12 percent as reported and 6 percent adjusted for currency year to year reflecting the ongoing shift to areas of higher client value. Technology Services & Cloud Platforms increased 5.0 percent as reported, but decreased 1 percent adjusted for currency, representing a sequential improvement of 6.2 points as reported and 3 points adjusted for currency, from fourth-quarter 2017 growth rates. Within Technology Services & Cloud Platforms, strategic imperatives revenue was up 24 percent as reported and 19 percent adjusted for currency year to year. Systems increased 7.5 percent as reported and 4 percent adjusted for currency driven by strong growth in IBM Z and a second consecutive quarter of growth in Power Systems.

Strategic imperatives revenue of \$9.0 billion increased 15 percent as reported and 10 percent adjusted for currency in the first quarter, with double-digit growth in cloud, security and mobile, as the company continues to build new platforms and solutions and embeds cloud and AI capabilities across the business. Strategic imperatives revenue over the last 12 months was \$37.7 billion, an increase of 12 percent as reported and 10 percent adjusted for currency, representing 47 percent of the company's total revenue. Total Cloud revenue in the first quarter of 2018 of \$4.2 billion increased 20 percent as reported and 14 percent adjusted for currency,

with as-a-Service revenue up 25 percent as reported and 20 percent adjusted for currency. The annual exit run rate for as-a-Service revenue increased to \$10.7 billion in the first quarter of 2018 compared to \$8.6 billion in the first quarter of 2017. Analytics revenue of \$4.8 billion increased 9 percent as reported and 4 percent adjusted for currency. Mobile revenue increased 19 percent as reported and 14 percent adjusted for currency and Security revenue increased 65 percent (60 percent adjusted for currency), reflecting strong demand for the company's highly-integrated security software, security managed services and the pervasive encryption capabilities in the z14 mainframe, and growth in security software solutions.

66. As to the Company's individual segments, the 1Q2018 stated, in pertinent part:

Cognitive Solutions revenue of \$4,299 million grew 5.8 percent as reported and 2 percent adjusted for currency in the first quarter of 2018 compared to the prior year as the company continued to scale new platforms and solutions and increase its SaaS offerings. There was year-to-year growth in both Solutions Software and Transaction Processing Software on an as-reported and constant currency basis. ...

Cognitive Solutions total strategic imperatives revenue of \$2.8 billion grew 6 percent year to year as reported (2 percent adjusted for currency). Cloud revenue of \$0.6 billion grew 6 percent as reported (4 percent adjusted for currency), with an as-a-Service exit run rate of \$2.0 billion. ...

Global Business Services revenue of \$4,174 million grew 4.2 percent as reported (decreased 1 percent adjusted for currency) in the first quarter of 2018 compared to the prior year. These results reflect modest improvement in the year-to-year performance compared to the fourth quarter of 2017. As the company continues to transform this business, GBS signings grew again in the quarter, both as reported and adjusted for currency. There was growth year to year in strategic imperatives revenue reflecting the ongoing shift to areas of higher client value, such as cloud and analytic. ...

Within GBS, total strategic imperatives revenue of \$2.5 billion grew 12 percent as reported (6 percent adjusted for currency) year to year. Cloud revenue of \$1.0 billion grew 19 percent as reported (12 percent adjusted for currency), with an as-a-Service exit run rate of \$1.2 billion. ...

Technology Services & Cloud Platforms revenue of \$8,625 million grew 5.0 percent as reported (decreased 1 percent adjusted for currency) in the first quarter of 2018 compared to the prior year. These results reflected improvement in year-to-year performance, as reported and adjusted for currency compared to the fourth quarter of 2017. In the first quarter, signings grew double digits as clients continue to recognize the long-term value of the company's offerings and capabilities. ...

Within Technology Services & Cloud Platforms, strategic imperatives revenue of \$3.0 billion grew 24 percent year to year as reported (19 percent adjusted for currency) in the first quarter of 2018. Cloud revenue of \$2.1 billion grew 26 percent as reported (20 percent adjusted for currency), with an as-a-Service exit run rate of \$7.4 billion. ...

Systems revenue of \$1,500 million grew 7.5 percent year to year as reported (4 percent adjusted for currency) in the first quarter of 2018 compared to the prior year. The company has modernized its systems for the most contemporary workloads and, within Systems Hardware, revenue of \$1,093 million grew 9.2 percent year to year as reported (6 percent adjusted for currency). This performance was driven by strong z14 momentum and growth in Power Systems, partially offset by a decline in Storage Systems, as reported and adjusted for currency. Operating Systems Software revenue of \$407 million grew 3.2 percent as reported (decreased 1 percent adjusted for currency) compared to the prior year. ...

Within Systems, total strategic imperatives revenue of \$0.7 billion grew 28 percent as reported (24 percent adjusted for currency) year to year in the first quarter of 2018. Cloud revenue of \$0.5 billion grew 16 percent as reported (12 percent adjusted for currency).

67. On July 18, 2018, IBM issued a press release reporting preliminary financial results for 2Q2018. The Company reported \$10.1 billion in Strategic Imperative Revenue and again purportedly played a prominent role in IBM's 2Q2018 financial performance. The press release stated, in pertinent part:

#### Strategic Imperatives Revenue

Strategic imperatives revenue over the last 12 months was \$39.0 billion, up 15 percent (up 12 percent adjusting for currency). Total cloud revenue over the last 12 months was \$18.5 billion, up 23 percent (up 20 percent adjusting for currency), with \$8.2 billion from hardware, software and services to enable IBM clients to implement hybrid cloud solutions across public, private and multi-cloud environments, and \$10.4 billion delivered as a service. The annual exit run rate for as-a-service revenue increased in the quarter to \$11.1 billion, up 26 percent (up 24 percent adjusting for currency).

In the second quarter, revenues from analytics increased 7 percent to \$5.4 billion (up 5 percent adjusting for currency); revenues from mobile increased 5 percent to \$1.3 billion (up 3 percent adjusting for currency); and revenues from security increased 81 percent to \$1.0 billion (up 79 percent adjusting for currency).

68. At the close of market on July 18, 2018, IBM held an earnings conference call with Defendant Kavanaugh the presenter for the Company. The importance of Strategic Imperatives to the Company's future was made clear by Kavanaugh. He stated, in pertinent part:

In the second quarter, we delivered \$20 billion of revenue, ...

Across our segments, we had continued momentum in our strategic imperatives revenue. Over the last twelve months, our strategic imperatives revenue has grown to \$39 billion, which represents 48% of IBM's revenue. And within that, cloud is now \$18.5 billion.

Our strategic imperatives revenue in the quarter was up 15%, and accelerated to 13% at constant currency. Revenue performance this quarter was led by Security and Cloud. Security was up about 80% this quarter, driven by strong demand for the pervasive encryption of IBM Z and growth in our integrated software and services business. ...

So now let's get into the two segments. Global Business Services returned to modest revenue growth, increased gross profit dollars, and expanded gross margin. We're realizing the improved revenue trajectory from the run-out of our opening backlog for the year. Our Strategic Imperatives revenue grew 6% with strong performance in the as-a-service offerings, which were up 25%.

Technology Services and Cloud Platforms, revenue returned to growth. Similar to GBS, this performance was driven primarily by our improved opening backlog run-out dynamics. The strategic imperatives revenue in the segment grew 24%. This was led by Cloud, which grew 27% and our as-a-service revenue grew 30%, which is up about 6 points sequentially and is now at an at an annualized run rate of \$7.6 billion

In summary, our performance this quarter underscores the extent to which we have repositioned our business over the last several years. As I said, nearly half of our revenue is aligned to the strategic imperatives, which represent the emerging, high-value, high-growth segments in our industry. This also reflects a major portfolio shift for IBM, driven, as we discussed at our investor webcast in March, by major shifts in our capital allocation and investment strategy.

69. On that same day, IBM filed a Form 8-K with its preliminary results for 2Q2018. Attached to the Form 8-K was the Company's Earnings presentation. With regard to Strategic Imperatives contribution to IBM Segments revenue it reported the following: (i) CS \$3.0 billion;

(ii) GBS \$2.7 billion; (iii) TS&CP \$3.1 billion; and (iv) Systems \$1.2. Total Strategic Imperative Revenue for 2Q2018 was \$10.0 billion.

70. IBM filed its 2Q2018 Form 10-Q with the SEC on July 31, 2018. Concerning Strategic Imperatives Revenue and growth, CAMS revenue and growth, and the amount that Strategic Imperatives contributed to the Company's Segments and the Company overall, the 2Q2018 Form 10-Q stated, in pertinent part:

Total consolidated revenue increased 3.7 percent as reported and 1.6 percent adjusted for currency ... There was continued momentum in revenue across the strategic imperatives in the second quarter, led by cloud and security.

From a segment perspective, Cognitive Solutions revenue increased 0.5 percent as reported but decreased 1 percent adjusted for currency, compared to second-quarter 2017. There was continued growth in analytics and good performance in industry verticals driven by financial services and IoT, offset by areas where the company is repositioning its portfolio. In the second quarter, the revenue trajectory improved at constant currency in both services segments compared to the first quarter of the year. Global Business Services (GBS) revenue increased 2.3 percent as reported and was flat year to year adjusted for currency. Consulting increased 6.0 percent as reported and 4 percent adjusted for currency, while Application Management revenue decreased 0.5 percent as reported and 3 percent adjusted for currency. GBS strategic imperatives revenue increased 8 percent as reported and 6 percent adjusted for currency reflecting the ongoing shift to areas of higher client value. Technology Services & Cloud Platforms (TS&CP) increased 2.5 percent as reported and was flat adjusted for currency with growth in Infrastructure Services and Integration Software offset by a decline in Technical Support Services, as reported and adjusted for currency. TS&CP strategic imperatives revenue was up 26 percent as reported and 24 percent adjusted for currency year to year. Systems delivered strong revenue performance in the quarter of 24.6 percent as reported and 23 percent adjusted for currency, with growth across all three hardware brands.

Strategic imperatives revenue of \$10.1 billion increased 15 percent as reported and 13 percent adjusted for currency in the second quarter, led by cloud and security. Cloud revenue of \$4.7 billion increased 20 percent (18 percent adjusted for currency) driven by as-a-Service revenue which grew 26 percent as reported and 24 percent adjusted for currency. The annual exit run rate for as-a-Service revenue increased to \$11.1 billion in the second quarter of 2018 compared to \$8.8 billion in the second quarter of 2017. Security grew 81 percent as reported (79 percent adjusted for currency) driven by strong demand for the pervasive encryption of IBM Z and growth in integrated software and services. Analytics revenue of \$5.4 billion

increased 7 percent as reported and 5 percent adjusted for currency. Mobile revenue increased 5 percent as reported and 3 percent adjusted for currency.

71. The statements by Defendants in ¶¶ 41-55, 57-70, were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Strategic Imperatives Revenue and growth, CAMS and CAMS Components' revenue and growth, and the Company's Segments' revenue and growth were artificially inflated as a result of the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives Revenue; (ii) the Company's present success and positive future growth prospects concerning its Strategic Imperative business strategy were being fueled by the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperative Revenue and, as a result (iii) misled the market by portraying the Company's Strategic Imperative's financial performance and future prospects more favorable than they actually were as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives.

**The Truth Is Partially Revealed Through a Pretextual Statement by Defendants  
Concerning the Company's Financial Performance**

72. On October 16, 2018, IBM stock closed at \$145.12 per share. Within minutes after the market closed on October 16, 2018, IBM issued a press release announcing its preliminary results for 3Q2018. The Company reported revenue of \$18.8 billion, down 2 percent and slowing growth in Strategic Imperatives. As to Strategic Imperatives the press release had a separate section stating:

Strategic imperatives revenue over the last 12 months was \$39.5 billion, up 13 percent (up 11 percent adjusting for currency). Total cloud revenue over the last 12 months was \$19.0 billion, up 20 percent (up 18 percent adjusting for currency),



with \$8.1 billion from hardware, software and services to enable IBM clients to implement hybrid cloud solutions across public, private and multi-cloud environments, and \$10.9 billion delivered as a service. The annual exit run rate for as-a-service revenue increased in the quarter to \$11.4 billion, up 21 percent (up 24 percent adjusting for currency).

73. In connection with the 3Q2018 financial performance, Defendant Rometty commented in the press release that, “IBM’s progress and momentum this year in the emerging, high-value Segments of the IT industry are driven by our innovative technology, deep industry expertise and commitment to trust and security.”

74. The Company held an earnings conference call that same evening. Defendant Kavanaugh led the call for IBM. As to Strategic Imperatives he stated:

We continue to see strong client demand in the emerging high-value segments of the IT industry. And our performance this quarter was driven by the offerings in hybrid cloud, in security, in digital, and in analytics and AI, a testament to our ability to deliver differentiated value to our clients through innovative technologies with the skills and expertise to implement these technologies. We see the results in our strategic imperatives revenue growth of 13% over the last 12 months. We also see this playing out in higher operating margin over the last few quarters, which supports both our long-term investment and return to shareholders. With our success in these higher value areas and our focus on delivering consistent operational performance, we remain on track to our full-year expectations of earnings per share and free cash flow. ...

Across our segments, our Strategic imperatives revenue has grown to \$39.5 billion over the last 12 months. Within that, our cloud revenue is \$19 billion and we exited the third quarter with an as-a-service annual run rate of \$11.4 billion, which again was up 24%. While that's already a significant revenue base in the emerging high value segments of the IT industry such as cloud and AI, it's still early in the adoption of these technologies. ...

Now some of the underpinnings behind that. One, we still see strong demand in key high value segments and you see that play out in our third quarter performance and we think that will continue moving forward, areas like hybrid cloud where we're winning with our hybrid cloud value proposition in the marketplace, data and AI, security, digital, all of these are instantiated in our strategic imperatives which now from a trailing 12-month perspective were at \$39.5 billion, pretty close to that \$40 billion target that we put in place well over three years ago when the IBM company had less than 25% of its portfolio in strategic imperatives. Today we are roughly at



50%. That's a massive transformation over a period of time and that's led to significant improvement in trajectory of our revenue growth overall whereas year-to-date we're up 2%. But underneath that, you see some of the areas of growth around cloud, \$19 billion growing 20%. And within that, it's being driven by our high value as-a-service content driving our cloud component, that's up now to \$11.4 billion on an annualized exit run rate growing consistently at 24%.

75. In response to a question from an analyst regarding the market's view that cloud revenue within Cognitive Solutions and Strategic Imperatives had lackluster performance:

Kavanaugh stated:

Wamsi Mohan -- Merrill Lynch -- Analyst

Thank you. Jim I was wondering if you can talk a little bit about the strategic comparative performance within Cognitive including the cloud revenues and as a service both of which declined versus overall strategic imperative growth. Can you maybe talk about some of the puts and takes there and some color on what you think drove that client buying seasonality that you mentioned to a prior question? And if I could how do you think that some of these new announcements around AI OpenScale and multi-cloud could change the trajectory for cognitive and when? Thank you.

James J. Kavanaugh -- Senior Vice President and Chief Financial Officer

Okay Wamsi. Thank you very much for your questions. There's a lot there to compact into one answer but let me talk about strategic imperatives first and then I'll get into cognitive next. But let's put the strategic imperatives into perspective. So as I stated on the call trailing 12 months, \$39.5 billion we talked about three years ago, we put the signposts out there to hit \$40 billion. At that point in time the IBM contribution was less than a quarter of IBM's revenue. Now we're approaching 50%. We're growing in the mid-teens, 13% I think if I remember correctly, over the trailing 12 months and that has lifted IBM's overall revenue growth.

As you've seen year-to-date we're growing 2% at the IBM level. But within that strategic imperatives our cloud business, to your point, is at \$19 billion right now, up 20%. And the high value as-a-service component underneath that is up 24% consistent with where we've been in the first half of the year. And I think that's an attestation to we are capturing the new and emerging workloads as the secular shift to as-a-service world is happening overall. Now when you take a look at our strategic imperatives, let's put this in perspective where we were 90 days ago. We knew to hit that \$40 billion that we needed to be at basically mid to high single digit growth in the second half and we knew similar to how we laid out our expectation for guidance that we were going to wrap around the most successful mainframe product program that we've had in history. So as we entered the second half we

knew we had to focus on driving that underlying high value as a service content and continue to accelerate that to offset the impacts on that mainframe wrap around on product cycle. And you see in the third quarter our strategic imperatives basically accomplished that. We did what we expected.

So as we look going forward then in the fourth quarter we have to repeat what we just did in the third quarter. In the underlying acceleration in our base services businesses I talked about, the expectation as we have a great pipeline lined up for our software entering the fourth quarter based on those buying cycle seasonality that impact us in third quarter we do expect to hit the \$40 billion at the end of the year. And I'll remind you when we set that \$40 billion target in 2015 we've lost over \$2 billion of revenue due to the strengthening of the US dollar. So you've seen what it's done to transform our portfolio. It's changed the mindset of how we run our Company, how we allocate capital and investment and you see how that's playing up with regard to the improved trajectory.

76. The market was not fooled by Kavanaugh's comments about the Company's financial performance and recognized that there was both a revenue shortfall and a slowdown in the growth of Strategic Imperatives Revenue demonstrated when the market opened the next day and IBM's stock price got pummeled. The market opened on October 17, 2018, at \$135.89 per share, fell as low as \$133.42 and closed at \$134.05, a drop of \$11.07 (or 7.6%) from the closing price per share of \$145.12 of October 16, 2017, damaging investors.

77. An article appearing in Motley Fool on October 19 and an accompanying video filmed on October 17, 2018, transcribed below, put some color on IBM's 3Q2018 performance:

#### Why IBM's Brief Growth Streak Just Stalled

Shares sank to a 52-week low after a quarterly report that showed the tech pioneer was back in contraction mode.



[Motley Fool Staff](#)

Oct 19, 2018 at 9:03AM

The landscape of the tech industry is dotted with the remains of once-powerful

players that grew fast, led for a while, and then failed to pivot with the changing times. It's possible to have a strong second or third act, though, and for a time, it appeared IBM ([NYSE:IBM](#)) was on course to achieve a good one. Unfortunately for its shareholders, there was a speed bump on the road to rebound last quarter: The company reported this week that revenue shrank, and growth in its vital "strategic imperatives" businesses slowed. Seriously, when IBM's legacy mainframe business is the strongest performer in a given quarter, one has to see that as a problem.

In this segment of the [Market Foolery](#) podcast, host Chris Hill and senior analyst Andy Cross talk about the investment thesis around IBM stock, Warren Buffett's view, the untapped power of Watson, and more.

A full transcript follows the video.

Should you invest \$1,000 in International Business Machines Corporation right now?

Before you consider International Business Machines Corporation, you'll want to hear this.

Our award-winning analyst team just revealed what they believe are the [10 best stocks](#) for investors to buy right now... and International Business Machines Corporation wasn't one of them.

The online investing service they've run for nearly two decades, Motley Fool Stock Advisor, has beaten the stock market by over 4X.\* And right now, they think there are 10 stocks that are better buys.

This video was recorded on Oct. 17, 2018.

Chris Hill: Shares of IBM are hitting a 52-week low after IBM's third-quarter report. Big Blue had grown revenue for three straight quarters. That streak is over now. To the extent that a \$120 billion company can be in trouble, I look at IBM and... not that IBM is in danger of going away, but this is a stalled vehicle on the side of the road.

Andy Cross: It sure is stalled. There had been some faint lights at the end of the tunnel here over the past couple of quarters, when they've been able to grow their quarterly revenues. That flipped this quarter. Their strategic imperatives, which is really their cloud business, their data analytics business, saw some stumbling blocks. Their growth slowed there. They saw a drop in new signings in that business. That stung a little bit. It's been a very tough go for IBM. Their best business this quarter, and really a lot this year, is their legacy mainframe business. That will tend to tail off next year.

There's a lot of excitement in their strategic imperatives in the investments they're making, crypto asset investments they're making, when it comes to cloud computing, when it comes to data analytics, the Watson side. But that's just a really

long putt. For this, I really want to be a believer, just because the story of IBM. But I don't own shares, and I think following the direction of Warren Buffett, who exited most of the IBM positions in Berkshire Hathaway, is the way to go with this one.

Hill: Yeah. In some ways, that was a pretty damning, when Buffett sold out of that, when you consider some of the other things that he's held on to. You mentioned Watson. That's the thing that's a little surprising to me. Yes, there are lots of large tech companies that have cloud businesses. To my knowledge, IBM is the one that's got the most recognizable brand, the Watson brand, what they've done with that. The fact that they can't figure out a way to leverage that into a significantly growing business, and therefore a significantly growing share price, is troubling.

Cross: Also, there are 360,000 employees at IBM, I think is the number. We've seen this with General Electric, these big legacy enterprises, it's very hard to get these things turned around, especially in a market today that IBM is operating in. It has aggressive competition, very smart competition, upstart competition, that's been around and doing things very aggressively. IBM lacks a little that cachet. I agree. The Watson brand is extremely powerful. It's been a nice integration into IBM's business. But they haven't seen enough of the big wins to be able to grow the strategic imperatives. And the fact that it slowed a little bit this quarter, when that was really the bright spot that investors were waiting for -- they were expecting it to be north of 50% of revenues. It fell short of that this quarter on a trailing basis. The momentum is not with IBM, and clearly investors are selling off the stock today.

Hill: It's still a big business.

78. On October 29, 2018, the Company announced the acquisition of Red Hat, Inc. in order to enhance its hybrid cloud line of business and begin to install its alleged new cloud computing business model.

79. On October 30, 2018, IBM filed its 3Q2018 Form 10-Q, and the Company's description of its Strategic Imperatives Revenue for the Company's Cognitive Solutions, its most lucrative segment for Strategic Imperative Revenue, demonstrates the lackluster financial performance and slowdown in growth:

Cognitive Solutions third-quarter strategic imperatives revenue of \$2.8 billion declined 5 percent as reported and 4 percent adjusted for currency. Within Cognitive Solutions, strategic imperatives performance essentially reflects the performance in Solutions Software. Cloud revenue of \$0.6 billion decreased 3 percent as reported and 2 percent adjusted for currency, with an as-a-Service exit

run rate of \$2.0 billion. For the first nine months of the year, Cognitive Solutions strategic imperatives revenue of \$8.6 billion grew 1 percent as reported, but decreased 1 percent adjusted for currency. Cloud revenue of \$1.9 billion grew 1 percent as reported and was flat adjusted for currency.

80. Unbeknownst to the investing public, inside IBM the misclassification/reclassification of non-strategic revenue to strategic revenue scheme was becoming troublesome, spelling doom for Rometty's Strategic Imperative business strategy. While praising the Strategic Imperatives business plan as the Company's driving force for the present and future in "emerging, high-value, high-growth segments in [IBM's] industry," internally, Rometty, Kavanaugh and their cohorts had started to curtail their fraudulent scheme in order to conceal their wrongdoing. Hundreds, if not thousands of account and other executives were terminated or quit and internal personnel moves were executed to obfuscate the truth. Even high-ranking General Managers were shoved out the door. The fourth quarter that had already begun was the last hurrah for Strategic Imperatives as an AIP financial metric.

81. On January 22, 2019, IBM filed a Form 8-K with the SEC attaching an investor presentation on its fourth quarter results. On the earnings conference call that same day, Defendant Kavanaugh spoke about the future of Strategic Imperatives:

We're entering 2019 in a great position to help our clients, whether they're looking for innovation or productivity or both. We've got a solid base of business. You see this in our software and services results, with strategic imperatives now consistently at about half of our revenue and in operating leverage we're driving, and we expect that to continue.

82. On the call, one of the analysts queried Kavanaugh: "With strategic imperatives up 9%, there wasn't as much talk about that in the prepared remark. I'm curious is that still going to be a metric that's going to be provided or tracked going forward?" Kavanaugh provided no answer, although by January 2019 the mass exodus was well underway and Defendants were well aware

that Strategic Imperatives was dead as a business strategy. The misclassification/reclassification scheme could no longer prop up Strategic Imperatives Revenue. It wasn't until the 2019 Proxy Statement was filed with the SEC that the investing marketplace was put on notice that Strategic Imperatives would no longer be the Company's measuring stick of success.

83. On February 26, 2019, the Company filed its 2018 Form 10-K (ex. 13). The Company reported \$80 billion in total revenue for FY2018 and \$21.8 billion in total revenue for 4Q2018. As to Strategic Imperative Revenue contribution to each of the segments for 4Q2018: (i) Cognitive Solutions - \$3.7 billion; (ii) GBS - \$2.9 billion; (iii) TS&CP - \$3.2 billion; and Systems - \$1.6 billion.

84. On March 11, 2019, IBM filed its 2019 Proxy Statement with the SEC. It was reported that Total IBM revenue was replacing Strategic Imperatives Revenue as a financial metric for purposes of AIP:

#### 2019 AIP Design Update

In 2015, IBM began focusing on Strategic Imperatives revenue to ensure strong growth in cloud, analytics, mobile, social, and security, which formed the critical elements of our transformational business strategy. Now that Strategic Imperatives revenue has reached about \$40 billion and 50% of Total IBM revenue, the Committee, with input from management, investors, and its consultant, reassessed the performance measures for the Annual Incentive Program. As a result, the Committee approved a change in the 2019 AIP design to replace Strategic Imperatives revenue with total IBM revenue, at the same 20% weighting. The other metrics and weighting remain the same.

85. On April 16, 2019, the Company held an earnings conference call in connection with its 1Q2019 financial results. Defendant Kavanaugh made it clear that Strategic Imperatives, the name given by IBM for the "emerging, high-value, high-growth segments in [IBM's] industry," as coined by Kavanaugh and Rometty just several months ago, was totally irrelevant:

Katy Huberty -- Morgan Stanley -- Analyst

Thank you. Good afternoon. Jim, what was the thought process behind not giving strategic imperatives segments anymore, and then how are you thinking about Cloud and Cognitive Software growth going forward, relative to the 2% growth over the last couple of quarters, and especially in the context of the delayed deals that you referenced in Tony's question?

James J. Kavanaugh -- Senior Vice President and Chief Financial Officer

Okay. Thanks, Katy, and I appreciate the question. Around strategic imperatives, again, let me put this in perspective, we put this signpost out back in the beginning of 2015, if you all remember at our Investor Day. Why, because we had to lay the groundwork and how as a company, we needed to fundamentally a shift our capital investment allocation and transform our portfolio into capturing the shifts in growth, in cloud and data and analytics and security and mobility.

Now, you fast forward to the end of 2018 and at the time we made this announcement with that signpost, we were about less than a quarter's worth of our business, I think, Patricia. **We exited '18 where we were consistently above 50%. And when you take a look at that, that has become more and more -- or I should say less and less of a relevant metric as we move forward.** And more importantly, as I've spent quite a bit of time over the last quarter, both at think many of you as analysts and also with our investors to talk about, as we changed our external segmentation to reposition and get this Company focused on chapter two, and the journey to cloud and hybrid cloud, the same feedback we've got from many of you and many of our investors is the strategic imperative metric is past its course. And they are looking for now what are the relevant metrics on managing the Company moving forward.

86. The statements by Defendants in ¶¶ 72-75, 79, 81, 83-85, were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Strategic Imperatives Revenue and growth, CAMS and CAMS Components' revenue and growth, and the Company's Segments' revenue and growth were artificially inflated as a result of the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives Revenue; (ii) the Company's present success and positive future growth prospects concerning its Strategic Imperative business strategy were being fueled by the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperative Revenue and, as a result (iii) misled the market by portraying the Company's Strategic Imperative's financial performance and



future prospects more favorable than they actually were as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic to make those revenues eligible for treatment as Strategic Imperatives.

87. Strategic Imperatives Revenue was dropped as a financial metric and replaced with total revenues as disclosed in the 2019 Proxy Statement and was now “less and less of a relevant metric” as coined by Defendant Kavanaugh at the earnings conference call on April 16, 2019, in connection with IBM’s 1Q2019 financial performance. The myth of Strategic Imperatives had served its purpose of lining the pockets of the Defendants and IBM executives as well as appeasing Wall Street. After April 16, 2019, IBM’s investors would never hear IBM use the term “strategic imperatives” again. Indeed, Strategic Imperatives Revenue was not reported after the 2018 year-end results were publicly disclosed. CAMSS results would no longer be reported. And disclosures about Strategic Imperative Revenue that contributed to the Company’s Segments also vanished. In short, IBM’s Strategic Imperatives metric was no longer useful as a compensation benchmark.

88. In addition to dropping reporting Strategic Imperatives Revenue and CAMS performance, the Company also repositioned its segments going forward from FY2019, which was no surprise. In 2015, the Company’s segments were: (i) Software; (ii) Global Business Services; (iii) Global Technology Services; (iv) Systems Hardware; and (v) Global Financing. In 2016, they were changed to: (i) Cognitive Solutions; (ii) Global Business Services; (iii) Technology Services and Cloud Platforms; (iv) Systems; and (v) Global Finance. In 2019, it was changed again to (i) Cloud & Cognitive Solutions; (ii) Global Business Services; (iii) Global Technology Services; (iv) Systems; and (v) Global Finance. The Company even up to today likes to “scramble the eggs” concerning IBM’s segments to keep shareholders off balance when interpreting IBM’s financial results.



89. On April 30, 2019, the Company filed its 1Q2019 reporting \$18.2 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.0 billion; (ii) GBS - \$4.0 billion; (iii) GTS - \$6.9 billion; (iv) Systems - \$1.3 billion; and (v) Global Finance \$0.4 billion.

90. On July 30, 2019, the Company filed its 2Q2019 reporting \$19.2 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.6 billion; (ii) GBS - \$4.2 billion; (iii) GTS - \$6.8 billion; (iv) Systems - \$1.8 billion; and (v) Global Finance - \$0.51 billion.

91. On October 29, 2019, the Company filed its 3Q2019 reporting \$18.0 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.3 billion; (ii) GBS - \$4.1 billion; (iii) GTS - \$6.7 billion; (iv) Systems - \$1.5 billion; and (v) Global Finance - \$0.34 billion.

92. The statements by Defendants in ¶¶ 89-91 were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Total Revenue and the Company's Segments' revenue and growth were artificially inflated as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue; (ii) the Company's present success and positive future growth prospects were being fueled in part by the fraudulent scheme and/or the wrongful recognition of revenue and, as a result (iii) misled the market by portraying the Company's financial performance and future prospects more favorable than they actually were as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue.

93. On January 30, 2020, the Company issued a press release announcing that, effective

April 6, 2020, Defendant Rometty would be replaced by long-time IBM insider Arvind Krishna as CEO and James Whitehurst, former CEO of Red Hat, Inc. as President. Defendant Rometty remained as Chairman until year end 2020. Defendant Krishna was the chief of the Cognitive Solutions segment and Cloud business from 2017-2020, the two biggest recipients of the Strategic Imperative Revenue and post-2018 strategic part of the business.

94. On February 25, 2020, IBM filed its Form 10-K (ex. 13) for FY2019 and 4Q2019. For FY2019 the Company reported \$77.1 billion in total revenue and for 4Q2019 \$21.8 billion. For FY2019 the five segments reported: (i) Cloud & Cognitive Solutions - \$23.2 billion; (ii) GBS - \$16.6 billion; (iii) GTS - \$27.4 billion; (iv) Systems - \$7.6 billion; and (v) Global Finance - \$1.4 billion. For 4Q2019 the five segments reported: (i) Cloud & Cognitive Solutions - \$7.2 billion; (ii) GBS - \$4.2 billion; (iii) GTS - \$6.9 billion; (iv) Systems - \$3.04 billion; and (v) Global Finance - \$0.3 billion.

95. On April 28, 2020, the Company filed its 1Q2020 reporting \$17.6 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.2 billion; (ii) GBS - \$4.1 billion; (iii) GTS - \$6.5 billion; (iv) Systems - \$1.4 billion; and (v) Global Finance - \$0.3 billion.

96. On July 28, 2020, the Company filed its 2Q2020 reporting \$18.1 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.7 billion; (ii) GBS - \$3.9 billion; (iii) GTS - \$6.3 billion; (iv) Systems - \$1.8 billion; and (v) Global Finance - \$0.26 billion.

97. The statements by Defendants in ¶¶ 94-96 were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Total Revenue and the Company's Segments' revenue and growth were artificially inflated as a result

of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue; (ii) the Company's present success and positive future growth prospects were being fueled in part by the fraudulent scheme and/or the wrongful recognition of revenue and, as a result (iii) misled the market by portraying the Company's financial performance and future prospects more favorable than they actually were as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue.

98. On October 8, 2020, IBM issued a press release announcing its intention to separate its Managed Infrastructure Services unit of its Global Technology Services division into a new public company. That company became known as Kyndryl and Defendant Schroeter was eventually named its CEO.

99. On October 30, 2020, the Company filed its 3Q2020 reporting \$17.6 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.6 billion; (ii) GBS - \$4.0 billion; (iii) GTS - \$6.5 billion; (iv) Systems - \$1.3 billion; and (v) Global Finance - \$.027 billion.

100. On February 23, 2021, IBM filed its Form 10-K (ex. 13) for FY2020 and 4Q2020. For FY2020 the Company reported \$73.6 billion in total revenue and for 4Q2020 \$20.4 billion. For FY2020 the five segments reported: (i) Cloud & Cognitive Solutions - \$23.4 billion; (ii) GBS - \$16.2 billion; (iii) GTS - \$25.9 billion; (iv) Systems - \$7.0 billion; and (v) Global Finance - \$1.1 billion. For 4Q2020 the five segments reported: (i) Cloud & Cognitive Solutions - \$6.8 billion; (ii) GBS - \$4.2 billion; (iii) GTS - \$6.6 billion; (iv) Systems - \$2.5 billion; and (v) Global Finance - \$0.29 billion.

101. On April 27, 2021, the Company filed its 1Q2021 reporting \$17.7 billion in total

revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$5.4 billion; (ii) GBS - \$4.2 billion; (iii) GTS - \$6.4 billion; (iv) Systems - \$1.4 billion; and (v) Global Finance - \$.24 billion.

102. On July 27, 2021, the Company filed its 2Q2021 reporting \$18.7 billion in total revenues and results for its five segments; (i) Cloud & Cognitive Solutions - \$6.1 billion; (ii) GBS - \$4.3 billion; (iii) GTS - \$6.3 billion; (iv) Systems - \$1.7 billion; and (v) Global Finance - \$.24 billion.

103. The statements by Defendants in ¶¶ 99-102 were made knowingly and/or with severe recklessness and were materially false and misleading and/or omitted to disclose that: (i) Total Revenue and the Company's Segments' revenue and growth were artificially inflated as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue; (ii) the Company's present success and positive future growth prospects were being fueled in part by the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue and, as a result (iii) misled the market by portraying the Company's financial performance and future prospects more favorable than they actually were as a result of the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic and/or the wrongful recognition of revenue.

### **The Truth is Partially Revealed Again**

104. On October 20, 2021, after the close of the market, the Company issued a press release announcing its 3Q2021 results. The Company announced total revenues for the quarter of \$17.62 billion, a shortfall of \$191.84 million based on analyst estimates. The main culprit was Cloud & Cognitive Software segment, which had revenues of \$5.69 billion, a shortfall of

approximately \$80 million based on analyst estimates of \$5.77 billion. Over 42% of the shortfall of approximately \$190 million was attributable to Cloud & Cognitive Software (including Watson), the segment where most of the strategic revenue produced by the fraudulent scheme and/or the wrongful reclassification of revenues from non-strategic to strategic historically went. Defendants had curtailed their fraudulent scheme and shifting of revenue in anticipation of the new business model based on the Red Hat hybrid cloud acquisition and other IP, which was now poised to substantially increase IBM's total revenue.

105. On October 20, 2021, IBM stock closed at \$133.87 per share. After the news of IBM's poor 3Q2021 results became publicly disseminated, IBM stock fell dramatically. From its close on October 20, 2021, of \$133.87 per share, IBM shares closed at \$121.07 per share on October 21, 2021, a drop of almost \$13.00 per share.

106. Although there had been two partial disclosures, the Defendants have never disclosed that, at least in part, the strategic side of the business was illusory and not producing the revenues reported by Defendants. Instead, the Defendants' fraudulent scheme and shifting revenues from one segment to another and reclassifying them as strategic, artificially inflated the strategic revenues reported, and from 2016 through 2018, it was used as a means to generate cash AIP bonuses based on the bogus Strategic Imperatives Revenues financial metric. Subsequently, it was used to prop up revenues from the strategic side of the business and mislead the marketplace as to IBM's true financial performance and to boost incentive compensation.

107. On January 24, 2022, the Company issued a press release after the market closed announcing 4Q2021 and FY2021 results. IBM's reported revenue for the 4Q2021 had handily beat analyst expectations. IBM reported revenue of \$16.7 billion, topping analyst consensus by \$730.5 million. Based on these results, IBM stock went from closing at \$128.82 per share on January 24,

2022, to closing at \$136.10 per share, a gain of over \$7.00 per share.

108. According to the press release, the Company had again reshuffled its segments. The new segments were: (i) Software; (ii) Consulting; (iii) Infrastructure; (iv) Financing; and (v) Other. Revenues for the Software segment were \$7.3 billion in the 4Q2022, contributing almost 43% of the Company's revenues. A2E was a major success. According to the press release, the Company had again reshuffled its segments. The new segments were: (i) Software; (ii) Consulting; (iii) Infrastructure; (iv) Financing; and (v) Other. Revenues for the Software segment were \$7.3 billion in the 4Q2022, contributing almost 43% of the Company's revenues. A2E was a major success.

109. Both CEO Krishna and CFO Kavanaugh touted the new business model. Defendant Krishna stated, in pertinent part:

Our fourth quarter results reinforce our confidence in our strategy and model. With solid revenue growth ... Over the last 1.5 years, we have taken a series of actions to execute our hybrid cloud and AI strategy and improve our revenue profile, optimizing our portfolio, increasing investments, expanding our ecosystem and simplifying our go to market. As we start to yield benefits from these actions ... it's starting to contribute to our performance. ...

110. Defendant Kavanaugh was even more optimistic about the new business model:

Last January, we said we expected performance to improve over the course of 2021 as we start to benefit from the actions we've taken. ... Throughout the year, we have been aggressively hiring, with about 60% of our hires in Consulting.

111. Defendant Kavanaugh also commented on the broad economic reach of of the Company's new business model:

We have aligned our operating model and segment structure to our platform-centric approach. In the fourth quarter, Software was up 10 %, and Consulting was up 16%. ... Our platform-centric model has attractive economics. For every dollar of hybrid platform revenue, IBM and our ecosystem partners can generate \$3 to \$5 of software, \$6 to \$8 dollars of services and \$1 to \$2 of infrastructure revenue. This drives IBM's cloud revenue, which is up 19% for the year. ...

112. Kavanaugh summed it up:

Bottom line were exiting 2021 a different company. We have higher growth, higher value business mix, with over 70% of our revenue in software and services and a significant recurring revenue base dominated by software. This will result in improving revenue growth profile, higher operating margin, strong and growing free cash flow and lower capital intensity, leading to a higher return on invested capital business.

113. The Company's new business model had finally penetrated the market and significantly improved IBM's performance across the board and will continue to provide growth to Company revenues, the financial metric most analysts following IBM are most interested in.

#### ADDITIONAL SCIENTER ALLEGATIONS

114. In addition to the scienter allegations set forth above, there are also other indicia of scienter.

115. At the center of the fraudulent scheme was Defendant's deliberate misclassification/reclassification of mainframe revenue in order to increase Strategic Imperative Revenue. The Company admits that "the centerpiece of IBM's strategy is our portfolio shift into five strategic imperatives that we believe are important to the future of enterprise information technology." Defendants utilized the mainframe product in order to shift revenues from their mainframe business to Strategic Imperatives to boost Strategic Imperative Revenue for the AIP.

116. According to IBM's 2015 Proxy Statement, for 2015 the AIP would feature Strategic Imperatives Revenue as a financial metric for the first time. IBM's 2015 Proxy Statement stated, in pertinent part:

Our overall executive compensation philosophy remains the same as prior years. We continue to align pay with the interests of stockholders while at the same time attracting and retaining top leadership talent. **For 2015, we have made adjustments to the Annual Incentive Program to heighten the alignment of**

**executive rewards with the strategic shifts needed for our ongoing transformation. Specifically, a strategic imperatives revenue metric replaces the overall revenue growth metric (both weighted at 20%) to ensure strategic focus on the portfolio shift.** In addition, cash flow increases in importance, from a 20% to a 40% weighting, and we have replaced the free cash flow metric with operating cash flow to maintain our strong focus on strategic investment decisions. Operating net income continues as a metric, now weighted at 40%. ...”

2015 Proxy Statement, at p.21 (emphasis added).

117. Besides being the self-proclaimed visionary and architect of IBM’s transformation demonstrated by the Strategic Imperative business strategy, Rometty was intimately involved in determining compensation levels. According to the 2015 Proxy Statement, Defendant Rometty, along with the head of Human Resources, conducted an in-depth review of the Senior V.P.s self-assessment and made compensation recommendations to the Compensation Committee. Further, the Company changed compensation consultants in August 2014 (prior to the switch to Strategic Imperative Revenue) and retained Frederic W. Cook & Co., Inc. (“Cook & Co.”) “as its compensation consultant to advise the Committee on market practices and specific IBM policies and programs.”

118. The newly retained Cook & Company approved the switch to Strategic Imperatives Revenue as a financial metric to determine AIP, in part. IBM had previously retained Semler Bossy Consulting Group, LLC, as its compensation consultant prior to the switch to Strategic Imperatives Revenue as a financial metric for purposes of the AIP. As admitted by the Company, the newly minted financial metric of Strategic Imperative Revenue included approximately 5,000 executives. Others involved received commissions for their participation in the fraudulent scheme.

119. In fact, in IBM’s 2015 Proxy Statement, the Company admitted it was Rometty who was the one who developed the new strategy of Strategic Imperatives and the Compensation Committee acknowledged that this was a key point “regarding Mrs. Rometty’s performance. It



was the first item cited concerning Mrs. Rometty's performance. Just prior to the installation of the newly minted Strategic Imperatives Revenue financial metric in 2015, Rometty received the following cash compensation in 2013 and 2014: 2013 (i) salary \$1.5 million, AIP \$0; (ii) 2014 salary \$1.55 million, \$3.6 million AIP). Following the change to Strategic Imperatives Revenue as a financial metric, Rometty's AIP never fell below \$4 million.

120. As to Defendant Schroeter, the first item the Compensation Committee noted concerning Schroeter's performance was regarding his contribution to Rometty's Strategic Imperative mandate by "[f]ocus[ing] investments to build out new offerings and solutions for clients in support of the IBM strategy focused on cloud, analytics, mobile, social and security." In 2014, the year prior to use of Strategic Imperatives as a financial metric for the AIP, Schroeter received cash compensation of \$660K salary, and \$750K in AIP.

121. Both Rometty's and Schroeter's AIP cash compensation is greater than their cash salary and, in Rometty's case, a multiplier greater than 2X-4X of her salary. While Strategic Imperatives Revenue was a financial metric being used to measure AIP, Schroeter's AIP cash compensation never fell below its 2014 level of \$750K.

122. IBM's 2016 Proxy Statement was even more complementary to Defendant Rometty, noting some personal leadership achievements "..., all of which are clear signposts of progress in the business's transformation." Some of the items noted included: (i) Realigned and organized IBM to support its strategic direction; (ii) Launched IBM as the pre-eminent Cognitive Business (iii) Shifted \$5 billion of spend to accelerate strategic imperatives across cost, expense and capital expenditures; and (iv) Inspired a workforce to all-time high levels of employee engagement.

123. The Compensation Committee was equally complimentary to Defendant Schroeter

concerning his accomplishments regarding Strategic Imperatives. They were: (i) Exceeded growth targets for the strategic imperatives; (ii) Managed the IBM portfolio, including the announcement of 15 key acquisitions to drive the strategic imperatives and the completion of the divestiture of the Microelectronics business; (iii) Strategic imperatives revenue of \$29.8 billion over the last 12 months represents 37 percent of IBM revenue; and (iv) Cloud revenue of \$10.8 billion over the last 12 months.

124. IBM's 2017 Proxy Statement continued the complimentary tone concerning Defendants Rometty and Schroeter. Again, the Compensation Committee cited Defendant Rometty's "personal leadership achievements . . . , all of which are clear sign posts of the successful business portfolio shift." The Compensation Committee cited the following accomplishments of Defendant Rometty: (i) Directed investments to Strategic Imperatives — cloud, analytics, mobile, social and security — growing revenue to \$33 billion. The Strategic Imperatives contributed 41% of IBM's total revenue; (ii) Expanded IBM's cloud capabilities and broadened the ecosystem with over 50 cloud datacenters; (iii) Accelerated the creation of cognitive-driven value based solutions.... (iii) Drove significant productivity savings through work redesign and the deployment of cognitive solutions across IBM's internal operations, and positioned IBM for future growth by realigning workforce skills with the new portfolio and strengthening all levels of management, including senior management; and (iv) Continued to build on employee engagement momentum, with increases across virtually all markets and business units.

125. Defendant Schroeter also received praise from the Compensation Committee as set forth in IBM's 2017 Proxy Statement including: (i) Shifted IBM's spending profile to focus on Strategic Imperatives; (ii) Invested \$15 billion across research & development, capital spending and 15 acquisitions, adding to IBM's capabilities in the high-growth areas of cognitive and cloud

with industry focus; and (ii) Implemented new segment reporting structure that aligns to IBM's emergence as a cloud platform and cognitive solutions company.

126. IBM's 2018 Proxy Statement complimented Defendant Rometty on her performance and at the top of the list was her achievement of critical mass with IBM's Strategic Imperatives – cloud, analytics, mobile, social and security. Defendant Schroeder was cited for driving the continuing transformation of the Company. This would be the last year that IBM used Strategic Imperative Revenue as a financial metric and in 2019 it would change to total annual revenue.

127. From 2015 (the first year that Strategic Imperatives was used as a financial metric to measure AIP) through 2017, when Strategic Imperative Revenue was being artificially inflated by the misclassification/reclassification, the amount of Defendant Rometty's AIP cash compensation rose each year and was approximately 3X-3.5X greater than Rometty's cash salary:

	2015	2016	2017
Salary	\$1.55 million	\$1.6 million	\$1.6 million
AIP	\$4.5 million	\$4.95 million	\$5.0 million
Total Cash Comp.	\$6.05 million	\$6.55 million	\$6.6 million

128. In 2018, (the last year Strategic Imperatives was used as a financial metric to measure AIP), when the fraud unraveled internally and could no longer support market expectations, Rometty still exceeded her pre-Strategic Imperatives Revenue metric for AIP, receiving \$1.6 million in cash salary and \$4.1 million in cash as part of the AIP. In 2019, Rometty received \$1.6 million in cash salary and \$5 million in cash as part of the AIP, and in 2020 received \$1.6 million cash salary and \$4.25 cash AIP.

129. From 2015 (the first year that Strategic Imperatives was used as a financial metric to measure AIP) through 2017, when Strategic Imperative Revenue was being artificially inflated by the fraudulent scheme and/or reclassifying non-strategic revenue to strategic revenue, the amount of Defendant Schroeter's AIP cash compensation was greater than his cash salary for all years:

	2015	2016	2017
Salary	\$692K	\$754K	\$828K
AIP	\$880K	\$1.04 million	\$1.02 million
Total Cash Comp.	\$1.52 million	\$1.758 million	\$1.83 million

130. In 2018, (the last year Strategic Imperatives was used as a financial metric to measure AIP), Schroeter became IBM's Sr. V.P., Global Markets. Schroeter still exceeded his pre-Strategic Imperatives Revenue metric for AIP, receiving \$905K in cash salary and \$1.1 million in AIP cash. In 2019, he received a cash salary of \$936K and \$948K cash AIP. Schroeter was rewarded handsomely for his complicity in the fraudulent scheme being appointed CEO of Kyndral, the new independent company that was created following the spin-off of IBM's Managed Infrastructure Services Business.

131. Defendant Kavanaugh served as Sr. V.P., Finance and Operations in 2017 prior to his appointment as CFO in 2018. His AIP exceeded his salary in both 2017 and 2018. This was also true in 2019-2021 for both his cash salary and cash AIP, which continued to grow.

132. Further, both Defendant Schroeter and Defendant Kavanaugh as IBM's CFO were responsible for reviewing the financial aspects of the Company's material contracts during the Class Period and therefore had knowledge of the misclassification/reclassification of non-strategic

revenue to strategic revenue .

133. Defendant Krishna was chief of the segment that was the largest beneficiary of the fraudulent scheme and/or reclassification of revenue from non-strategic to strategic.

NO SAFE HARBOR

134. IBM's "Safe Harbor" warnings accompanying its reportedly forward-looking statements ("FLS") issued during the Class Period were ineffective to shield those statements from liability. To the extent that projected revenues and earnings were included in the Company's financial reports prepared in accordance with GAAP, including those filed with the SEC on Form 8-K, they are excluded from the protection of the statutory Safe Harbor. See 15 U.S.C. §78u-5(b)(2)(A).

135. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of IBM who knew that the FLS was false. None of the historic or present tense statements made by Defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by Defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

LOSS CAUSATION/ECONOMIC LOSS

136. The market for IBM securities was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and omissions as set forth above, IBM securities traded at artificially inflated prices during the Class Period. Plaintiff

and other members of the Class purchased or otherwise acquired IBM securities relying upon the integrity of the market price of IBM securities and market information relating to IBM and have been damaged thereby.

137. During the Class Period, as detailed herein, Defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of IBM securities and operated as a fraud or deceit on Class Period purchasers of IBM securities by misrepresenting the value of the Company's business and prospects by providing artificially inflated revenue and growth figures for Strategic Imperatives Revenue, a financial metric manufactured by the Individual Defendants to enhance their AIP and utilized by the investing marketplace to gauge the Company's financial performance. As the scheme unraveled, the Company's financial performance suffered and the market reacted to the news and the artificial inflation came out of the stock price and it fell precipitously. As a result of their purchases of IBM securities during the Class Period, Plaintiff and other members of the Class suffered economic loss, i.e., damages, under the federal securities laws.

138. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused, or were a substantial contributing cause of, the damages sustained by Plaintiff and other members of the Class. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about IBM's business and operations. These material misstatements and omissions had the cause and effect of creating, in the market, an unrealistically positive assessment of IBM's current performance and future prospects and its business and operations concerning the Company's "Strategic Imperatives", thus causing the Company's securities to be overvalued and artificially inflated at all relevant times. Defendants' materially false and misleading statements

during the Class Period resulted in Plaintiff and other members of the Class purchasing IBM securities at artificially inflated prices, thus causing the damages complained of herein. When the Defendants' used publicly disclosed the Company's poor performance as a pretext for the failure of the Strategic Imperative Revenue, the inflation in the price of IBM securities was removed and the price of the Company's securities declined dramatically, causing losses to Plaintiff and the other members of the Class.

#### PLAINTIFF'S CLASS ACTION ALLEGATIONS

139. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all purchasers of IBM securities during the Class Period that suffered compensable damages related to the securities violations alleged herein (the "Class"). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

140. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, IBM securities and other publicly-traded securities were actively traded on the NYSE. The Company had approximately 900 million shares of common stock with trading volume in the millions each trading day during the Class Period. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are hundreds of thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by IBM or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

141. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

142. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Lead Plaintiff has no interests antagonistic to or in conflict with those of the Class.

143. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether the federal securities laws were violated by Defendants' acts as alleged herein;
- (b) whether statements made by Defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of IBM;
- (c) whether the Individual Defendants caused IBM to issue false and misleading financial statements during the Class Period;
- (d) whether Defendants acted knowingly in issuing false and misleading financial statements;
- (e) whether the prices of IBM securities were artificially inflated during the Class Period because of the conduct of Defendants complained of herein; and
- (f) whether the members of the Class have sustained damages and if so, what is the proper measure of damages.

144. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the



wrongs done to them. There will be no difficulty in the management of this action as a class action.

145. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud- on-the-market doctrine in that:

- (a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- (b) The omissions and misrepresentations were material;
- (c) IBM securities are traded in an efficient market;
- (d) The Company traded on NYSE, and was covered by multiple analysts;
- (e) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

Plaintiff and other members of the Class purchased and/or sold IBM securities between the time Defendants misrepresented or failed to disclose material facts and the time the adverse facts were disclosed, without knowledge of the misrepresented or omitted facts.

146. As a result of the foregoing, the market for IBM common stock promptly digested current information regarding the Company from all publicly available sources and reflected such information in IBM's stock price. Under these circumstances, all purchasers of IBM common stock during the Class Period suffered similar injury through their purchase of IBM common stock at artificially inflated prices, and a presumption of reliance applies.

147. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

148. Alternatively, Plaintiff and members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128, 92 S. Ct. 1456, 31 L. Ed. 2d 741 (1972) as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

FIRST CLAIM  
Violation of Section 10(b) of  
The Exchange Act and Rule 10b-5  
Promulgated Thereunder Against All Defendants

149. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

150. During the Class Period, Defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

151. Defendants violated §10(b) of the Exchange Act and Rule 10b-5 in that they: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon Plaintiff and others similarly situated in connection with their purchases of IBM securities during the Class Period.

152. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for IBM securities. Plaintiff and the Class would not have purchased IBM securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by Defendants' misleading statements.

SECOND CLAIM  
Violation of Section 20(a) of the Exchange Act  
Against the Individual Defendants

153. Plaintiff repeats and realleges each and every allegation contained above as if fully

set forth herein.

154. The Individual Defendants acted as controlling persons of IBM within the meaning of §20(a) of the Exchange Act. By reason of their positions with the Company, and their ownership of IBM securities, the Individual Defendants had the power and authority to cause IBM to engage in the wrongful conduct complained of herein. The Individual Defendants controlled the Company and all of the Company's employees.

155. By reason of such conduct, the Individual Defendants are liable pursuant to §20(a) of the Exchange Act.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

- A. Determining that this action is a proper class action, and certifying Plaintiff as Class representative under Rule 23 of the Federal Rules of Civil Procedure;
- B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;
- C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;
- D. Awarding rescission or a rescissory measure of damages; and
- E. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: April 5, 2022

Respectfully submitted,

/s/ Mitchell M. Breit

Mitchell M. Breit (NY 2337954)

Sanford P. Dumain (SD-8712)

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*Attorneys for Plaintiff*