INTERNATIONAL BUSINESS MACHINES CORP
Form DEF 14A
March 09, 2009

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

**International Business Machines Corporation**
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
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IBM Notice of 2009 Annual Meeting and Proxy Statement

*INTERNATIONAL BUSINESS MACHINES CORPORATION*

Armonk, New York 10504
March 9, 2009

Dear Stockholders,

You are cordially invited to attend the Annual Meeting of Stockholders on Tuesday, April 28, 2009 at 10 a.m., in the Miami Beach Convention Center, Hall D, Miami Beach, Florida.

We are very pleased that Mr. Alain J. P. Belda, chairman of Alcoa Inc., and Mr. Taizo Nishimuro, chairman of the Tokyo Stock Exchange Group, Inc., are new nominees for the Board this year.

Stockholders of record can vote their shares by using the Internet or the telephone. Instructions for using these convenient services are set forth on the enclosed proxy card. Of course, you also may vote your shares by marking your votes on the enclosed proxy card, signing and dating it, and mailing it in the enclosed envelope. If you will need special assistance at the meeting because of a disability, please contact the Office of the Secretary, Armonk, NY 10504.

Very truly yours,

Samuel J. Palmisano

Chairman of the Board

Your vote is important

**Please vote by using the Internet, the telephone,**
**or by signing, dating, and returning the enclosed proxy card**

**Notice of Meeting**

The Annual Meeting of Stockholders of International Business Machines Corporation will be held on Tuesday, April 28, 2009 at 10 a.m., in the Miami Beach Convention Center, Hall D, 1901 Convention Center Drive, Miami Beach, Florida 33139. The items of business are:

1. Election of directors proposed by the Company s Board of Directors for a term of one year, as set forth in this Proxy Statement.

2. Ratification of the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm.

3. Approval of Long-Term Incentive Performance Terms for Certain Executives pursuant to Section 162(m) of the Internal Revenue Code.

4. Such other matters, including three stockholder proposals, as may properly come before the meeting.

These items are more fully described in the following pages, which are a part of this Notice.

Andrew Bonzani

Vice President and Secretary

This proxy Statement and the accompanying form of proxy card are being mailed beginning on or about March 9, 2009 to all stockholders entitled to vote. The IBM 2008 Annual Report, which includes consolidated financial statements, is being mailed with this Proxy Statement.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be held on April 28, 2009: The Proxy Statement and the Annual Report to Stockholders are available at www.ibm.com/investor/material/**

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**1. Election of Directors for a Term of One Year**

The Board proposes the election of the following directors of the Company for a term of one year. Below is information about each nominee, including biographical data for at least the last five years. If one or more of these nominees become unavailable to accept nomination or election as a director, the individuals named as proxies on the enclosed proxy card will vote the shares that they represent for the election of such other persons as the Board may recommend, unless the Board reduces the number of directors.

**ALAIN J.P. BELDA**, 65, is chairman of Alcoa Inc., a producer and manager of primary aluminum, fabricated aluminum and engineered products. He is a member of IBM s Executive Compensation and Management Resources Committee. Mr. Belda joined Alcoa in 1969 and subsequently held various executive positions. From 1979 to 1994, he was president of Alcoa Aluminio S.A. in Brazil, Alcoa s Brazilian subsidiary. He was named executive vice president in 1994, vice chairman in 1995, president and chief operating officer in 1997 and president and chief executive officer in 1999. Mr. Belda was chairman and chief executive officer from 2001 until assuming the position of chairman in 2008. He is a director of Citigroup Inc. Mr. Belda became an IBM director in 2008.

**CATHLEEN BLACK**, 64, is president of Hearst Magazines, a division of The Hearst Corporation, a diversified communications company. She is chair of IBM s Directors and Corporate Governance Committee and a member of IBM s Executive Committee. Prior to joining Hearst Magazines, she was president and chief executive officer of the Newspaper Association of America from 1991 to 1996, president, then publisher, of USA TODAY from 1983 to 1991, and also executive vice president/marketing for Gannett Company, Inc. (USA TODAY parent company) from 1985 to 1991. She is a director of The Hearst Corporation, The Coca-Cola Company, the Advertising Council, a member of the Council on Foreign Relations and a trustee of the University of Notre Dame. Ms. Black became an IBM director in 1995.

**WILLIAM R. BRODY**, 65, is president of the Salk Institute for Biological Studies, a non- profit scientific research institution. He is a member of IBM s Executive Compensation and Management Resources Committee. From 1987 to 1994, Dr. Brody was the Martin Donner Professor and director of the Department of Radiology, professor of electrical and computer engineering, and professor of biomedical engineering at The Johns Hopkins University and radiologist-in-chief of The Johns Hopkins Hospital. He was the provost of the Academic Health Center at the University of Minnesota from 1994 until 1996. Dr. Brody was president of The Johns Hopkins University from 1996 to early 2009. He is a director of Novartis AG. Dr. Brody became an IBM director in 2007.

**KENNETH I. CHENAULT**, 57, is chairman and chief executive officer of American Express Company, a financial services company. Mr. Chenault joined American Express in 1981 and was named president of the U.S. division of American Express Travel Related Services Company, Inc. in 1993, vice chairman of American Express Company in 1995, president and chief operating officer in 1997 and chairman and chief executive officer in 2001. He is a director of The Procter & Gamble Company. Mr. Chenault became an IBM director in 1998.

**MICHAEL L. ESKEW**, 59, is retired chairman and chief executive officer of United Parcel Service, Inc., a provider of specialized transportation and logistics services. He is chair of IBM s Audit Committee and a member of IBM s Executive Committee. Mr. Eskew joined United Parcel Service in 1972. He was named corporate vice president for industrial engineering in 1994, group vice president for engineering in 1996, executive vice president in 1999, vice chairman in 2000, and he was chairman and chief executive officer from 2002 until his retirement at the end of 2007. Mr. Eskew remains on the board of United Parcel Service, and he is also a director of Eli Lilly and Company, 3M Company and chairman of the Annie E. Casey Foundation. Mr. Eskew became an IBM director in 2005.

**SHIRLEY ANN JACKSON**, 62, is president of Rensselaer Polytechnic Institute. She is a member of IBM s Directors and Corporate Governance Committee. Dr. Jackson was a theoretical physicist at the former AT&T Bell Laboratories from 1976 to 1991, professor of theoretical physics at Rutgers University from 1991 to 1995 and chairman of the U.S. Nuclear Regulatory Commission from 1995 until she assumed her current position in 1999. Dr. Jackson is a director of FedEx Corporation, Marathon Oil Corp., Medtronic, Inc., public Service Enterprise Group Incorporated and NYSE Euronext. She is a member of the National Academy of Engineering and a fellow of the American Academy of Arts and Sciences. Dr. Jackson is past president of the American Association for the Advancement of Science and a member of the Council on Foreign Relations and the American philosophical Society. Dr. Jackson became an IBM director in 2005.

**TAIZO NISHIMURO,** 73, is chairman of the board of the Tokyo Stock Exchange Group, Inc. He is a member of IBM s Directors and Corporate Governance Committee. Mr. Nishimuro became chairman of the board of the Tokyo Stock Exchange (TSE) in June 2005. He also concurrently served the TSE as president and chief executive officer from December 2005 to June 2007. Mr. Nishimuro assumed his current position with the Tokyo Stock Exchange Group, Inc. in June 2007. Mr. Nishimuro also acts as an adviser to the board of Toshiba Corporation. He was president and chief executive officer of Toshiba Corporation between 1996 and 2000 and subsequently served as chairman of Toshiba between 2000 and 2005. Mr. Nishimuro became an IBM director in 2008.

**JAMES W. OWENS**, 63, is chairman of the board and chief executive officer of Caterpillar Inc., a manufacturer of construction and mining equipment, diesel and natural gas engines and industrial gas turbines. He is a member of IBM s Audit Committee. Mr. Owens joined Caterpillar Inc. in 1972 as a corporate economist and subsequently held various management positions, including chief financial officer. He was named group president in 1995, vice chairman in 2003 and to his current position in 2004. He is a director of Alcoa Inc. Mr. Owens serves on the boards of the Peterson Institute for International Economics in Washington, D.C. and the Council on Foreign Relations. He is chairman of the International Trade and Investment Task Force of the Business Roundtable, chairman of The Business Council, a member of the President s Advisory Committee for Trade policy and Negotiations and the Global Advisory Council to The Conference Board in New York. Mr. Owens became an IBM director in 2006.

**SAMUEL J. PALMISANO,** 57, is chairman of the Board, president and chief executive officer of IBM and chair of IBM s Executive Committee. Mr. Palmisano joined IBM in 1973. He was elected senior vice president and group executive of the Personal Systems Group in 1997, senior vice president and group executive of IBM Global Services in 1998, senior vice president and group executive of Enterprise Systems in 1999, president and chief operating officer in 2000, chief executive officer in 2002 and chairman of the Board in 2003. Mr. Palmisano is a director of Exxon Mobil Corporation. Mr. Palmisano became an IBM director in 2000.

**JOAN E. SPERO,** 64, is a visiting fellow at the Foundation Center, a leading authority on philanthropy. She is a member of IBM s Audit Committee. Ms. Spero served as U.S. Ambassador to the United Nations for Economic and Social Affairs from 1980 to 1981. From 1981 to 1993, she held several positions with American Express Company, the last being executive vice president, corporate affairs and communications. From 1993 to 1996, Ms. Spero served as U.S. Undersecretary of State for Economic, Business and Agricultural Affairs, and from 1997 through 2008, she was president of the Doris Duke Charitable Foundation. She is a member of the supervisory board of ING Group, a director of the Council on Foreign Relations, and a trustee of Columbia University and the Wisconsin Alumni Research Foundation. Ms. Spero became an IBM director in 2004.

**SIDNEY TAUREL,** 60, is chairman emeritus of Eli Lilly and Company, a pharmaceutical company. He is chair of IBM s Executive Compensation and Management Resources Committee and a member of IBM s Executive Committee. Mr. Taurel joined Eli Lilly in 1971 and has held management positions in the company s operations in South America and Europe. He was named president of Eli Lilly International Corporation in 1986, executive vice president of the pharmaceutical Division in 1991, executive vice president of Eli Lilly and Company in 1993, and president and chief operating officer in 1996. He was named chief executive officer of Eli Lilly and Company in 1998 and chairman of the board in 1999. Mr. Taurel retired as chief executive officer in early 2008 and as chairman in late 2008. He is a director of The McGraw-Hill Companies, Inc., a member of The Business Council, the Board of Overseers of the Columbia Business School and a trustee of the Indianapolis Museum of Art. Mr. Taurel became an IBM director in 2001.

**LORENZO H. ZAMBRANO,** 64, is chairman and chief executive officer of CEMEX, S.A.B. de C.V., a producer and marketer of cement and ready-mix concrete products. He is a member of IBM s Directors and Corporate Governance Committee. Mr. Zambrano joined CEMEX in 1968. He was named chief executive officer in 1985 and has also served as chairman of the board since 1995. He is a director of Grupo Televisa and a member of the Citigroup International Advisory Board. He is also chairman of the board of the Tecnologico de Monterrey. Mr. Zambrano became an IBM director in 2003.

**General Information**

BOARD OF DIRECTORS

IBM s Board of Directors is responsible for supervision of the overall affairs of the Company. The Board held 10 meetings during 2008. To assist it in carrying out its duties, the Board has delegated certain authority to several committees. Overall attendance at Board and committee meetings was over 90%. Attendance was at least 75% for each director. Directors are expected to attend the Annual Meeting of Stockholders, and all directors attended the 2008 Annual Meeting. Following the Annual Meeting in 2009, the Board will consist of 12 directors. In the interim between Annual Meetings, the Board has the authority under the by-laws to increase or decrease the size of the Board and to fill vacancies.

IBM s Board of Directors has long adhered to governance principles designed to assure the continued vitality of the Board and excellence in the execution of its duties. Since 1994, the Board has had in place a set of governance guidelines reflecting these principles, including the Board s policy of requiring a majority of independent directors, the importance of equity compensation to align the interests of directors and stockholders, and regularly scheduled executive sessions, including sessions of non-management directors without management. An executive session with independent directors is scheduled for at least once a year, and the non-management directors met in executive session two times in 2008. The chair of the Board committee responsible for the principal subject being discussed presides at executive sessions of the non-management directors. The IBM Board Corporate Governance Guidelines reflect the Company s principles on corporate governance matters. These guidelines are available at http://www.ibm.com/investor/governance/corporate-governance-guidelines.wss and are available in print to any stockholder who requests them.

Under the IBM Board Corporate Governance Guidelines, the Directors and Corporate Governance Committee and the full Board annually review the financial and other relationships between the non-management directors and IBM as part of the annual assessment of director independence. The Directors and Corporate Governance Committee makes recommendations to the Board about the independence of non-management directors, and the Board determines whether those directors are independent. The independence criteria established by the Board in accordance with New York Stock Exchange requirements and used by the Directors and Corporate Governance Committee and the Board in their assessment of the independence of directors is set forth in Appendix A to this Proxy Statement. Applying those standards for the non-management directors in 2008, including those standing for election, the Committee and the Board have determined that each of the following directors has met the independence standards: A.J.P. Belda, C. Black, W.R. Brody, J. Dormann, M.L. Eskew, S.A. Jackson, M. Makihara, T. Nishimuro, L.A. Noto, J.W. Owens, J.E. Spero, S. Taurel, and L.H. Zambrano. The Committee and the Board have determined that Mr. K.I. Chenault does not qualify as an independent director in view of the commercial relationships between IBM and American Express Company. As a result, Mr. Chenault does not participate on any committee of the Board or in executive sessions regarding compensation for the Company s CEO. Otherwise, Mr. Chenault continues to participate fully in the Board s activities and to provide valuable expertise and advice. Mr. Eskew s son is employed by the Company and does not hold an executive officer position. He was hired over a year before Mr. Eskew joined the Company s Board, and his compensation is consistent with the Company s policies that apply to all employees. Based on the foregoing, the Board has determined that this relationship does not preclude a finding of independence for Mr. Eskew.

Stockholders and other interested parties who wish to communicate with the non-management directors of the Company should send their correspondence to: IBM Non-Management Directors, c/o Chair, IBM Directors and Corporate Governance Committee, International Business Machines Corporation, Mail Drop 390, New Orchard Road, Armonk, NY 10504, or nonmanagementdirectors@us.ibm.com.

COMMITTEES OF THE BOARD

The Audit Committee, the Directors and Corporate Governance Committee, the Executive Compensation and Management Resources Committee and the Executive Committee are the standing committees of the Board of Directors.

| Name | Audit | Directors and Corporate Governance | Executive Compensation and Management Resources | Executive |
|---|---|---|---|---|
| A.J.P. Belda | | | X | |
| C. Black | | Chair | | X |
| W.R. Brody | | | X | |
| M.L. Eskew | Chair | | | X |
| S.A. Jackson | | X | | |
| T. Nishimuro | | X | | |
| J.W. Owens | X | | | |
| S.J. Palmisano | | | | Chair |
| J.E. Spero | X | | | |
| S. Taurel | | | Chair | X |
| L.H. Zambrano | | X | | |

As explained above, Mr. K.I. Chenault does not qualify as an independent director; therefore, he does not participate on any committee of the Board.

AUDIT COMMITTEE

The Audit Committee is responsible for reviewing reports of the Company s financial results, audits, internal controls and adherence to IBM s Business Conduct Guidelines in compliance with applicable laws and regulations including federal procurement requirements. The Committee selects the independent registered public accounting firm and approves all related fees and compensation and reviews their selection with the Board. The Committee also reviews the procedures of the independent registered public accounting firm for ensuring its independence with respect to the services performed for the Company.

Members of the Committee are non-management directors who, in the opinion of the Board, satisfy the independence criteria established by the Board and the standards of the Securities and Exchange Commission (SEC). The Board has determined that Mr. Eskew qualifies as an Audit Committee Financial Expert as defined by the rules of the SEC. The Committee held five meetings in 2008. The IBM Board of Directors has adopted a written charter for the Committee, which is available at http://www.ibm.com/investor/corpgovernance/cgbc.phtml/. The Business Conduct Guidelines (BCGs) are IBM s code of ethics for directors, executive officers, and employees. Any amendment to, or waiver of, the BCGs that applies to our directors or executive officers may be made only by the IBM Board or a Board committee and will be disclosed on IBM s website. The BCGs are available at http://www.ibm.com/investor/corpgovernance/cgbcg.phtml/. The charter and the BCGs are also available in print to any stockholder who requests them.

DIRECTORS AND CORPORATE GOVERNANCE COMMITTEE

The Directors and Corporate Governance Committee is devoted primarily to the continuing review and articulation of the governance structure of the Board of Directors.

The Committee is responsible for recommending qualified candidates to the Board for election as directors of the Company, including the slate of directors that the Board proposes for election by stockholders at the Annual Meeting. The Committee recommends candidates based on their business or professional experience, the diversity of their background and their talents and perspectives. The Committee identifies candidates through a variety of means, including information the Committee requests from time to time from the Secretary of the Company, recommendations from members of the

Committee and the Board, and suggestions from Company management, including the Chairman and CEO. The Committee also considers candidates recommended by stockholders. Any formal invitation to a director candidate is authorized by the full Board. Messrs. Belda and Nishimuro are new nominees this year. Their nominations were recommended by the Committee and approved by the Board, after following this candidate identification process. Stockholders wishing to recommend director candidates for consideration by the Committee may do so by writing to the Secretary of the Company, giving the recommended candidate s name, biographical data and qualifications.

The Committee also advises and makes recommendations to the Board on all matters concerning directorship practices, and on the function and duties of the committees of the Board. The Committee also makes recommendations to the Board on compensation for non-management directors. The Committee currently retains Towers Perrin to assess trends and developments in director compensation practices and to compare the Company s practices against them. The Committee uses the analysis prepared by the consultant as part of its periodic review of the Company s director compensation practices. The Committee is responsible for reviewing and considering the Company s position and practices on significant issues of corporate public responsibility, such as workforce diversity, protection of the environment and philanthropic contributions, and it reviews and considers stockholder proposals dealing with issues of public and social interest. Members of the Committee are non-management directors who, in the opinion of the Board, satisfy the independence criteria established by the Board. The Committee held three meetings in 2008. The IBM Board of Directors has adopted a written charter for the Committee, which is available at http://www. ibm.com/investor/corpgovernance/cgbc.phtml/. The charter is also available in print to any stockholder who requests it.

EXECUTIVE COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE

The Executive Compensation and Management Resources Committee has responsibility for defining and articulating the Company s overall executive compensation philosophy, and administering and approving all elements of compensation for elected corporate officers.

The Committee approves, by direct action or through delegation, participation in and all awards, grants and related actions under the Company s various equity plans, reviews changes in the Company s pension plans primarily affecting corporate officers, and manages the operation and administration of the IBM Supplemental Executive Retention Plan. The Committee has the direct responsibility to review and approve the corporate goals and objectives relevant to the Chairman and CEO s compensation, evaluate his performance in light of those goals and objectives and, together with the other independent directors, determine and approve the Chairman and CEO s compensation level based on this evaluation. The Committee also has responsibility for reviewing the Company s management resources programs and for recommending qualified candidates to the Board for election as officers. The Committee reviews the compensation structure for the Company s officers and provides oversight of management s decisions regarding performance and compensation of other employees. In addition, the Committee monitors compliance of stock ownership guidelines. All equity awards for employees other than senior management are approved by senior management, pursuant to a series of delegations that were approved by the Committee, and the grants made pursuant to these delegations are reviewed periodically with the Committee.

The IBM Senior Vice President of Human Resources (SVP HR) works directly with the chair of the Committee to provide a decision-making framework for use in making a recommendation for the Chairman and CEO s total compensation. In addition, IBM s Chairman and CEO and the SVP HR review the self-assessments of the Senior Vice Presidents and evaluate the information, along with comparisons to market compensation levels for cash compensation and total direct compensation, potential for future roles within IBM and total compensation levels relative to internal peers before and after any recommendations. Following this in-depth review, and in consultation with the SVP HR, the Chairman and CEO makes compensation recommendations to the Committee based on his evaluation of each senior manager s performance and expectations for the coming year.

The Committee has the sole authority to retain consultants and advisors as it may deem appropriate in its discretion, and the Committee has the sole authority to approve related fees and other retention terms. The Committee currently retains a Managing Director of Towers Perrin as its outside compensation consultant to advise the Committee on market practices and the specific policies and programs. This Managing

Director does not perform any other consulting work for the Company. The consultant s work for the Committee includes data analyses, market assessments and preparation of related reports. The work done by Towers Perrin for the Committee is documented in a formal scope of work and contract which is executed by the consultant and the Committee.

The Committee reports to stockholders as required by the SEC (see 2008 Report of the Executive Compensation and Management Resources Committee of the Board of Directors below). Members of the Committee are non-management directors who, in the opinion of the Board, satisfy the independence criteria established by the Board. Committee members are not eligible to participate in any of the plans or programs that the Committee administers. The Committee held five meetings in 2008. The IBM Board of Directors has adopted a written charter for the Committee, which is available at http://www.ibm.com/investor/corpgovernance/cgbc.phtml/. The charter is also available in print to any stockholder who requests it.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Executive Compensation and Management Resources Committee had a relationship that requires disclosure as a Compensation Committee interlock.

EXECUTIVE COMMITTEE

The Executive Committee is empowered to act for the full Board in intervals between Board meetings, with the exception of certain matters that by law may not be delegated. The Committee meets as necessary, and all actions by the Committee are reported at the next Board of Directors meeting. The Committee did not meet in 2008.

CERTAIN TRANSACTIONS AND RELATIONSHIPS

Under the Company s written related person transactions policy, information about transactions involving related persons is assessed by the independent directors on IBM s Board. Related persons include IBM directors and executive officers, as well as immediate family members of directors and officers, and beneficial owners of more than five percent of the Company s common stock. If the determination is made that a related person has a material interest in any Company transaction, then the Company s independent directors would review, approve or ratify it, and the transaction would be required to be disclosed in accordance with the SEC rules. If the related person at issue is a director of IBM, or a family member of a director, then that director would not participate in those discussions. In general, the Company is of the view that the following transactions with related persons are not significant to investors because they take place under the Company s standard policies and procedures: the sale or purchase of products or services in the ordinary course of business and on an arm s-length basis; the employment by the Company where the compensation and other terms of employment are determined on a basis consistent with the Company s human resources policies; and any grants or contributions made by the Company under one of its grant programs and in accordance with the Company s corporate contributions guidelines.

From time to time, the Company may have employees who are related to our executive officers or directors. As noted under the discussion above on General Information Board of Directors, Mr. Eskew s son is employed by the Company. In addition, Mr. M.E. Daniels (Senior Vice President, Global Technology Services) and Mr. M. Loughridge (Senior Vice President and Chief Financial Officer) both have an adult child who is employed by the Company in a non-executive position, and Mr. T.S. Shaughnessy (Senior Vice President, Services Delivery) has a sibling who is employed by the Company in a non-executive position. Further, the wife of Mr. Shaughnessy, a brother-in-law of Mr. Loughridge, and a sibling of Ms. L.S. Sanford (Senior Vice President, Enterprise On Demand Transformation) are executives of the Company.

## CERTAIN INFORMATION ABOUT INSURANCE AND INDEMNIFICATION

The Company has renewed its directors and officers indemnification insurance coverage. This insurance covers directors and officers individually where exposures exist other than those for which the Company is able to provide indemnification. These policies run from June 30, 2008 through June 30, 2009, at a total cost of $10,764,870. The primary carrier is XL Specialty Insurance Company.

**2008 DIRECTOR COMPENSATION NARRATIVE**

*Annual Retainer:* Effective November 1, 2008, the annual retainer for non-management directors was increased from $200,000 to $250,000, the retainer for the chairs of the Directors and Corporate Governance Committee and the Executive Compensation and Management Resources Committee was increased from $5,000 to $10,000, and the retainer for the chair of the Audit Committee was increased from $5,000 to $15,000. Under the IBM Deferred Compensation and Equity Award Plan (DCEAP), 60% of the total annual retainer is required to be deferred and paid in Promised Fee Shares (PFS). Each PFS is equal in value to one share of the Company s common stock. When a cash dividend is paid on the Company s common stock, each director s PFS account is credited with additional PFS reflecting a dividend equivalent payment. With respect to the payment of the remaining 40% of the annual retainer, directors may elect one or any combination of the following: (a) deferral into PFS, (b) deferral into an interest-bearing cash account to be paid with interest at a rate equal to the rate on 26-week U.S. Treasury bills updated each January and July, and/or (c) receipt of cash payments on a quarterly basis during service as a Board member. The Company does not pay above-market or preferential earnings on compensation deferred by directors. IBM had a retirement plan for directors which was eliminated effective January 1996, and the Company credited the PFS accounts with retirement promised fee shares equal to the benefits accrued under that retirement plan. For 2008, all directors made elections under the DCEAP to defer 100% of their annual retainer in PFS. Under the IBM Board Corporate Governance Guidelines, within five years of initial election to the Board, non-management directors are expected to have stock-based holdings in IBM equal in value to five times the annual retainer initially payable to such director. Stock-based holdings mean (i) IBM shares owned personally or by members of the immediate family sharing the same household and (ii) DCEAP PFS. Stock-based holdings do not include (i) unexercised options and (ii) any amounts credited to the PFS account in connection with the elimination of the retirement plan.

*Payout under the DCEAP*: Upon a director s retirement or other completion of service as a director, (a) all amounts deferred into PFS are payable in either cash and/or shares of the Company s common stock at the director s choice, (b) amounts deferred into the interest-bearing cash account are payable in cash, and (c) amounts credited to the PFS account in connection with the elimination of the retirement plan are payable solely in cash. The payout of PFS is valued based on the average of the high and low sales prices of IBM stock on the New York Stock Exchange on the first day after the date on which the director ceases to be a member of the Board.

*Termination of IBM Non-Employee Directors Stock Option Plan (the DSOP) effective January 1, 2007:* Prior to January 1, 2007, non-management directors who had been elected or reelected as a member of the Board as of the adjournment of the Annual Meeting of Stockholders received on the first day of the month following such meeting an annual grant of options to purchase 4,000 shares of IBM common stock. The exercise price of the options was the average of the high and low sales prices of IBM stock on the New York Stock Exchange on the date of grant. Each option has a term of ten years and becomes exercisable in four equal installments commencing on the first anniversary of the date of grant and continuing for the three successive anniversaries thereafter. If a non-management director retires (as defined in the DSOP) or dies, all options granted to that director become immediately exercisable. Effective January 1, 2007, the DSOP was terminated. Therefore, the 2008 Director Compensation Table does not include any option awards. However, the table below entitled Aggregate Number of Option Awards Outstanding reflects the options outstanding under the DSOP as of year end for all directors in 2008.

*IBM s Matching Grants Programs:* Non-management directors are eligible to participate in the Company s two matching grants programs on the same basis as the Company s employees based in the U.S. Under one of the programs, the Company will provide specified matches in cash or equipment in connection with a director s eligible contributions to approved colleges, hospitals, cultural, and environmental institutions. Under the second program, directors can also make a contribution toward the donation of personal computer equipment to eligible primary and secondary schools of their choice. Under this second program, directors are required to donate 20% of the list price of a particular pre-packaged configuration, and the Company contributes the remaining 80%. Under each of these programs, directors gifts are limited to $5,000 per director, per institution, to a total of $10,000 in gifts per calendar year.

2008 DIRECTOR COMPENSATION TABLE

*Fees Earned or Paid in cash (column (b))*: Amounts shown in this column reflect the annual retainer paid to each director as described above. A director receives a pro-rated amount of the annual retainer for service on the Board and, if applicable, as a committee chair, based on the portion of the year the director served.

*All Other Compensation (column (c)):* Amounts in this column represent the following:

- Dividend equivalent payments on PFS accounts under the DCEAP as described above.

- Group Life Insurance premiums paid by the Company on behalf of the directors.

- For directors who retired from the Board in 2008, this column also includes additional amounts as explained in footnote (1) below.

- Value of the contributions made by the Company under the Company s matching grants programs as described above.

| **Name** (a) | **Fees Earned or Paid in Cash ($)** (b) | **All Other Compensation ($)(1)** (c) | **Total ($)** (d) |
|---|---|---|---|
| A.J.P. Belda(2) | $ 93,334 | $ 195 | $ 93,529 |
| C. Black | 214,167 | 24,403 | 238,570 |
| W.R. Brody | 208,334 | 2,325 | 210,659 |
| K.I. Chenault | 208,334 | 14,697 | 223,031 |
| J. Dormann(3) | 66,112 | 517,405 | 583,517 |
| M.L. Eskew | 213,375 | 7,778 | 221,153 |
| S.A. Jackson | 208,334 | 21,365 | 229,699 |
| M. Makihara(3) | 66,112 | 561,589 | 627,701 |
| T. Nishimuro(4) | 63,334 | 46 | 63,380 |
| L.A. Noto(3) | 167,195 | 1,513,345 | 1,680,540 |
| J.W. Owens | 208,334 | 15,559 | 223,893 |
| J.E. Spero | 208,334 | 11,470 | 219,804 |
| S. Taurel | 214,167 | 52,140 | 266,307 |
| L.H. Zambrano | 208,334 | 9,603 | 217,937 |

(1) Amounts in this column include the following: for Ms. Black: $24,308 of dividend equivalent payments on PFS; for Mr. Chenault: $14,602 of dividend equivalent payments on PFS; for Mr. Dormann: $517,367 consisting of earned compensation and dividend reinvestments which had been deferred under the DCEAP since his election to the Board in 2005 and paid to him after his term on the Board ended in April 2008; for Dr. Jackson: $15,000 contributed by the Company under the matching grants program; for Mr. Makihara: $561,551 consisting of earned compensation and dividend reinvestments which had been deferred under the DCEAP since his election to the Board in 2004 and paid to him after his term on the Board ended in April 2008; for Mr. Noto: $1,466,383 consisting of earned compensation and dividend reinvestments which had been deferred under the DCEAP since his election to the Board in 1995 and paid to him after his term on the Board ended in October 2008, and $46,881 contributed by the Company under the matching grants programs; for Mr. Owens: $10,000 contributed by the Company under the matching grants programs; for Mr. Taurel: $12,880 of dividend equivalent payments on PFS, and $39,165 contributed by the Company under the matching grants program.

(2) Mr. Belda joined the Board in July 2008.

(3) After their terms on the Board ended in 2008, Messrs. Dormann, Makihara and Noto were paid the amount shown for each in column (b) plus the amount shown for each as earned compensation and dividend reinvestments in footnote (1) above.

(4) Mr. Nishimuro joined the Board in September 2008.

## AGGREGATE NUMBER OF OPTION AWARDS OUTSTANDING (BOTH EXERCISABLE AND UNEXERCISABLE) FOR EACH DIRECTOR AT FISCAL YEAR-END

As described above, until the termination of the DSOP effective January 1, 2007, non-management directors received an annual grant of options to purchase 4,000 shares of IBM common stock. Because Dr. Brody and Messrs. Belda and Nishimuro joined the Board after the termination of the DSOP, they did not receive any options and therefore are not included in the table below.

| | |
|---|---|
| C. Black | 32,000 |
| K.I. Chenault | 32,000 |
| J. Dormann | 24,000 |
| M.L. Eskew | 8,000 |
| S.A. Jackson | 4,000 |
| M. Makihara | 24,000 |
| L.A. Noto | 30,000 |
| J.W. Owens | 4,000 |
| J.E. Spero | 12,000 |
| S. Taurel | 24,000 |
| L.H. Zambrano | 12,000 |

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company believes that all reports for the Company s executive officers and directors that were required to be filed under Section 16 of the Securities Exchange Act of 1934 were timely filed.

**Ownership of Securities**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following sets forth information as to any person known to the Company to be the beneficial owner of more than five percent of the Company s common stock as of December 31, 2008.

| | **Voting Power** | | **Investment Power** | | | |
|---|---|---|---|---|---|---|
| **Name and address** | **Sole** | **Shared** | **Sole** | **Shared** | **Total** | **Percent of Class** |
| State Street Bank and Trust Company, Trustee(1) | 58,467,572 | 15,941,533 | 0 | 74,409,105 | 74,409,105 | 5.5% |
| State Street Financial Center | | | | | | |
| One Lincoln Street | | | | | | |
| Boston, MA 02111 | | | | | | |

(1) Based on the Schedule 13G filed with the Securities and Exchange Commission on February 17, 2009 by State Street Bank and Trust Company, acting in various fiduciary capacities. The Schedule 13G does not identify any shares with respect to which there is a right to acquire beneficial ownership. The Schedule 13G states that the report is not an admission that State Street Bank and Trust Company is the beneficial owner of any securities covered by the report, and that State Street Bank and Trust Company expressly disclaims beneficial ownership of all shares reported.

COMMON STOCK AND STOCK-BASED HOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the beneficial ownership of shares of the Company s common stock as of December 31, 2008 by IBM s current directors and nominees, the executive officers named in the Summary Compensation Table, and such directors and all of the Company s executive officers as of December 31, 2008 as a group. Also shown are shares over which the named person could have acquired voting power or investment power within 60 days. Voting power includes the power to direct the voting of shares held, and investment power includes the power to direct the disposition of shares held.

| | | | Acquirable within 60 days | |
|---|---|---|---|---|
| **Name** | **Common Stock(1)** | **Stock-based Holdings(2) (3)** | **Options(4)** | **Directors DCEAP Shares(5)** |
| A.J.P. Belda(13) | 0 | 0 | 0 | 1,000 |
| C. Black | 4,324(6) | 4,711 | 29,000 | 17,384 |
| W.R. Brody | 0 | 0 | 0 | 2,759 |
| K.I. Chenault | 1,000(7) | 1,000 | 29,000 | 11,150 |
| M.E. Daniels | 42,846(8) | 132,273 | 209,860 | N/A |
| M.L. Eskew | 0 | 0 | 5,000 | 6,502 |
| S.A. Jackson | 0 | 0 | 2,000 | 5,499 |
| M. Loughridge | 32,270 | 132,993 | 172,334 | N/A |
| S.A. Mills | 62,237(9) | 134,583 | 337,441 | N/A |
| T. Nishimuro(14) | 0 | 0 | 0 | 736 |
| J.W. Owens | 1,000(7) | 1,000 | 2,000 | 4,952 |
| S.J. Palmisano | 230,440(10) | 530,970 | 1,044,390 | N/A |
| V.M. Rometty | 12,647(11) | 133,863 | 159,839 | N/A |
| J.E. Spero | 1,000 | 1,000 | 9,000 | 7,266 |
| S. Taurel | 5,265 | 5,265 | 21,000 | 10,021 |
| L.H. Zambrano | 4,000 | 4,000 | 9,000 | 7,695 |
| Directors and executive officers as a group | 676,365(12) | 1,989,852 | 3,522,432(12) | 74,964(12) |

(1) This column shows shares of IBM common stock beneficially owned by the named person. Unless otherwise noted, voting power and investment power in the shares are exercisable solely by the named person, and none of the shares are pledged as security by the named person. This column includes 429,520 shares in which voting and investment power are shared. Standard brokerage accounts may include nonnegotiable provisions regarding set-offs or similar rights. The directors and officers included in the table disclaim beneficial ownership of shares beneficially owned by family members who reside in their households. The shares are reported in such cases on the presumption that the individual may share voting and/or investment power because of the family relationship. The shares reported in this column do not include 982,353 shares held by the IBM Personal Pension Plan Trust Fund, over which the members of the Retirement Plans Committee, a management committee presently consisting of certain executive officers of the Company, have shared voting power, as well as the right to acquire shared investment power by withdrawing authority now delegated to various investment managers.

(2) For executive officers, this column includes the shares shown in the Common Stock column and, as applicable, restricted stock units (including retention restricted stock units), officer contributions into the IBM Stock Fund under the IBM Excess 401(k) Plus Plan (Excess Plan, formerly the Executive Deferred Compensation Plan), and Company contributions into the IBM Stock Fund under the Excess Plan. Some of these restricted stock units may have been deferred under the Excess Plan and will be distributed to the executive officers after termination of employment as described in the 2008 Nonqualified Deferred Compensation Narrative.

(3) For non-management directors, this column includes the shares shown in the Common Stock column and, as applicable, the Promised Fee Shares payable in cash that were credited to the non-management directors in 1996 in connection with the elimination of the retirement plan for such directors, including dividend equivalents credited with respect to such shares (see 2008 Director Compensation Narrative for additional information).

(4) Shares that can be purchased under an IBM stock option plan within 60 days after December 31, 2008.

(5) Shares earned and accrued under the IBM Deferred Compensation and Equity Award Plan (DCEAP) as of December 31, 2008, including dividend equivalents credited with respect to such shares. Upon a director s retirement, these shares are payable in cash or stock at the director s choice (see 2008 Director Compensation Narrative for additional information).

(6) Includes 324 shares in which voting and investment power are shared.

(7) Voting and investment power are shared.

(8) Includes 42,158 shares in which voting and investment power are shared.

(9) Includes 52,073 shares in which voting and investment power are shared.

(10) Includes 197,412 shares in which voting and investment power are shared.

(11) Includes 12,005 shares in which voting and investment power are shared.

(12) The total of these three columns represents less than 1% of the outstanding shares, and no individual s beneficial holdings totaled more than 1/5 of 1% of the outstanding shares.

(13) Mr. Belda joined the Board in July 2008.

(14) Mr. Nishimuro joined the Board in September 2008.

**Executive Compensation**

2008 REPORT OF THE EXECUTIVE COMPENSATION AND MANAGEMENT RESOURCES COMMITTEE OF THE BOARD OF DIRECTORS

Set out below is the Compensation Discussion and Analysis, which is a discussion of the Company s executive compensation programs and policies written from the perspective of how we and management view and use such programs and policies. Given the Committee s role in providing oversight to the design of those programs and policies, and in making specific compensation decisions for senior executives using those policies and programs, the Committee participated in the preparation of the Compensation Discussion and Analysis, reviewing successive drafts of the document and discussing those with management. The Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy Statement. We join with management in welcoming readers to examine our pay practices and in affirming the commitment of these pay practices to the longterm interests of stockholders.

Sidney Taurel (chair)

Alain J.P. Belda

William R. Brody

**2008 Compensation Discussion and Analysis**

PREAMBLE: RECENT EVENTS

The recent unprecedented events related to the collapse of the financial markets in 2008 has prompted investors to question the role that executive compensation programs may have had in contributing to excessive risk taking by senior executives to achieve short-term financial gain at the expense of the long-term health of a company. In light of this, we again reviewed the objectives and design of IBM s executive compensation program and its related plans and policies so that we could assure our investors that our approach encourages the right decisions and behaviors to align with the long-term interests of our stockholders. We concluded the following:

- Our programs appropriately balance short- and long-term incentives, with approximately 60% of total target compensation for the senior executive team provided in equity and focused on long-term performance.

- Our executive compensation program pays for performance against financial targets that are set to be challenging to motivate a high degree of business performance, with an emphasis on longer-term financial success and prudent risk management.

- Qualitative factors beyond the quantitative financial metrics are a key consideration in the determination of individual executive compensation payments. How our executives achieve their financial results, integrate across lines of business, and demonstrate leadership consistent with the IBM values are key to individual compensation decisions.

- As explained in the 2008 Potential Payments upon Termination Narrative, we further strengthened our retirement policies on equity grants for our senior leaders beginning in 2009 to ensure that the long-term interests of the Company continue to be the focus even as these executives approach retirement.

- Our share ownership guidelines require that our senior executives hold a significant amount of IBM equity to further align their interests with stockholders over the long term.

- IBM has a policy for clawback of cash incentive payments in the event that an officer s conduct leads to a restatement of the Company s financial results. Likewise, the Company s equity plan has a clawback provision which states that awards will be cancelled and certain gains must be repaid if an executive engages in detrimental activity.

The remainder of this Compensation Discussion and Analysis describes the key features of our executive compensation program in detail. We are confident that our program is aligned to the interests of our stockholders, rewards for performance, and is an example of the strong pay practice emphasized by expert commentators on this topic.

SECTION 1: EXECUTIVE COMPENSATION SUMMARY WHY WE PAY WHAT WE DO

Trust and personal responsibility in *all* relationships relationships with clients, partners, communities, fellow IBMers, and investors is a core value at IBM. Investors should have as much trust in the integrity of a company s executive compensation process as clients do in the quality of its products. A breach of this trust is unacceptable. As a part of maintaining this trust, we well understand the need for our investors not only professional fund managers and institutional investor groups, but also millions of individual investors to know how compensation decisions are made. We have put tremendous effort and rigor into our own executive compensation processes over many years, continually updating them to meet new voluntary criteria as well as official requirements from the SEC.

Investors IBM s owners want senior leaders to run the Company in a way that protects and grows their investment over the long term while appropriately managing risk. This is no simple task at any company, and at a company as large and complex as IBM, it is a particularly exciting leadership challenge. IBM holds a unique identity, based on talent, brand, global operating footprint, the size and scope of our business overall, and the size of each of our individual lines of business. Unlike those few other companies of comparable size and scale that tend to operate as holding companies of component businesses, we operate as an integrated entity across a number of significant business lines, most large enough to be among the Fortune 150 biggest companies if they were stand-alone businesses. Our unique, integrated model delivers great value to our investors and our clients, and demands a senior leadership team of unusual depth, agility and experience.

To that end, IBM s executive compensation practices are designed specifically to meet five key objectives:

- Ensure that the interests of IBM s leaders are closely aligned with those of our investors and owners;

- Attract and retain highly qualified senior leaders who can drive a global enterprise to succeed in today s competitive marketplace;

• Motivate our leaders to deliver a high degree of business performance without encouraging unnecessary and excessive risk taking;

• Differentiate compensation so that it varies based on individual and team performance; and

• Balance rewards for both short-term results and the longterm strategic decisions needed to ensure sustained business performance over time.

With these goals in mind, IBM executives earn their compensation based on performance over three time frames:

| | | | | |
|---|---|---|---|---|
| **Current Year s Performance: Salary and Annual Incentives** | + | **Longer-term Performance: Long-term Incentive Plan** | + | **Full Career Performance: Retention, Pension and Savings** |

1. Current Salary and annual incentives that reflect actions and results over 12 months;

2. Longer-term A long-term incentive plan that reflects results over a minimum of three years, helping to ensure that current results remain sustainable; and

3. Full Career Deferrals, retention payments and retirement accumulations help ensure today s leaders stay with IBM until their working careers end.

COMPENSATION ELEMENTS FOR SENIOR LEADERS

On average, 87% of IBM s senior leaders annual compensation varies year to year based on business results, with the remainder coming from salary. In addition, 60% of the Chairman and CEO s annual pay and 63% of the Senior Vice Presidents (SVP) pay, on average, is in long term elements. This ensures that the interests of senior executives are aligned with stockholders.

**Current Year s Performance: Salary and Annual Incentives**

*Salary*. Senior leaders at IBM receive a small percentage of their overall compensation in salary. In 2008, for example, Chairman and CEO Sam Palmisano earned 10% of his compensation in salary, and the rest of the senior team earned an average of 13% of their average compensation in salary.

*Annual Incentive*. Senior leaders are incented through a program that sets performance targets based on their role and scope. Actual payments are driven by business performance against revenue growth, net income, and cash flow targets and individual performance, as reflected in the Personal Business Commitment review process described under How Compensation Decisions Are Made. Top performers earn the greatest payouts; median performers earn much smaller amounts; and the lowest performers earn no incentive payments at all. Over the past five years, these results-based payouts for individual leaders have ranged from 0.7 times target to a high of 1.66 times target. In 2008, the annual incentive earned by the Chairman and CEO represented 30% of his total compensation; incentives achieved by the rest of the senior team averaged 18% of their total compensation. Additional information about the Annual Incentive Program is outlined in Section 2 of this CD&A, Setting Performance Targets for Incentive Compensation.

*Team Incentive.* When Mr. Palmisano became CEO in 2002, he asked the Board of Directors to take a portion of the annual incentive funding (approximately $3 million) to help create a pool for rewarding teamwork by his most senior leaders. This was done to reinforce IBM s strategy of integration across the Company, with awards based on how well the SVPs lead efforts to deliver integrated value to IBM s clients worldwide. For the past six years, an amount ranging up to $250,000 was awarded and paid equally to each member of the senior team. The Chairman and CEO was not eligible to receive a team incentive. In 2008, the SVP team earned the maximum payout of $250,000 for the first time. This represented an average of 6% of total compensation for the SVPs. Given the team s achievement and in recognition that integration is now part of the management culture, the Team Incentive was discontinued beginning in 2009.

*Other Compensation*. Disclosure rules require that companies include certain items in the Summary Compensation Table column entitled All Other Compensation. At IBM, many of these items are available to all employees. In fact, additional programs that are restricted to senior executive participation amount to less than 1% of their total compensation on average. These programs are limited to services with a direct bearing on individual productivity or security. IBM s security practices provide that all air travel by the Chairman and CEO, including personal travel, be on Company aircraft. IBM does not provide any tax assistance to Mr. Palmisano in connection with taxes incurred for personal travel by him on the corporate aircraft. While the cost of corporate aircraft usage varies year to year based on several external factors like fuel costs, using corporate aircraft for all travel is a prudent step to ensure the safety of the Chairman and CEO given the breadth of IBM s operations in over 170 countries which includes many emerging markets where security threats are a reality. Given the personal travel security practice for the Chairman and CEO, family members periodically accompany him on the corporate aircraft. In accordance with tax requirements, income was imputed to Mr. Palmisano for personal travel by his family members on the corporate aircraft. In recognition of his family s personal travel, Mr. Palmisano has contributed $80,000 to the IBM International Foundation to fund contributions to the National Museum of African American History and Culture for which he serves as a member of the advisory council.

**Longer-Term Performance: Long-Term Incentive Plan**

Long-term incentive plans (LTIP) have been a focal point for much of the discussion over executive compensation in the past several years. Well-designed LTIPs ensure that senior leaders hold a competitive stake in their company s financial future. At the same time, the size of the awards reflects the value that the company and, ultimately, its investors place on the individual executive at the time. Any gain the executives realize in the long run from the program depends on what they and their colleagues do to drive the financial performance of the company. Under IBM s LTIP, senior leaders may receive certain grants of IBM equity, as explained below.

*Performance Share Unit (PSU) Grants*. This portion of the LTIP focuses senior leaders on delivering business performance over the next three years against two key financial metrics which drive long-term stockholder value earnings per share and cash flow. Through this program, senior leaders are eligible to earn a target number of shares of IBM stock at the end of a three-year performance period. The award pays out at the end of the three years depending on how well the Company performed against targets set at the beginning of the three-year period. The payouts are made in shares of stock, so the value goes up or down based on stock price performance from the beginning of the grant. Additional information about PSUs is set forth in Section 2 of this CD&A, Setting Performance Targets for Incentive Compensation.

Over the past eight years, program payouts have ranged from a low of 54% to a high of 147% of the target number of shares. In 2008, the long-term incentive grant to the Chairman and CEO was comprised entirely of PSUs, representing 60% of his total compensation assuming future performance at target. PSUs were, on average, 44% of the SVPs total compensation in 2008. In 2009, the annual long-term incentive grant for SVPs will be entirely PSUs.

The IBM Integration & Values Team (I&VT) consists of a select group of approximately 300 executives charged with working beyond the scope of their regular job responsibilities to drive growth through integration and demonstrating IBM s values. The Chairman and CEO may grant members of this group additional performance shares (Chairman s Performance Uplift) for delivering extraordinary results. The Chairman and CEO and SVPs are not eligible for these I&VT awards.

*Other Stock-Based Grants.* Another portion of the LTIP provides for stock-based grants to focus senior leaders on delivering performance that increases the value of the Company through growth of IBM s stock price over the long term. Senior leaders may receive these grants in the form of stock options, restricted stock, restricted stock units or any combination. The grants vest become available for sale or exercise over time, typically over either three or four years. Until vested, the grants have no value, except that dividend equivalents are paid on restricted stock units granted prior to January 1, 2008. For restricted stock units awarded after December 31, 2007, dividend equivalents are not paid. Executives awarded these grants typically hold them for extended periods, and have up to 10 years to convert stock option awards to cash or shares. The planned value of the annual other stock-based awards granted in 2008 represented, on average, 19% of the total compensation for the SVPs. As in 2008, the Board has not approved other stock-based grants for the Chairman and CEO in 2009. Similarly, the Compensation Committee has not approved other stock-based grants for the SVPs in 2009.

From 2005 through 2007, market-priced stock options were awarded to executives, including some named executive officers, who chose to participate in an IBM stock investment program. Under this program, which has since been discontinued, executives could invest 5, 10 or 15% of their annual incentive plan payout in IBM stock equivalents and receive IBM stock options, under the terms of the IBM Long-Term Performance Plan, valued at two times their investment.

The values of the other stock-based grants made in 2008 are shown in the Grants of Plan-Based Awards Table. The 2008 expense associated with all outstanding awards, including grants made in 2008 and prior years, is shown in the 2008 Summary Compensation Table.

**Full Career Performance:**

**Retention, Pension and Savings**

Retention of our key leaders for a full career is an important element of our total compensation strategy. This is accomplished through a combination of retention payments and retirement plans.

*Retention Stock-Based Grants & Cash Awards*. Periodically, Chairman and CEO Palmisano reviews outstanding stock-based awards for the members of his senior leadership team and other key executives. Depending on individual performance and the competitive environment for senior executive leadership talent, he may recommend that the Compensation Committee approve individual retention awards, in the form of restricted stock units or cash, for certain executives. The retention restricted stock unit (RRSU) grants typically vest at the end of five years, and the cash awards have a clawback (i.e., repayment clause) if an executive leaves IBM before a specified date. These awards make it more difficult for other companies to recruit IBM s top talent.

*Closed Retention Plan*. In 1995, IBM created a new plan to help retain, for their full careers, the caliber of senior leaders needed to turn the Company around, preserve its long-term viability, and position it for growth in the future. To discourage these leaders from joining competitors, their benefits under this retention plan would be forfeited if they left IBM prior to the end of a full career, typically age 60. The approach worked, as evidenced by the Company s historic turnaround in the late 1990s, and its current position of market leadership. Twelve of the Company s top 14 executives, including all of the named executive officers, were with IBM and eligible for the Retention Plan when it was introduced and remain with the Company today. Because its original purpose had been met, the plan was closed to new participants in 2004. Future accruals under the plan stopped on December 31, 2007, and the Retention Plan will not be replaced by any other plan.

*Pension*. Prior to 2008, IBM s senior executives and other IBM employees in the U.S. participated in pension plans. Future accruals under the pension plans stopped on December 31, 2007. The amount of the pension benefit under these plans is based on pay and service and determined by the same formulas for executives and non-executives.

*Savings*. The money that U.S. executives save through the IBM 401(k) Plus Plan (formerly the IBM Savings Plan), as for all U.S. employees, is eligible for a Company match. Prior to January 1, 2008, this match equaled 50% of the first 6% of eligible pay that participants save through the plan for those hired before January 1, 2005, and 100% of the first 6% saved for those hired after December 31, 2004. As announced in early 2006, effective January 1, 2008, the provisions of the Savings Plan were changed, and it was renamed the 401(k) Plus Plan, becoming the only tax-qualified retirement program available to IBM s U.S. employees for future deferrals and employer contributions. Under the new provisions of the plan, IBM matches a participant s own contributions dollar-for-dollar up to 6% of eligible pay for those hired before January 1, 2005, and up to 5% for those hired on or after that date. In addition, IBM makes automatic contributions to a participant s 401(k) Plus account equal to 1%, 2% or 4% of a participant s eligible pay depending on the participant s pension plan eligibility on December 31, 2007. Further, IBM contributes transition credits to participants who were eligible to receive transition credits under their Personal Pension Account. Transition credits are equal to 1%, 2%, 3% or 4% of a participant s eligible pay up to the Internal Revenue Code pay limit, based on a participant s age and service as of June 30, 1999. Transition credits will stop on the earliest of the following dates: (i) June 30, 2009, (ii) the date the participant reaches 30 years of service, or (iii) the participant s termination of employment. Matching contributions and automatic contributions are made once a participant has completed one year of service.

In the U.S., the Department of Labor and Internal Revenue Service also permit individuals who exceed certain income thresholds to defer, on a nonqualified basis, receipt of compensation they earn. This also allows IBM to delay paying these obligations and, until they come due and are paid, IBM retains the cash for operating purposes. In simple terms, this deferred compensation is money earned in the past, but not yet paid out. Amounts deferred into the Excess 401(k) Plus Plan are recordkeeping (notional) accounts and are not held in trust for the participants. Participants in IBM s nonqualified plan, the Excess 401(k) Plus Plan (formerly the Executive Deferred Compensation Plan) may invest their notional accounts in the primary investment options available to all employees through the 401(k) Plus Plan. Participants in the Excess 401(k) Plus Plan are also eligible to receive company match, automatic contributions, and transition credits, if applicable, on eligible pay deferred into the Excess 401(k) Plus

Plan and on money earned in excess of the Internal Revenue Code pay limit once they have completed one year of service. IBM does not pay guaranteed, above-market or preferential earnings on deferred compensation. For executives with long and successful careers at a single company, the deferrals can accumulate to sizeable amounts over time.

The current value of Chairman and CEO Palmisano s account, made up of money he earned during the past 13 years that the program has been available, is now worth approximately $30 million. Before he was named Chairman and CEO in January 2003, Mr. Palmisano had invested approximately $8 million of his compensation in the account. Mr. Palmisano could have chosen not to defer, taken these funds from IBM and put them in other investment vehicles. Had he done so, these numbers would not be disclosed here.

The table below shows the deferral elections and accumulated balances that are owed to the Chairman and CEO from his prior years earned compensation. Like all participants, Mr. Palmisano s savings are subject to investment returns. As a result, the value of these account balances will change over time depending on market performance. When Mr. Palmisano retires, the value of his deferrals under the Excess 401(k) Plus Plan will be paid to him in five equal installments over five years.

**Ten-Year History of Chairman and CEO Palmisano s Deferred Compensation (Nonqualified)**

| Year | Deferrals | IBM Match | Year End Balance |
|---|---|---|---|
| 1999 | $ 299,500 | $ 41,250 | $ 1,512,020 |
| 2000 | 1,280,125 | 45,088 | 2,525,162 |
| 2001 | 1,311,185 | 68,400 | 4,782,542 |
| 2002 | 5,021,815 | 130,600 | 8,796,332 |
| 2003 | 2,272,900 | 178,700 | 12,979,815 |
| 2004 | 6,020,881 | 208,600 | 20,935,482 |
| 2005 | 5,000,050 | 202,050 | 23,993,254 |
| 2006 | 5,729,377 | 205,350 | 34,942,721 |
| 2007 | 750,000 | 150,000 | 39,274,203 |
| 2008 | 94,200 | 389,000 | 30,677,476 |

HOW COMPENSATION DECISIONS ARE MADE

At any level, compensation reflects an employee s value to the business market value of skills, individual contribution and business results. To be sure we appropriately assess the value of senior leaders, IBM follows an evaluation process, described here in some detail:

**1. Making Commitments**

At the beginning of each year, all IBM employees, including Chairman and CEO Palmisano and the other senior leaders, make a Personal Business Commitment (PBC) of the goals, both qualitative and quantitative, they seek to achieve that year in support of the business. These commitments are reviewed and approved by each individual s manager. Chairman and CEO Palmisano s commitments are reviewed directly by the Board of Directors.

**2. Determining Senior Vice Presidents (SVPs) Compensation**

*Evaluation of Results by the Chairman and CEO*

Throughout the year, employees assess their progress against their PBCs. At year end, employees at all levels, including executives, work with their managers to evaluate their own results not only with regard to their stated goals, but in relation to how well their peers and the entire Company performed.

The self-assessments of the SVPs are reviewed by the Senior Vice President of Human Resources (SVP HR) and Chairman and CEO Palmisano, who evaluate the information, along with the following:

- Comparisons to market compensation levels for cash compensation and total direct compensation;
- Potential for future roles within IBM; and
- Total compensation levels relative to internal peers before and after any recommendations.

Following this in-depth review and in consultation with the SVP HR, Mr. Palmisano makes compensation recommendations to the Compensation Committee based on his evaluation of each senior manager s performance and expectations for the coming year.

*Evaluation of Results by the Compensation Committee*

The Compensation Committee decides whether to approve or adjust the Chairman and CEO s recommendations for the members of his team.

The Committee evaluates all of the factors considered by the Chairman and CEO and reviews compensation summaries for each senior leader that tally the dollar value of all compensation and related programs, including salary, annual incentive, long-term compensation, deferred compensation, retention payments and pension benefits.

**3. Determining Chairman and CEO Compensation  Research, Recommendations and Review**

IBM s SVP HR works directly with the chair of the Compensation Committee to provide a decision-making framework for use in making a recommendation for the Chairman and CEO s total compensation. This framework includes the Chairman and CEO s evaluation of how well he believes he performed against his commitments in the year, with an assessment of his performance against the Company s stated strategic objectives. In addition to the above, the Committee also reviews an analysis of IBM s total performance over the past year and a competitive benchmark analysis furnished by the Committee s outside consultant (Towers Perrin).

The Compensation Committee separately reviews all relevant information and arrives at its recommendation for the Chairman and CEO s total compensation. In this work, they are assisted by the Compensation Committee s outside consultant.

The final pay recommendation for the Chairman and CEO is presented to the independent directors on IBM s Board for further review, discussion and final approval. This process is followed every year.

**4. Ensuring Competitive Pay  Approach to Benchmarking**

IBM participates in several executive compensation bench-marking surveys that provide detail on levels of salary, target annual incentives and long-term incentives, the relative mix of short- and long-term incentives, and mix of cash and stock-based pay. We include in these surveys a broad range of key information technology companies, given the battle for talent that exists in our industry and to help us identify trends in the industry. We also include companies outside our industry, with stature, size and complexity that approximate our own, in recognition of the fact that competition for senior management talent is not limited to our industry. These surveys are supplemented by input from the Compensation Committee s outside consultant on factors such as recent market trends. The companies used in the benchmarking surveys for 2008 compensation decisions are listed below. The Committee reviews and approves this list annually. For 2009, the Committee has approved the same list of companies with the exception of AIG.

| | | |
|---|---|---|
| AIG | EDS | PepsiCo |
| Altria Group | Ford | Pfizer |
| Apple | General Electric | Procter & Gamble |
| AT&T | General Motors | Sprint |
| Bank of America | Hewlett-Packard | Sun Microsystems |
| Boeing | Honeywell | Texas Instruments |
| Chevron | Intel | United Technologies |
| Cisco Systems | Johnson & Johnson | Verizon |
| Citigroup | Lenovo | Walt Disney |
| Dell | Lockheed Martin | Wells Fargo |
| Dow Chemical | Microsoft | Xerox |
| DuPont | Motorola | |

The data from these surveys and related sources form the primary external view of the market, and the Company s philosophy is to generally target the median of the market for cash and total compensation for IBM job roles compared to jobs of similar size and complexity at companies within our benchmarking group. For individual compensation decisions, the information is used together with an internal view of longer-term potential and individual performance relative to other executives. For the Company s senior level executives, the Compensation Committee also takes into account long-term retention objectives, recognizing that their skills and experience are highly sought after by other companies and, in particular, by the Company s competitors.

**5. Compensation Committee Consultant**

The Committee currently retains a Managing Director of Towers Perrin as its outside compensation consultant to advise the Committee on market practices and the specific IBM policies and programs. This Managing Director does not perform any other consulting work for the Company, reports directly to the Compensation Committee Chairman, and takes direction from the Committee. The consultant s work for the Committee includes data analyses, market assessments, and preparation of related reports. The work done by Towers Perrin for the Committee is documented in a formal scope of work and contract which is executed by the consultant and the Committee.

Towers Perrin is one of the few human resource consulting companies with global capabilities, and the Company s engagements with Towers Perrin primarily involve advice outside the U.S. in a select number of countries where their capabilities lead others in these marketplaces with respect to local benefit issues such as pension design.

The Committee enters into a consulting agreement with its outside compensation consultant on an annual basis. In determining whether or not to renew the engagement with Towers Perrin, the Committee evaluates the quality of the consulting service and annually assesses the nature and significance of the Company s other engagements with Towers Perrin and the projected scope of work for the coming year. Based on the assessment for 2008, the Committee determined that the consultant is free of any relationships that would impair professional judgment and advice to the Compensation Committee.

CHAIRMAN AND CEO COMPENSATION DECISIONS FOR 2008 AND 2009

The Compensation Committee made decisions for the Chairman and CEO s 2008 and 2009 compensation following the process described above and using the pay components shown above. The Compensation Committee noted the following as key points regarding the Chairman and CEO s performance against his Personal Business Commitments for 2008:

- Achieved very strong financial performance including record revenue, profit, cash flow and earnings per share (EPS) in a challenging economic environment

- Continued to drive IBM to be the leading globally integrated enterprise

- Established a growth markets organization to capture the business opportunity in these fast growing economies

- Invested in workforce and leadership programs for employees worldwide to motivate high performance and drive business objectives

- Returned significant value to shareholders including increasing dividends from $2.1 billion in 2007 to $2.6 billion in 2008

- Increased IBM s leading market position in middleware and maintained leading market position in services and servers

- Generated highest services pre-tax profit dollars and margin in the last 5 years, driven in part by global delivery, quality and efficiency

- Expanded IBM s capabilities and financial performance through executing the acquisition strategy, including the integration of business intelligence leader Cognos

- Continued leadership in technology and innovation, earning more U.S. patents than any other company for the 16th consecutive year

The Committee considered these results and recommended that Mr. Palmisano receive $5,500,000 in annual incentive for his 2008 performance.

The Committee worked with its outside consultant (Towers Perrin) to review Mr. Palmisano s base salary, annual incentive target and long-term incentive award value using a framework of competitive benchmark analysis, Company performance and Mr. Palmisano s personal performance. Based on this review, the Committee recommended that Mr. Palmisano s base salary and target annual incentive for 2009 remain at $1,800,000 and $5,000,000, respectively.

The Committee recommended a 2009 long-term incentive award comprised entirely of 2009-2011 Performance Share Units valued at $12,000,000. The 2008 award was valued at $11,000,000. The 2009 grant will be made on June 8, 2009. The Committee chose the long-term incentive value to improve Mr. Palmisano s position relative to competitive benchmarks and to signal the Committee s desire for him to continue his focus on taking the steps necessary to position the Company for long-term success.

The Committee s recommendations were approved by the independent directors on IBM s Board.

SVP COMPENSATION DECISIONS FOR 2008 AND 2009

The Compensation Committee also made decisions for each of the executive officers following the process described above and using a mix of the components shown above. The Compensation Committee noted the following as key points for each of the other named executive officers:

*Mark Loughridge, Senior Vice President and Chief Financial Officer*

- Managed IBM s long-term financial model to perform ahead of plan

- Exceeded net income and EPS objectives

- Exceeded cash flow objectives in a difficult global economic environment

- Managed IBM s portfolio, including execution of 15 acquisitions

Following IBM s practice, the recommendations for Mr. Loughridge s compensation were ratified by the independent directors on IBM s Board.

*Michael E. Daniels, Senior Vice President, Global Technology Services*

- Exceeded cash flow and profit objectives
- Held market share while meeting profit and margin objectives
- Improved client satisfaction with focus on services excellence
- Continued to implement services product lines to drive financial performance

*Steven A. Mills, Senior Vice President, Software Group*

- Exceeded profit objectives
- Grew middleware brands faster than market
- Integrated acquisitions effectively
- Improved development practices resulting in greater efficiency

*Virginia M. Rometty, Senior Vice President, Global Business Services*

- Exceeded profit objectives and held market share

- Focused on industry offerings and integrator solutions to drive revenue growth

- Continued to implement operational transformation to increase profit margin and improve delivery excellence

- Completed initiatives to improve alignment of cross-IBM resources and improve client value

Based on these results and following the process outlined above, the Compensation Committee approved the following 2008 annual incentive payments for these named executive officers:

| | 2008 Incentive Payouts | |
|---|---|---|
| Name | Annual Incentive | Team Incentive |
| M. Loughridge | $ 1,072,500 | $ 250,000 |
| M.E. Daniels | 1,035,000 | 250,000 |
| S.A. Mills | 921,200 | 250,000 |
| V.M. Rometty | 892,500 | 250,000 |

The team incentive payment reflected Chairman and CEO Palmisano s assessment of the performance of his entire senior leadership team and their success in working together to integrate across business units to deliver strong 2008 business results.

For 2009, the Committee also approved the following compensation elements: base salary, target annual incentive and Performance Share Unit grants under the Long-Term Performance Plan. There is no change to the salary rate or target incentive from 2008. As previously stated, the team incentive has been eliminated beginning in 2009.

| | 2009 Cash | | 2009 Long-Term Incentive Awards |
|---|---|---|---|
| Name | Annual Salary Rate | Incentive Target | Performance Share Units(1) |
| M. Loughridge | $ 720,000 | $ 975,000 | $ 3,500,000 |
| M.E. Daniels | 665,000 | 900,000 | 3,000,000 |
| S.A. Mills | 695,000 | 940,000 | 3,000,000 |
| V.M. Rometty | 630,000 | 850,000 | 3,000,000 |

(1) Performance Share Units (PSUs) will be granted on June 8, 2009. The actual number of PSUs granted on this date will be determined by dividing the value shown above by a predetermined, formulaic planning price for the second quarter 2009. The PSUs will vest in their entirety in February 2012.

SENIOR LEADERS PERSONAL STAKE IN IBM S FUTURE

Investors want the leaders of their companies to act like owners. That alignment, we have found, works best when senior leaders have meaningful portions of their personal holdings invested in the stock of their company. This is why IBM sets significant stock ownership requirements for approximately 60 of the Company s senior leaders, including the Chairman and CEO. The following table illustrates which equity holdings count towards stock ownership requirements:

Included

- IBM shares owned personally or by members of the immediate family sharing the same household
- Holdings in the IBM Stock Fund of the 401(k) Plus Plan and the Excess 401(k) Plus Plan
- Shares of IBM stock deferred under the Excess 401(k) Plus Plan

Not Included

- Unvested equity awards, including RSUs, RRSUs, and PSUs
- Unexercised stock options

The Chairman and CEO and SVPs are all required to own IBM stock or equivalents worth three times their individual target cash compensation (their base salary plus the incentive payment they would earn if they hit their performance targets) within five years of hire or promotion. As a group, the Chairman and CEO and 14 SVPs own 1.26 million shares or equivalents valued at over $106 million as of December 31, 2008. Approximately 40 other senior leaders are required to hold IBM stock or equivalents worth one time their target cash compensation within five years of hire or promotion.

All of these approximately 60 leaders who have been in place for at least five years have met or exceeded their personal IBM ownership requirements. In fact, this group currently holds, on average, nearly four times more IBM stock or equivalents than the Company requires.

IBM MEETING MARKET STANDARDS FOR EXECUTIVE COMPENSATION

We recognize that the issue of executive pay is critical to stockholders and to members of the public whose hopes for the future rest substantially on trust in the conduct of those who run our corporations. Simply put, those who profit disproportionately to the value they create for stockholders and society, or the value they provide to clients, are breaking faith with all who would do business with them, and all who would risk their hard-earned savings in the future of an enterprise.

We have provided the information in these pages precisely because IBM works to keep that faith. We know that striking a balance between stockholders concept of fairness and the incentives needed to attract and retain a stellar executive team will always require sound judgment and careful thought. Business, markets, and people are too dynamic for mere formulaic solutions. The numbers can be best understood when the process behind them is transparent.

IBM s business has always been to help our clients succeed through innovative solutions. Our stockholders deserve no less. We welcome this discussion.

SECTION 2: ADDITIONAL INFORMATION

**Elements of Compensation Programs and Linkage to Objectives**

To supplement the discussion in Section 1 and as required by the SEC, the following is a description of the Company s compensation elements and the objectives they are designed to support. As noted in Section 1: Executive Compensation Summary, IBM s compensation practices are designed to meet five key objectives.

In total, these elements support the objective to balance rewards between short-term results and the long-term strategic decisions needed to ensure sustained business performance over time.

| Compensation Element/Eligibility | Description | Linkage to Compensation Objectives |
|---|---|---|
| **CURRENT YEAR PERFORMANCE** | | |
| Salary<br><br>*All executives including those executives listed in the proxy statement tables (Named Executive Officers or NEOs)* | Salary is a market-competitive, fixed level of compensation. | Attract and retain highly qualified leaders<br><br>Motivate high business performance |
| Annual Incentive<br><br>*All executives including NEOs* | Combined with salary, the target level of annual incentive provides a market-competitive total cash opportunity.<br><br>Actual annual incentive payout depends on individual and Company performance.<br><br>Lowest performers receive no incentive payment. | Attract and retain highly qualified leaders<br><br>Motivate high business performance<br><br>Vary compensation based on<br><br>individual and team performance |
| Team Incentive<br><br>*Senior Vice Presidents, including NEOs* | Incentive that provides additional cash compensation opportunity shared equally by the team members.<br><br>Incentive structured to encourage teaming, collaboration and integration across business units by the Chairman and CEO s senior team.<br><br>Incentive was eliminated beginning in 2009. | Motivate high business performance<br><br>Vary compensation based on team performance |

| Compensation Element/Eligibility | Description | Linkage to Compensation Objectives |
|---|---|---|
| **LONG-TERM INCENTIVE PLAN** | | |
| Performance Share Units (PSUs)<br><br>*Approximately 450 executives based on job scope including NEOs* | Equity grant value based on individual performance and retention objectives for each executive.<br><br>Grant value is converted to the number of shares granted by dividing the planned value by the predetermined, formulaic planning price* in effect for the quarter.<br><br>Number of shares granted is adjusted up or down at the end of the three-year performance period based on Company performance against earnings per share and cash flow targets.<br><br>Encourages sustained, long-term growth by linking portion of compensation to the long-term Company performance.<br><br>Paid in IBM shares upon completion of three-year performance period, linking the compensation value further to the long-term performance of IBM. | Align executive and stockholder interests<br><br>Attract and retain highly qualified leaders<br><br>Motivate high business performance |

* IBM s planning price is computed each quarter using a consistent statistical forecasting procedure based on historical IBM stock price data. IBM uses the quarterly planning price to aid in establishing the overall size of the equity plan and to give more consistency across equity grants made at different points in the quarter.

| Compensation Element/Eligibility | Description | Linkage to Compensation Objectives |
|---|---|---|
| **LONG-TERM INCENTIVE PLAN (CONTINUED)** | | |
| Chairman s Performance Uplift<br><br>*Select members of the I&VT (excluding Chairman and CEO and SVPs)* | Equity award decided annually by the Chairman and delivered to selected individuals in PSUs.<br><br>Selective recognition of those members of the Integration & Values Team (I&VT) who have demonstrated extraordinary results in driving growth through integration and demonstrating the IBM values.<br><br>Receiving an uplift award one year does not guarantee awards in following years. | Motivate high business performance<br><br>Vary compensation based on individual and team performance |
| Annual Stock-Based Grant<br><br>*All executives, including NEOs* | Annual equity grants are made in the form of restricted stock units (RSUs) or options, or some combination.<br><br>The amount of an annual grant is dependent on the level of the executive and individual performance with lowest performers receiving no grant.<br><br>Planned grant value is converted to the number of shares granted by dividing the planned value by the predetermined, formulaic planning price* in effect for the quarter and, for option grants, the respective Black-Scholes valuation factor.<br><br>Awards generally vest over a 1-4 year period. | Align executive and stockholder interests<br><br>Attract and retain highly qualified leaders<br><br>Motivate high business performance<br><br>Vary compensation based on individual and team performance |

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* IBM s planning price is computed each quarter using a consistent statistical forecasting procedure based on historical IBM stock price data. IBM uses the quarterly planning price to aid in establishing the overall size of the equity plan and to give more consistency across equity grants made at different points in the quarter.

| Compensation Element/Eligibility | Description | Linkage to Compensation Objectives |
|---|---|---|
| **RETENTION, PENSION & SAVINGS** | | |
| Retention Stock-Based Grant & Cash Awards<br><br>*Select executives determined each year, including some NEOs* | Periodically, management reviews the retention strategy for high-performing executives and may make retention equity grants or cash payments with a vesting provision to selected executives. | Align executive and stockholder interests<br><br>Retain highly qualified leaders |
| Pension and Savings Plans<br><br>*All executives, including NEOs* | Like all IBM employees, executives participate in the local pension plans and savings plans sponsored by IBM in their country under the same terms and conditions as all employees. | Attract and retain highly qualified leaders |
| Other Executive Retention Programs<br><br>*Select executives, including NEOs and some other executive officers* | Separate plans established more than 10 years ago in some countries (including the U.S.) to encourage full-career retention of key executives.<br><br>Important during a time of significant business transformation for IBM; the programs are now closed.<br><br>Accrual of future benefits under the retention plan stopped in the U.S. on December 31, 2007. | Attract and retain highly qualified leaders |
| Excess 401(k) Plus Plan<br><br>*U.S. employees with compensation expected to exceed applicable IRS limits, including NEOs* | Established in accordance with U.S. Department of Labor and Internal Revenue Service guidelines to provide employees with the ability to save for use after their career by deferring compensation in excess of limits applicable to 401(k) plans.<br><br>Prior to January 1, 2008, cash and equity could be deferred under the plan. Effective January 1, 2008, equity deferral elections can no longer be made under the plan. | Align executive and stockholder interests<br><br>Attract and retain highly qualified leaders |

**SETTING PERFORMANCE TARGETS FOR INCENTIVE COMPENSATION**

Compensation of our senior executive team is highly linked with Company performance against four key metrics, consistent with our overall financial model:

1. Revenue Growth

2. Net Income

3. EPS

4. Cash Flow

These metrics and their weightings align with IBM s financial model and are designed to appropriately balance both short- and long-term objectives. Targets are set for both the annual and long-term incentive programs at aggressive levels each year to motivate a high degree of business performance with emphasis on longer term financial objectives. These targets, individually or together, are designed to be challenging to attain, and as part of IBM s ongoing management system, targets are evaluated to ensure they do not include an inappropriate amount of risk. Targets are set within the parameters of our long-term financial model with profit expansion and growth objectives aligned with our roadmap to 2010 communicated to investors in May 2007.

IBM is not disclosing specific targets under the annual and long-term plans because it would signal IBM s strategic focus areas and impair IBM s ability to leverage these areas for competitive advantage. For example, disclosure of our cash flow targets would provide insight into timing of large capital investments or acquisitions. Knowledge of the targets could also be used by competitors to take advantage of insight into specific areas to target the recruitment of key skills from IBM. Disclosing the specific targets and metrics used in the qualitative assessment made by the Chairman and CEO would give our competitors our insight to key market dynamics and areas that could be used against IBM competitively by industry consultants or competitors targeting existing customers.

Our financial model is well communicated to investors and our performance targets are based on this model. We also describe the performance relative to the pre-set objectives in our discussion of named executive officer compensation decisions. Finally, outlined below is a description of the specific metrics and weightings for the Annual Incentive and the Performance Share Unit Programs.

**ANNUAL INCENTIVE PROGRAM**

The Company sets business objectives at the beginning of each year that are reviewed by the Board of Directors. These objectives translate to targets for the Company and for each business unit for purposes of determining the target funding of the Annual Incentive Program. Actual funding levels can vary from 0% to 200% of target, depending on performance against objectives. At the end of the year, management assesses the financial performance for the Company based on performance against financial metrics. Each year the Compensation Committee and the Board of Directors review IBM s annual business objectives and set the metrics and weightings for the annual program reflecting current business priorities. The metrics and weightings for 2008 and 2009 are listed below.

| **Financial Metric** | **2008 Weighting in Overall Score** | **2009 Weighting in Overall Score** |
|---|---|---|
| Net Income | 60% | 60% |
| Revenue Growth | 30% | 20% |
| Cash Flow | 10% | 20% |

Overall funding for the Annual Incentive Program is based on the performance results against these targets and is typically not adjusted except for extraordinary events if deemed appropriate by the Chairman and CEO and Compensation Committee. This adjustment can be either up or down. For example, adjustments are usually made for large divestitures and acquisitions. In 2008, no adjustments for extraordinary events were made. In addition, an adjustment can be recommended by the Chairman and CEO based on factors such as individual and unit performance, client satisfaction, market share growth and workforce development, among others. The Compensation Committee reviews the financial scoring and qualitative adjustments and approves the Annual Incentive Program funding level. Once the funding level has been approved, a lower-performing executive will receive as little as zero payout and the most exceptional performers are capped at three times target (payouts at that level are rare and only possible when IBM s performance has also been exceptional).

**PERFORMANCE SHARE UNIT PROGRAM**

EPS and cash flow targets for the Performance Share Unit program are set at the beginning of each three-year performance period, taking into account the Company s financial model shared with investors, including the impact our share buyback program has on EPS. At the end of the three years, the score is calculated based on results against the predetermined targets, with the following weights:

| Financial Metric | 2008 and 2009 Weighting in Overall Score |
|---|---|
| Earnings Per Share (EPS) | 80% |
| Cash Flow | 20% |

Adjustments can be made for extraordinary events if deemed appropriate by the Chairman and CEO and Compensation Committee for example, large divestitures. In 2008, no adjustments were made.

The final score, which is approved by the Compensation Committee, adjusts the planned value of the actual Performance Share Unit award from 0% to 150%. There is no discretionary adjustment to the Performance Share Unit program score.

**EQUITY AWARD PRACTICES**

Under IBM s long-standing practices and policies, all equity awards are approved before or on the date of grant. The exercise price of at-the-money stock options is the average of the high and low market price on the date of grant or, in the case of premium-priced stock options, 10% above that average.

The approval process specifies the individual receiving the grant, the number of units or the value of the award, the exercise price or formula for determining the exercise price, and the date of grant. All equity awards for senior management are approved by the Compensation Committee. All equity awards for employees other than senior management are approved by senior management pursuant to a series of delegations that were approved by the Compensation Committee, and the grants made pursuant to these delegations are reviewed periodically with the Committee.

Equity awards granted as part of annual total compensation for senior management and other employees are made on specific cycle dates scheduled in advance. IBM s policy for new hires and promotions requires approval of any awards before the grant date, which is typically the date of the promotion or hire.

**ETHICAL CONDUCT**

Every executive is held accountable to comply with IBM s high ethical standards: IBM s Values, including Trust and Personal Responsibility in all Relationships, and IBM s Business Conduct Guidelines. This responsibility is reflected in each executive s Personal Business Commitments, and is reinforced through each executive s annual certification to the IBM Business Conduct Guidelines. An executive s compensation is tied to compliance with these standards; compliance is also a condition of IBM employment for each executive.

The Company s equity plans and agreements have a clawback provision awards will be cancelled and certain gains must be repaid if an executive engages in activity that is detrimental to the Company, such as violating the Company s Business Conduct Guidelines, disclosing confidential information, or performing services for a competitor. Annual cash incentive payments are also conditioned on compliance with these Guidelines.

In addition, approximately 400 of our key executives (including each of the named executive officers) have agreed to a non-competition, non-solicitation agreement that prevents them from working for certain competitors within 12 months of leaving IBM or soliciting employees within two years of leaving IBM.

The Committee has also implemented a policy for the clawback of cash incentive payments in the event an officer s conduct leads to a restatement of the Company s financial results, as follows:

To the extent permitted by governing law, the Company will seek to recoup any bonus or incentive paid to any executive officer if (i) the amount of such payment was based on the achievement of certain financial results that were subsequently the subject of a restatement, (ii) the Board determines that such officer engaged in misconduct that resulted in the obligation to restate, and (iii) a lower payment would have been made to the officer based upon the restated financial results.

**HEDGING PRACTICES**

The Company does not allow any member of the I&VT, including any named executive officer, to enter into any derivative transaction on IBM stock, including any short-sale, forward, option, collar, etc.

**TAX CONSIDERATIONS**

Section 162(m) of the U.S. Internal Revenue Code of 1986, as amended, limits deductibility of compensation in excess of $1 million paid to the Company s CEO and to each of the other three highest-paid executive officers (not including the Company s chief financial officer) unless this compensation qualifies as performance-based. Based on the applicable tax regulations, taxable compensation derived from certain stock appreciation rights and from the exercise of stock options by senior executives under the Company s Long-Term Performance Plans should qualify as performance-based. The IBM Excess 401(k) Plus Plan (formerly the Executive Deferred Compensation Plan) permits an executive officer who is subject to section 162(m) and whose salary is above $1 million to defer payment of a sufficient amount of the salary to bring it below the section 162(m) limit. In 1999, the Company s stockholders approved the terms under which the Company s annual and long-term performance incentive awards should qualify as performance-based. In 2004, as required by the Internal Revenue Code, the stockholders again approved the terms under which long-term performance incentive awards should qualify as performance-based. In this Proxy Statement, stockholders are being asked again to approve terms for the long-term performance incentive awards. These terms do not preclude the Committee from making any payments or granting any awards, whether or not such payments or awards qualify for tax deductibility under section 162(m), which may be appropriate to retain and motivate key executives.

**2008 Summary Compensation Table Narrative**

SALARY (COLUMN (C))

Amounts shown in the salary column reflect the salary amount paid to each named executive officer during 2008.

- IBM reviews salaries for each named executive officer annually during a common review cycle. In 2008, salary increases for named executive officers took effect on June 1.

- See Section 1 of the 2008 Compensation Discussion and Analysis for an explanation of the amount of salary, bonus and other compensation elements in proportion to total compensation.

BONUS (COLUMN (D))

Amounts shown in the Bonus column represent payouts of the Team Incentive. Amounts in this column do not include payments under the IBM Annual Incentive Plan, which are included under column (g) (Non-Equity Incentive Plan Compensation).

**Team Incentive**

**GENERAL TERMS**

- See 2008 Compensation Discussion and Analysis for an explanation of the Team Incentive. Only the SVPs participated in this program; each participant received the same payout. The Team Incentive program was discontinued beginning in 2009.

- The Chairman and CEO determined how well the participants performed as a team over the course of the year and set the payout amount which was approved by the Compensation Committee.

**PERFORMANCE PERIOD AND PAYOUT RANGE**

- This was an annual program with a performance period from January 1 to December 31. Payout occurred no later than March 15 of the year following the performance period.

- Minimum annual payout of $0. Maximum annual payout of $250,000. There was no target.

STOCK AWARDS TOTAL (COLUMN (E))

Amounts shown in the Stock Awards Total column are comprised of three different types of awards (Performance Share Units, Restricted Stock Units and Retention Restricted Stock Units), presented separately to enhance understanding. The amounts shown in the columns for Performance Share Units, Restricted Stock Units and Retention Restricted Stock Units are the dollar amounts recognized for financial statement reporting purposes in 2008 in accordance with FAS 123R for equity award expense (excluding any risk of forfeiture, per SEC regulations). Equity expense calculations for financial statement purposes spread the grant date cost of those awards over the vesting period. Therefore, amounts in this column include the expense for awards granted in 2008 and previous years. All of these awards were granted to the named executive officers under IBM s 1999 or 1997 Long-Term Performance Plan (LTPP).

**Performance Share Units (PSUs)**

The following describes the material terms and conditions of PSUs as reported in the column titled Performance Share Units (column (e)) in the 2008 Summary Compensation Table and in the columns under the heading Estimated Future Payouts Under Equity Incentive Plan Awards (columns (f), (g) and (h)) in the 2008 Grants of Plan-Based Awards Table.

**GENERAL TERMS**

- One PSU is equivalent in value to one share of IBM common stock. PSUs are paid out in IBM common stock after the three-year performance period.

- Executive officers are awarded a number of PSUs each year at the beginning of the three-year performance period.

- Performance targets for cumulative three-year attainment in earnings per share and cash flow are set at the beginning of the three-year period. These targets are approved by the Compensation Committee.

- At the end of the three-year performance period, the Compensation Committee approves the determination of actual performance relative to pre-established targets.

- At the end of the performance period, that number of PSUs is adjusted up or down based on the approved actual performance relative to the pre-established targets.

- The performance period for the awards made in 2008 is January 1, 2008 through December 31, 2010.

- There are no dividends or dividend equivalents paid on PSUs.

**VESTING AND PAYOUT CALCULATIONS**

- PSU awards granted in 2008 will be adjusted for performance (as described below) and will be paid in IBM common stock on February 1, 2011 if the executive has been continuously employed by IBM as of that date.

- See 2008 Potential Payments Upon Termination Narrative for information on payout of unvested PSUs upon certain separations.

- Payout of PSUs is determined by separately assessing performance against each of the pre-established targets. Payout will not be made for performance below the thresholds, as described below.

- For PSUs that were paid out on or before February 1, 2008, the executive could have elected, at least six months prior to vesting, to defer payment of these shares into the IBM Excess 401(k) Plus Plan (formerly the IBM Executive Deferred Compensation Plan). For PSUs that pay out after February 1, 2008, deferrals are not permitted.

- See Section 2 of the Compensation Discussion and Analysis for information on setting performance targets for the PSU program.

*Threshold Number:*

- The Threshold number of PSUs (listed in column (f) of the 2008 Grants of Plan-Based Awards Table) is 25% of the Target number.

- The Threshold number of PSUs will be earned for achievement of 70% of both business objectives (earnings per share and cash flow).

- If only the cumulative earnings-per-share target is met at the Threshold level (and the cash flow target is not met), the number of PSUs earned would be 80% of the Threshold number.

- If only the cumulative cash flow target is met at the Threshold level (and the earnings-per-share target is not met), the number of PSUs earned would be 20% of the Threshold number.

*Target Number:*

The Target number of PSUs (listed in column (g) of the 2008 Grants of Plan-Based Awards Table) will be earned if 100% of the objectives are achieved.

*Maximum Number:*

- The Maximum number of PSUs (listed in column (h) of the 2008 Grants of Plan-Based Awards Table) is 150% of the Target number.

- The Maximum number of PSUs will be earned for achieving 120% of both business objectives.

**Restricted Stock Units (RSUs)**

The following describes the material terms and conditions of RSUs as reported in the column titled Restricted Stock Units (column (e)) in the 2008 Summary Compensation Table and in the column titled All Other Stock Awards: Number of Shares of Stock or Units (column (i)) in the 2008 Grants of Plan-Based Awards Table.

**GENERAL TERMS**

- One RSU is equivalent in value to one share of IBM common stock. RSUs are generally paid out in IBM common stock at vesting.

- RSUs granted before January 1, 2008 earn dividend equivalents at the same rate and at the same time as the dividends paid to IBM stockholders.

**VESTING AND PAYOUT**

- Vesting periods for RSUs typically range from one to four years.

- Payout at each vesting date is contingent on the recipient remaining employed by IBM through that vesting date.

- See 2008 Potential Payments Upon Termination Narrative for information on payout of unvested RSUs upon certain separations.

- From time to time, special performance-based RSUs may be granted with performance contingent vesting.

**Retention Restricted Stock Units (RRSUs)**

The following describes the material terms and conditions of RRSUs as reported in the column titled Retention Restricted Stock Units (column (e)) in the 2008 Summary Compensation Table and in the column titled All Other Stock Awards: Number of Shares of Stock or Units (column (i)) in the 2008 Grants of Plan-Based Awards Table.

**TERMS, VESTING AND PAYOUT**

- RRSUs have the same general terms as RSUs. These awards are typically given to select senior executives for the purpose of providing additional value to retain the executive through the vesting date.

- Vesting periods for RRSUs typically range from two to five years and can be as long as ten years.

- Payout is contingent on the recipient remaining employed by IBM until the end of each vesting period.

- For RRSUs granted on or before December 31, 2007, the executive could have elected to defer payment of those shares into the IBM Excess 401(k) Plus Plan (formerly the IBM Executive Deferred Compensation Plan). For RRSUs granted on or after January 1, 2008, deferrals are not permitted.

OPTION AWARDS (COLUMN (F))

Amounts shown in the Options Awards Total column are comprised of two different types of awards (Premium Priced Options and Market Priced Options), presented separately to enhance understanding. The amounts shown in the columns for Premium Priced Options and Market Priced Options are the dollar amounts recognized for financial statement reporting purposes in 2008 in accordance with FAS 123R for equity award expense (excluding any risk of forfeiture, per SEC regulations). Equity expense calculations for financial statement purposes spread the grant date cost of those awards over the vesting period. Therefore, amounts in this column include the expense for awards granted in 2008 and previous years. All of these options were granted to the named executive officers under IBM s 1999 LTPP.

**GENERAL TERMS**

- Options generally expire ten years after the date of grant.

- In accordance with IBM s LTPP, the exercise price of stock options is not less than the average of the high and low prices of IBM common stock on the New York Stock Exchange (NYSE) on the date of grant.

- The option recipient must remain employed by IBM through each vesting date in order to receive any potential payout value.

*Premium priced options:*

- The exercise price is equal to 110% of the average of the high and low prices of IBM common stock on the NYSE on the date of grant.

- These options vest in four equal increments on the first four anniversaries of the grant date, except if otherwise noted.

*Market priced options:*

- The exercise price is equal to the average of the high and low prices of IBM common stock on the NYSE on the date of grant.

- These options generally vest 100% on the third anniversary of the date of grant.

- From 2005 to 2007, market priced options were awarded to named executive officers who participated in the IBM stock investment program (the Buy-First Program) by agreeing to invest 5, 10, or 15% of their annual incentive plan payout in the IBM Stock Fund under the nonqualified deferred compensation plan.

NON-EQUITY INCENTIVE PLAN COMPENSATION (COLUMN (G))

Amounts in this column represent payments under IBM s Annual Incentive Plan (AIP).

**GENERAL TERMS**

- All executive officers, including the Chairman and CEO, participate in this plan. The performance period is the fiscal year (January 1 through December 31, 2008).

- Performance goals are set annually in the beginning of the year and generally encompass corporate-wide goals and business unit goals.

- See Section 2 of the Compensation Discussion and Analysis for information on setting performance targets for AIP.

**PAYOUT RANGE**

- The Chairman and CEO had a target of $5,000,000.

- Each named executive officer other than the Chairman and CEO had a target of approximately 135% of salary rate for 2008.

- Threshold payout for each named executive officer is $0 (see column (c) of the 2008 Grants of Plan-Based Awards Table).

- Maximum payout for each named executive officer is three times the target (see column (e) of the 2008 Grants of Plan-Based Awards Table).

**VESTING AND PAYOUT**

- In addition to performance against corporate-wide and business unit goals, individual performance against goals set at the beginning of the year determine payout amount.

- An executive generally must be employed by IBM at the end of the performance period in order to be eligible to receive an AIP payout. At the discretion of appropriate senior management, the Compensation Committee, or the Board, an executive may receive a prorated payout of AIP upon retirement.

- AIP payouts earned between January 1, 2008 and December 31, 2008 will be paid on or before March 15, 2009.

CHANGE IN RETENTION PLAN VALUE (COLUMN (H))

- Amounts in the column titled Change in Retention Plan Value represent the annual change in retention plan value from December 31, 2007 to December 31, 2008 for each named executive officer.

- See the 2008 Retention Plan Narrative for a description of the Retention Plan.

CHANGE IN PENSION VALUE (COLUMN (H))

- Amounts in the column titled Change in Pension Value represent the annual change in pension value from December 31, 2007 to December 31, 2008 for each named executive officer.

- See the 2008 Pension Benefits Narrative for a description of the IBM Pension Plans.

NONQUALIFIED DEFERRED COMPENSATION EARNINGS (COLUMN (H))

- IBM does not pay above-market or preferential earnings on nonqualified deferred compensation.

- See the 2008 Nonqualified Deferred Compensation Narrative for a description of the nonqualified deferred compensation plans in which the named executive officers may participate.

ALL OTHER COMPENSATION (COLUMN (I))

Amounts in this column represent the following as applicable:

**TAX REIMBURSEMENTS**

- Amounts represent payments that the Company has made to the named executive officers to cover taxes incurred by them for certain business-related taxable expenses.

- These expenses are: family travel to and attendance at Company-related events; and for the Chairman and CEO, commutation in Company-leased cars (see Personal Use of Company Autos below).

**COMPANY CONTRIBUTIONS TO DEFINED CONTRIBUTION PLANS**

- Amounts represent Company matching and automatic contributions to the individual accounts for each named executive officer.

- Under IBM s 401(k) Plus Plan, for those participants who were hired before January 1, 2005, which includes all the named executive officers, and who defer contributions into the plan, the Company matches up to 6% of a participant s eligible compensation. For those participants who were hired on or after January 1, 2005, the Company matches up to 5% of a participant s eligible compensation. In addition, for those participants hired before January 1, 2005, the Company makes an automatic contribution to eligible participants in an amount equal to 2-4% of a participant s eligible compensation, and for those participants hired on or after January 1, 2005, the automatic contribution is equal to 1% of eligible compensation.

- Under IBM s Excess 401(k) Plus Plan, for employees hired before January 1, 2005, which includes all of the named executive officers, this match is equal to (i) 6% of compensation that a participant defers before reaching the IRS pay limit and (ii) 6% of the participant s eligible pay after reaching the IRS pay limit. For participants hired on or after January 1, 2005, the match is equal to (i) 5% of compensation that the participant defers before reaching the IRS pay limit and (ii) 5% of the participant s eligible pay after reaching the IRS pay limit. In addition, for those participants hired before January 1, 2005, the Company makes an automatic contribution to eligible participants in an amount equal to 2-4% of (i) compensation that the participant defers and (ii) compensation in excess of the IRS compensation limit for such year. For participants hired on or after January 1, 2005, the automatic contribution is 1% of (i) the compensation that the participant defers and (ii) compensation in excess of the IRS compensation limit for such year.

- See the 2008 Nonqualified Deferred Compensation Narrative for additional details on the nonqualified deferred compensation plans in which the named executive officers may participate.

**LIFE INSURANCE PREMIUMS**

- Amounts represent life insurance premiums paid by the Company on behalf of the named executive officers.

- These executive officers are covered by life insurance policies under the same terms as other U.S. full-time regular employees.

- Life insurance for employees and executives hired before January 1, 2004 is two times salary plus annual incentive plan payout, with a maximum coverage amount of $2,000,000.

- In addition, IBM provides Travel Accident Insurance for most employees in connection with business travel. Travel Accident Insurance for employees and executives is five times salary plus incentive with a maximum coverage amount of $15,000,000.

**DIVIDEND EQUIVALENTS**

- Amounts represent dividend equivalents paid in cash to the named executive officers in 2008 on RSUs granted before January 1, 2008 that have not yet vested and on any shares of IBM stock for which the officers deferred receipt under the Excess 401(k) Plus Plan.

- Dividend equivalents are paid on unvested RSUs and RRSUs granted prior to January 1, 2008 and on Deferred IBM Shares, in each case, at the same rate and at the same time as the dividends paid to IBM stockholders. IBM does not pay dividend equivalents on PSUs or stock options.

- See the 2008 Nonqualified Deferred Compensation Narrative for a description of the nonqualified deferred compensation plan, including Deferred IBM Shares.

**Perquisites**

The following describes perquisites (and their aggregate incremental cost calculations) provided to the named executive officers in 2008.

**PERSONAL FINANCIAL PLANNING**

In 2008, IBM offered financial planning services with coverage generally up to $14,000 annually for each named executive officer.

**PERSONAL TRAVEL ON COMPANY AIRCRAFT**

*General Information*

- Amounts represent the aggregate incremental cost to IBM for travel not directly related to IBM business.

- IBM s security practices provide that all air travel by the Chairman and CEO, including personal travel, be on Company aircraft; the aggregate incremental cost for his personal travel is included in this column. These amounts also include the aggregate incremental cost, if any, of travel by his family or other non-IBM employees on both business and non-business occasions.

- Additionally, personal travel on IBM aircraft by named executive officers other than the Chairman and CEO, and the aggregate incremental cost, if any, of travel by the officer s family or other non-IBM employees when accompanying the officer on both business and non-business occasions is also included.

- Also, from time to time, named executive officers who are members of the boards of directors of other companies and non-profit organizations travel on IBM aircraft to those outside board meetings. These amounts include travel related to participation on these outside boards.

- Travel by named executive officers for an annual physical under the corporate wellness program is included in these amounts.

*Aggregate Incremental cost calculation*

- The aggregate incremental cost for the use of Company aircraft for personal travel, including travel to outside boards, is calculated by multiplying the hourly variable cost rate for the aircraft used by the hours used.

- The hourly variable cost rate includes fuel, oil, parking/landing fees, crew expenses, aircraft maintenance (based on the hourly operation of the aircraft) and catering.

- The rate for each aircraft is periodically reviewed by IBM s flight operations team and adjusted as necessary to reflect changes in costs.

- The aggregate incremental cost includes deadhead flights (i.e., empty flights to and from the IBM hangar or any other location).

- The aggregate incremental cost for charter flights is the full cost to IBM of the charter.

**PERSONAL USE OF COMPANY AUTOS**

*General Information*

- IBM s security practices provide that the Chairman and CEO be driven to and from work by IBM personnel in a car leased by IBM.

- In addition, under IBM s security practices, the Chairman and CEO may use a Company-leased car with an IBM driver for non-business occasions, and his family may use a Company-leased car on non-business occasions or when accompanying him on business occasions.

- Family members and other non-IBM employees may accompany named executive officers other than the Chairman and CEO in a Company-leased car on business occasions.

- Amounts reflect the aggregate incremental cost, if any, for the above-referenced items.

*Aggregate Incremental Cost Calculation*

- The incremental cost for the car and driver for commutation and non-business events is calculated by multiplying the variable rate by the number of trips.

- The variable rate includes drivers salary and overtime payments, fuel, maintenance, tolls, parking, and drivers meals.

**PERSONAL SECURITY**

*General Information*

- Under IBM s security practices, IBM provides security personnel for the Chairman and CEO on certain non-business occasions and for his family on certain non-business occasions or when accompanying him on business occasions.

- Amounts include the aggregate incremental cost, if any, of security personnel for those occasions.

- In addition, amounts also include the cost of home security systems and monitoring for the Chairman and CEO and the specified named executive officers.

*Aggregate Incremental cost calculation*

- The aggregate incremental cost for security personnel is the cost of any commercial airfare to and from the destination, hotels, meals, car services, and salary and travel expenses of any additional subcontracted personnel if needed.

- The aggregate incremental cost for installation, maintenance and monitoring services for home security systems reflects the costs of these items.

**ANNUAL EXECUTIVE PHYSICAL**

- IBM covers the cost of an annual executive physical for the named executive officers under the Company s corporate wellness program.

- Amounts represent payments by IBM for the specified named executive officers under this program.

**FAMILY TRAVEL AND ATTENDANCE AT COMPANY-RELATED EVENTS**

- Company-related events may include meetings, dinners and receptions with IBM s clients, executive management or Board of Directors attended by the named executive officers and their family members.

- Amounts represent the aggregate incremental cost, if any, of commercial travel and/or meals and entertainment for the family members of the named executive officers to attend Company-related events.

**OTHER PERSONAL EXPENSES**

- Amounts represent the cost of meals and lodging for executives who traveled for their annual executive physical under the Company s corporate wellness program.

- Amounts also include expenses associated with participation on outside boards other than those disclosed as Personal Travel on Company Aircraft.

- Amounts also include ground transportation expenses and administrative charges incurred by executives.

**2008 Summary Compensation Table**

| Name and Principal Position(a) | Year (b) | Salary ($) (c) | Bonus ($) (d) | Perform-ance Share Units (1) ($) (e) | Restricted Stock Units (1) ($) (e) | Retention Restricted Stock Units (1) ($) (e) | Stock Awards Total (2) ($) (e) | Premium Priced Options (3) ($) (f) | Market Priced Options (3) ($) (f) | Option Awards Total (4) ($) (f) | Non-Equity Incentive Plan Compen-sation ($) (g) | Change in Retention Plan Value (5) ($) (h) | Chan in Pensio Valu (6) ($ (h) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| S.J. Palmisano | 2008 | $1,800,000 | $0 | $10,871,676 | $1,082,107 | $624,650 | $12,578,433 | $2,179,850 | $1,038,873 | $3,218,723 | $5,500,000 | $1,546,898 | $2,452, |
| Chairman, President | | | | | | | | | | | | | |
| and CEO | 2007 | 1,800,000 | 0 | 6,455,239 | 721,405 | 624,650 | 7,801,294 | 4,101,569 | 1,383,997 | 5,485,566 | 5,800,000 | 817,195 | 2,438, |
| | 2006 | 1,750,000 | 0 | 5,342,100 | 495,283 | 624,650 | 6,462,033 | 3,934,012 | 2,449,936 | 6,383,948 | 5,000,000 | 1,615,832 | 2,329, |
| M. Loughridge | 2008 | 707,500 | 250,000 | 2,763,777 | 937,513 | 345,247 | 4,046,537 | 556,266 | 147,957 | 704,223 | 1,072,500 | 238,684 | 490, |
| Senior VP and CFO | 2007 | 685,834 | 220,000 | 1,534,287 | 555,631 | 356,227 | 2,446,145 | 833,825 | 201,879 | 1,035,704 | 1,168,750 | 618,103 | 822, |
| | 2006 | 659,167 | 200,000 | 979,974 | 232,763 | 574,522 | 1,787,259 | 780,616 | 310,670 | 1,091,286 | 920,000 | 465,512 | 698, |
| M.E. Daniels(11) | 2008 | 652,500 | 250,000 | 2,236,352 | 762,196 | 1,385,786 | 4,384,334 | 488,610 | 0 | 488,610 | 1,035,000 | 175,310 | 345, |
| Senior VP, Global | | | | | | | | | | | | | |
| Technology Services | 2007 | 620,417 | 220,000 | 1,325,988 | 446,201 | 736,847 | 2,509,036 | 796,085 | 33,531 | 829,616 | 1,066,400 | 541,037 | 748, |
| S.A. Mills | 2008 | 684,584 | 250,000 | 2,465,477 | 836,510 | 472,756 | 3,774,743 | 555,866 | 204,982 | 760,848 | 921,200 | 295,617 | 523, |
| Senior VP, Software | | | | | | | | | | | | | |
| Group | 2007 | 657,501 | 220,000 | 1,495,085 | 506,088 | 544,879 | 2,546,052 | 985,578 | 263,859 | 1,249,437 | 850,700 | 347,596 | 781, |
| | 2006 | 621,251 | 200,000 | 1,142,409 | 217,245 | 584,206 | 1,943,860 | 935,918 | 521,027 | 1,456,945 | 865,000 | 322,046 | 491, |
| V.M. Rometty(12) | 2008 | 617,500 | 250,000 | 2,147,321 | 730,678 | 1,217,794 | 4,095,793 | 475,096 | 2,683 | 477,779 | 892,500 | 84,934 | 265, |
| Senior VP, Global | | | | | | | | | | | | | |
| Business Services | | | | | | | | | | | | | |

(1) The expense for the Performance Share Units, Restricted Stock Units and Retention Restricted Stock Units above was computed in accordance with FAS 123R (excluding risk of forfeiture) by multiplying the number of units granted by the average high and low stock prices of IBM stock on the NYSE on the date of grant, except the 2008 expense for Performance Share Units, Restricted Stock Units and Retention Restricted Stock Units granted after January 1, 2008 reflects an adjustment for the exclusion of dividend equivalents.

(2) The amounts in this column reflect the total of the previous three columns (Performance Share Units, Restricted Stock Units and Retention Restricted Stock Units).

(3) For assumptions used in determining the fair value of stock option awards granted, see Note T (Stock-Based Compensation) to the Company s 2008 Consolidated Financial Statements for the assumptions used in 2006, 2007 and 2008. In addition, see Note U (Stock-Based Compensation) to the Company s 2006 Consolidated Financial Statements for assumptions used in 2004 and 2005. There were no premium priced or market priced options granted in 2008; the amounts shown above for 2008 reflect the expense in 2008 for previously-granted options.

(4) The amounts in this column reflect the total of the previous two columns (Premium Priced Options and Market Priced Options).

(5) Assumptions used to calculate this amount can be found immediately after the 2008 Retention Plan Table.

(6) Assumptions used to calculate this amount can be found immediately after the 2008 Pension Benefits Table.

(7) IBM does not provide above-market or preferential earnings on deferred compensation.

(8) Amounts in this column include the following: for Mr. Palmisano: tax reimbursements of $15,199, Company contributions to defined contribution plans of $412,000 and dividend equivalents of $453,397; for Mr. Loughridge: Company contributions to defined contribution plans of $209,625 and dividend equivalents of $129,151; for Mr. Daniels: tax reimbursements of $22,936, Company contributions to defined contribution plans of $116,706 and dividend equivalents of $142,241; for Mr. Mills: Company contributions to defined contribution plans of $175,528 and dividend equivalents of $68,521; and for Ms. Rometty: Company contributions to defined contribution plans of $172,850 and dividend equivalents of $190,473.

(9) Amounts in this column also include the following perquisites: for Mr. Palmisano: personal financial planning, personal travel on Company aircraft of $493,881, personal use of company autos, personal security, and family attendance at Company-related events; for Mr. Loughridge: personal travel on Company aircraft, annual executive physical, family attendance at Company- related events and other personal expenses; for Mr. Daniels: personal financial planning, personal travel on Company aircraft and family attendance at Company-related events of $30,955; for Mr. Mills: personal financial planning, personal security and family attendance at Company-related events; and for Ms. Rometty: personal financial planning, personal travel on Company aircraft, annual executive physical, family attendance at Company-related events and other personal expenses. See the 2008 Summary Compensation Table Narrative for a description of these items and information about the aggregate incremental cost calculations for perquisites.

(10) The amounts in this column reflect the total of the following columns: Salary, Bonus, Stock Awards Total, Option Awards Total, Non-Equity Incentive Plan Compensation, Change in Retention Plan Value, Change in Pension Value, Nonqualified Deferred Compensation Earnings and All Other Compensation.

(11) Mr. Daniels was not a named executive officer in the Company s 2007 Proxy Statement. Therefore, this table does not provide 2006 data for him.

(12) Ms. Rometty was not a named executive officer in the Company s 2007 and 2008 Proxy Statements. Therefore, this table does not provide 2006 and 2007 data for her. In early 2009, Ms. Rometty assumed the position of Senior VP, Global Sales and Distribution.

**2008 Grants of Plan-Based Awards Table**

| | | | | Estimated Future Payouts Under Non-Equity Incentive Plan awards(2) | | | Estimated Future Payouts Under Equity Incentive Plan Awards(3) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Name (a)** | **Type of Award (1)** | **Grant Date (b)** | **Compen-sation Committee Approval Date** | **Threshold ($) (c)** | **Target ($) (d)** | **Maximum ($) (e)** | **Threshold (#) (f)** | **Target (#) (g)** | **Maximum (#) (h)** | **All Other Stock Awards: Number of Shares of Stock or Units(4)(5) (#) (i)** | **All Other Option Awards: Number of Securities Underlying Options (#) (j)** | **Exercise or Base Price of Option Awards ($/Sh) (k)** | **Closing Price on the NYSE on the Date of Grant ($/Sh)** | **Grant Date Fair Value of Stock and Option Awards(6) ($) (l)** |
| S.J. Palmisano | AIP | N/A | 02/26/2008 | $ 0 | $ 5,000,000 | $ 15,000,000 | | | | | $ 0 | N/A | N/A | |