INTERNATIONAL BUSINESS MACHINES CORP
Form DEF 14A
March 09, 2006

# 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 ý

Filed by a Party other than the Registrant o

Check the appropriate box:

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

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**IBM Notice of 2006 Annual Meeting and Proxy Statement**

**Dear Stockholders,**

You are cordially invited to attend the Annual Meeting of Stockholders on Tuesday, April 25, at 10 a.m., in the Tulsa Convention Center, Tulsa, Oklahoma.

We are very pleased that Dr. Shirley Ann Jackson, president, Rensselaer Polytechnic Institute, and Mr. James W. Owens, chairman and chief executive officer, Caterpillar Inc., are new nominees for the Board this year.

Mr. Charles F. Knight is not a nominee for election, and his term on the Board will end in April. We are very grateful to him for his many valuable contributions and we will miss his participation.

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, N.Y. 10504.

Very truly yours,

/s/ Samuel J. Palmisano
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

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**IBM Notice of 2006 Annual Meeting and Proxy Statement**

ARMONK, NEW YORK 10504

MARCH 9, 2006

**Notice of Meeting**

The Annual Meeting of Stockholders of International Business Machines Corporation will be held on Tuesday, April 25, 2006, at 10 a.m., in the Assembly Hall of the Tulsa Convention Center, West 4th Street and South Houston Avenue, Tulsa, Oklahoma 74103. The items of business are:

1. Election of directors for a term of one year.

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

3. Such other matters, including 9 stockholder proposals, as may properly come before the meeting.

These items are more fully described in the following pages, which are hereby made a part of this Notice. Only stockholders of record at the close of business on February 24, 2006 (the Record Date ) are entitled to vote at the meeting or any adjournment thereof. Stockholders are reminded that shares cannot be voted unless the signed proxy card is returned, shares are voted over the Internet or by telephone, or other arrangements are made to have the shares represented at the meeting.

/s/ Daniel E. O Donnell
Daniel E. O Donnell
Vice President and Secretary

*ADMISSION TO THE ANNUAL MEETING WILL BE ON A FIRST-COME, FIRST-SERVED BASIS, AND AN ADMISSION TICKET AND PICTURE IDENTIFICATION WILL BE REQUIRED TO ENTER THE MEETING. FOR STOCKHOLDERS OF RECORD, AN ADMISSION TICKET IS ATTACHED TO THE PROXY CARD SENT WITH THIS PROXY STATEMENT. STOCKHOLDERS HOLDING STOCK IN BANK OR BROKERAGE ACCOUNTS CAN OBTAIN AN ADMISSION TICKET IN ADVANCE BY SENDING A WRITTEN REQUEST, ALONG WITH PROOF OF OWNERSHIP (SUCH AS A BROKERAGE STATEMENT), TO OUR TRANSFER AGENT AT THE ADDRESS LISTED BELOW. AN*

*INDIVIDUAL ARRIVING WITHOUT AN ADMISSION TICKET WILL NOT BE ADMITTED UNLESS IT CAN BE VERIFIED THAT THE INDIVIDUAL IS AN IBM STOCKHOLDER AS OF THE RECORD DATE FOR THE MEETING. CAMERAS, CELL PHONES, RECORDING EQUIPMENT AND OTHER ELECTRONIC DEVICES WILL NOT BE PERMITTED AT THE MEETING.*

This Proxy Statement and the accompanying form of proxy card are being mailed beginning on or about March 9, 2006, to stock-holders entitled to vote. The IBM 2005 Annual Report, which includes consolidated financial statements, is being mailed with this Proxy Statement. Stockholders of record who did not receive an annual report or who previously elected not to receive an annual report for a specific account may request that IBM mail its 2005 Annual Report to that account by writing to our transfer agent, Computershare Trust Company, N.A., P.O. Box 43072, Providence, R.I. 02940 or by telephoning 781-575-2727.

**IBM Notice of 2006 Annual Meeting and Proxy Statement**

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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. Following is information about each nominee, including biographical data for at least the last five years. Should 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.

CATHLEEN BLACK, 61, 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, iVillage, 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.

KENNETH I. CHENAULT, 54, 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, president and chief executive officer in 2000 and to his present position in 2001. Mr. Chenault became an IBM director in 1998.

JUERGEN DORMANN, 66, is chairman of the board of ABB Ltd, a manufacturer of power and automation technologies. He is a member of IBM s Executive Compensation and Management Resources Committee. Mr. Dormann joined Hoechst AG in 1963 and was chairman of the management board from 1994 until 1999. In 1999 Mr. Dormann was elected chairman of the board of management of Aventis S.A. He was elected chairman of the board of ABB Ltd in 2001 and was president and chief executive officer of ABB from 2002 through 2004. Mr. Dormann is vice chairman of the board of Sanofi-Aventis, vice chairman of the board of Adecco S.A. and a director of BG Group. Mr. Dormann was an IBM director from 1996 to 2003, and he became an IBM director again in 2005.

MICHAEL L. ESKEW, 56, is chairman and chief executive officer of United Parcel Service, Inc., a provider of specialized transportation and logistics services. He is a member of IBM s Audit Committee. Mr. Eskew joined United Parcel Service in 1972. He was named corporate vice president for industrial engineering in 1994 and group vice president for engineering in 1996. Mr. Eskew was named executive vice president in 1999, vice chairman in 2000 and to his current position in 2002. Mr. Eskew is a director of 3M Company. Mr. Eskew became an IBM director in 2005.

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SHIRLEY ANN JACKSON, 59, 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 Federal Express Corporation, Marathon Oil Corp., Medtronic, Inc., Public Service Enterprise Group Incorporated and the New York Stock Exchange. 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 is a member of the Council on Foreign Relations. Dr. Jackson became an IBM director in 2005.

MINORU MAKIHARA, 76, is senior corporate advisor and former chairman of Mitsubishi Corporation. He is a member of IBM s Directors and Corporate Governance Committee. Mr. Makihara joined Mitsubishi in 1956 and was elected president of Mitsubishi International Corporation in 1987, chairman of Mitsubishi International Corporation in 1990, president of Mitsubishi Corporation in 1992 and chairman in 1998. Mr. Makihara retired as chairman of Mitsubishi Corporation and became senior corporate advisor in 2004. Mr. Makihara is a director of Shinsei Bank, Limited, and Millea Holdings, Inc. He is also a member of the international advisory board of the Coca-Cola Company and the international council of J.P. Morgan Chase & Co., Inc. Mr. Makihara was an IBM director from 1997 to 2003, and he became an IBM director again in late 2004.

LUCIO A. NOTO, 67, is a managing partner of Midstream Partners LLC, an investment company specializing in energy and transportation projects. He is chairman of IBM s Audit Committee and a member of the Executive Committee. Mr. Noto was chairman and chief executive officer of Mobil Corporation from 1994 until its merger with Exxon in 1999 at which time he was named vice chairman of Exxon Mobil Corporation. He held this position until his retirement in 2001. Mr. Noto is a director of Altria Group, Inc., United Auto Group, Inc., and Shinsei Bank, Limited. He is also a member of the International Advisory Council of Temasek (Singapore) Inc. Mr. Noto became an IBM director in 1995.

JAMES W. OWENS, 60, 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., and he also serves on the board of the Institute of International Economics and is a member of the Manufacturing Council, both in Washington, D.C. Mr. Owens became an IBM director earlier this year.

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SAMUEL J. PALMISANO, 54, is chairman of the Board, president and chief executive officer of IBM and chairman 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, 61, is president of the Doris Duke Charitable Foundation. She is a member of IBM s Executive Compensation and Management Resources 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 she assumed her current position with the Doris Duke Charitable Foundation in 1997. She is a director of First Data Corporation and 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, 57, is chairman of the board and chief executive officer of Eli Lilly and Company, a pharmaceutical company. He is chairman of IBM s Executive Compensation and Management Resources Committee and a member of the 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, president and chief operating officer in 1996, chief executive officer in 1998, and chairman of the board in 1999. Mr. Taurel is a director of The McGraw-Hill Companies, Inc., a member of the President s Export Council and 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.

CHARLES M . VEST, 64, is president emeritus and professor of mechanical engineering of the Massachusetts Institute of Technology. He is a member of IBM s Audit Committee. Dr. Vest was formerly the provost and vice president for Academic Affairs of the University of Michigan. He was president of the Massachusetts Institute of Technology from 1990 to 2004. He is a director of E. I. du Pont de Nemours and Company, a fellow of the American Association for the Advancement of Science, a member of the National Academy of Engineering and was vice chair of the Council on Competitiveness from 1997 to 2004. Dr. Vest became an IBM director in 1994.

LORENZO H. ZAMBRANO, 61, is chairman and chief executive officer of CEMEX, S.A. 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 and has served in a variety of executive positions. He was elected chief executive officer of CEMEX in 1985 and chairman in 1995. He is a director of Vitro, S.A. de C.V. and Empresas ICA, S.A. de C.V. Mr. Zambrano is a member of Citigroup s International Advisory Board, chairman of the Tecnologico de Monterrey and a member of Stanford University s Graduate School of Business Advisory Council. Mr. Zambrano became an IBM director in 2003.

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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 2005. 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 93 percent. Attendance was at least 75 percent for each director except Mr. Zambrano. Directors are expected to attend the Annual Meeting of Stockholders, and all directors attended the 2005 Annual Meeting except Messrs. Dormann and Makihara. Following the Annual Meeting, the Board will consist of 13 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 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 for 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 3 times in 2005. The Chair of the Board committee responsible for the principal subject being discussed presides at executive sessions of the non-management directors.

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, IBM, Mail Drop 390, New Orchard Road, Armonk, NY 10504, or nonmanagementdirectors@us.ibm.com.

The IBM Board Corporate Governance Guidelines are available at http://www.ibm.com/investor/corpgovernance/ 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. The Directors and Corporate Governance Committee makes recommendations to the Board about the independence of non-management directors, and the Board determines whether such directors are independent. The independence criteria established by the Board 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, the committee and the Board have determined that each of the following non-management directors is independent: C. Black, J. Dormann, M.L. Eskew, S.A. Jackson, M. Makihara, L.A. Noto, J.W. Owens, J.E. Spero, S. Taurel, C.M. Vest 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 Chief Executive Officer. 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 in a non-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.

**COMMITTEES OF THE BOARD**

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

| **EXECUTIVE** | **AUDIT** | **DIRECTORS AND CORPORATE GOVERNANCE** | **EXECUTIVE COMPENSATION AND MANAGEMENT RESOURCES** |
|---|---|---|---|
| S.J. Palmisano* | L.A. Noto* | C. Black* | S. Taurel* |
| C. Black | M.L. Eskew | S.A. Jackson | J. Dormann |
| L.A. Noto | J.W. Owens | M. Makihara | J.E. Spero |
| S. Taurel | C.M. Vest | L.H. Zambrano | |

* Chair

**IBM Notice of 2006 Annual Meeting and Proxy Statement**

**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 2005.

**AUDIT COMMITTEE**

The Audit Committee is responsible for reviewing reports of the Company s financial results, audits, internal controls, and adherence to its 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. Noto qualifies as an Audit Committee Financial Expert as defined by the rules of the SEC. The committee held five meetings in 2005. 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 are available at http://www.ibm.com/investor/corpgovernance/cgbcg.phtml/. The charter and the Business Conduct Guidelines are available in print to any stockholder who requests them.

**DIRECTORS AND CORPORATE GOVERNANCE COMMITTEE**

The Directors and Corporate Governance Committee was formed in 1993 and 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 Chief Executive Officer. The committee also considers candidates recommended by third parties. Any formal invitation to a director candidate is authorized by the full Board. Dr. Jackson and Mr. Owens are new nominees this year. Each of these nominations was 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, including retirement policies and compensation for non-management directors, and recommendations concerning the functions and duties of the committees of the Board.

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 2005. 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 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 administering and approving all elements of compensation for elected corporate officers. It also approves, by direct action or through delegation, participation in and all awards, grants, and related actions under the provisions of the IBM Stock Option Plans and the Long-Term Performance Plans, reviews changes in the IBM Personal Pension Plan primarily affecting IBM corporate officers, and manages the operation and administration of the IBM Executive Deferred Compensation Plan and the IBM Supplemental Executive Retention Plan. The committee reports to stockholders on executive compensation items as required by the Securities and Exchange Commission (page 14). The committee has responsibility for reviewing the Company s management resources programs and for recommending qualified candidates to the Board for election as officers.

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 four meetings in 2005. 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 available in print to any stockholder who requests it.

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**OTHER RELATIONSHIPS**

The Company and its subsidiaries purchase services, supplies and equipment in the normal course of business from many suppliers and similarly sell and lease IBM products and services to many customers. In some instances, these transactions occur between IBM and other companies for whom members of IBM s Board serve as executive officers. As noted on page 9 of the proxy statement, in view of the commercial relationships between IBM and American Express Company, the Board has determined that Mr. Chenault does not qualify as an independent director. In 2005, none of the other transactions between IBM and other companies for whom members of IBM s Board serve as executive officers was individually significant or reportable. From time to time, the Company may have employees who are related to our executive officers or directors. As noted on page 9, Mr. Eskew s son is employed by the Company. In addition, each of Messrs. Daniels (Senior Vice President, Information Technology Services, Global Services), Loughridge (Senior Vice President and Chief Financial Officer), and Zeitler (Senior Vice President and Group Executive, Systems & Technology Group) has an adult child who is employed by the Company in a non-executive position, and each of Messrs. Donofrio (Executive Vice President, Innovation and Technology) and Shaughnessy (Vice President and Controller) has a sibling who is employed by the Company in a non-executive position. Further, the wife of Mr. Shaughnessy and the brother-in-law of Mr. Loughridge are executives of the Company. Transactions between IBM and State Street Bank and Trust Company, the owner of more than five percent of the Company s common stock, were all effected in the ordinary course of business.

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 direct or indirect indemnification. These policies run from June 30, 2005, through June 30, 2006, at a total cost of $11,658,511. The primary carrier is XL Specialty Insurance Company.

**DIRECTORS COMPENSATION**

Directors who are not employed by the Company receive an annual retainer of $100,000. Each committee chair receives an additional annual retainer of $5,000. Sixty percent of the annual retainer fees is paid in Promised Fee Shares of IBM common stock under the Directors Deferred Compensation and Equity Award Plan (the DCEAP ). The IBM Board Corporate Governance Guidelines provide that within 5 years of initial election to the Board, each non-management director is expected to have stock-based holdings in IBM equal in value to 5 times the annual retainer. Under the DCEAP, non-management directors may defer all or part of their remaining cash compensation, to be paid either with interest at a rate equal to the rate on 26-week U.S. Treasury bills updated each January and July, or in Promised Fee Shares, with dividends used to buy additional Promised Fee Shares. Promised Fee Shares are valued based on the market price of IBM common stock and are payable in the form of IBM shares or cash. All amounts under the DCEAP are to be paid only upon retirement or other completion of service as a director. Employee directors receive no additional compensation for service on the Board of Directors or its committees.

Under the IBM Non-Employee Directors Stock Option Plan, each non-management director receives an annual grant of options to purchase 4,000 shares of IBM common stock. The exercise price of the options is the fair market value of IBM common stock on the date of grant, and 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. In the event of the retirement (as defined in the plan) or death of a non-management director, all options granted to such director shall become immediately exercisable. Non-management directors are provided group life insurance of $50,000 and travel accident insurance in the amount of $300,000. Directors are also eligible to participate in the Company s Matching Grants Program on the same basis as the Company s employees.

The Directors and Corporate Governance Committee periodically reviews IBM s director compensation practices and compares them against the practices of the largest U.S. companies. In performing this review, the committee focuses on ensuring that the Company s non-management directors have a proprietary stake in the Company and that the interests of the directors continue to be closely aligned with the interests of the

Company s stockholders. The committee believes that the Company s total director compensation package continues to be competitive with the compensation offered by other companies and is fair and appropriate in light of the responsibilities and obligations of the Company s non-management directors.

## 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, except the initial Section 16 report for Mr. Daniels understated his holdings and therefore was subsequently amended.

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**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, 2005.

| | VOTING POWER | | INVESTMENT POWER | | | PERCENT |
|---|---|---|---|---|---|---|
| NAME AND ADDRESS | SOLE | SHARED | SOLE | SHARED | TOTAL | OF CLASS |
| State Street Bank and Trust Company, Trustee [1] | 54,072,187 | 24,862,508 | 0 | 78,934,695 | 78,934,695 | 5.0% |
| 225 Franklin Street Boston, MA 02110 | | | | | | |

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(1) Based on Schedule 13G filed by State Street Bank and Trust Company with the Securities and Exchange Commission on February 13, 2006. 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.

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## COMMON STOCK AND TOTAL STOCK-BASED HOLDINGS OF MANAGEMENT

The following table sets forth the beneficial ownership of shares of the Company s common stock, as well as all other IBM stock-based holdings as of December 31, 2005 by IBM s current directors and nominees, the executive officers named in the Summary Compensation Table on page 18, and such directors and all of the Company s executive officers as of December 31, 2005 as a group. The table indicates the alignment of these individuals personal financial interests with the interests of the Company s stockholders, because the value of their holdings will increase or decrease in line with the price of IBM stock.

The table indicates whether voting power and investment power in IBM common stock are solely exercisable by the person named or shared with others. Voting power includes the power to direct the voting of the shares held, and investment power includes the power to direct the disposition of shares held. Also shown are shares over which the named person could have acquired such powers within 60 days. *Since some shares may appear under both the Voting and Investment Power columns, and since other types of holdings are listed only in the Stock or Total column, the individual columns will not add across to the Total column.*

| | VOTING POWER | | INVESTMENT POWER | | | TOTAL | ACQUIRABLE |
|---|---|---|---|---|---|---|---|
| **NAME** | **SOLE** | **SHARED** | **SOLE** | **SHARED** | **STOCK(1)** | **STOCK-BASED HOLDINGS(2)** | **WITHIN 60 DAYS(3)** |
| C. Black | 4,000 | 324 | 4,000 | 324 | 15,848 | 16,217 | 30,000 |
| K.I. Chenault | 0 | 1,000 | 0 | 1,000 | 6,724 | 6,724 | 18,000 |
| N.M. Donofrio | 0 | 142,181 | 0 | 142,181 | 160,308 | 167,513 | 591,199 |
| J. Dormann | 5,422 | 0 | 5,422 | 0 | 6,489 | 6,489 | 28,000 |
| D.T. Elix | 75,398 | 0 | 75,398 | 0 | 120,171 | 123,499 | 359,961 |
| M.L. Eskew | 0 | 0 | 0 | 0 | 1,230 | 1,230 | 0 |
| S.A. Jackson | 0 | 0 | 0 | 0 | 322 | 322 | 0 |
| C.F. Knight | 14,303 | 0 | 14,303 | 0 | 31,442 | 33,384 | 30,000 |
| M. Loughridge | 1,276 | 0 | 1,276 | 0 | 50,258 | 54,314 | 146,680 |
| M. Makihara | 1,000 | 0 | 1,000 | 0 | 2,418 | 2,418 | 20,000 |
| L.A. Noto | 11,227 | 2,271 | 11,227 | 2,271 | 26,130 | 26,653 | 27,000 |
| J.W. Owens(4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| S.J. Palmisano | 29,078 | 94,066 | 29,078 | 94,066 | 297,174 | 337,222 | 1,262,500 |
| J.E. Spero | 1,000 | 0 | 1,000 | 0 | 3,011 | 3,011 | 1,000 |
| S. Taurel | 5,265 | 0 | 5,265 | 0 | 9,760 | 9,760 | 10,000 |
| C.M. Vest | 400 | 0 | 400 | 0 | 9,307 | 10,162 | 30,000 |
| L.H. Zambrano | 4,000 | 0 | 4,000 | 0 | 6,421 | 6,421 | 1,000 |
| W.M. Zeitler | 40,215 | 118 | 40,215 | 118 | 86,028 | 92,092 | 342,981 |
| Directors and executive officers as a group | 404,273 | 371,439 | 404,273 | 371,439 | 1,674,897* | 1,830,260 | 6,073,384* |

* The total of these two columns represents less than 1% of the outstanding shares. No individual s beneficial holdings totaled more than 1/10 of 1% of the outstanding shares. These holdings do not include 1,690,930 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. 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.

(1) For executive officers, this column includes shares shown in the Voting Power and Investment Power columns, as well as restricted stock units. For non-employee directors, this column includes shares earned and accrued under the Directors Deferred Compensation and Equity Award Plan.

(2) This column shows the total IBM stock-based holdings, including the securities shown in the Stock column and other IBM stock-based interests, including, as appropriate, employee contributions into the IBM Stock Fund under the IBM Executive Deferred Compensation Plan ( EDCP ) and all Company matching contributions under the EDCP. For non-employee directors, this column also includes the Promised Fee Shares payable in cash that were credited to the non-employee directors in connection with the elimination of pension payments to such directors.

(3) Shares that can be purchased under an IBM stock option plan.

(4) Mr. Owens joined the Board effective March 1, 2006, and was the beneficial owner of 1,000 shares of the Company s common stock as of such date.

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Report on Executive Compensation

**ROLE AND COMPOSITION OF THE COMMITTEE**

The Executive Compensation and Management Resources Committee (the Committee ) administers and approves all elements of compensation for elected corporate officers and periodically reviews them with management. The Committee has the direct responsibility to review and approve the corporate goals and objectives relevant to the Chief Executive Officer s compensation, evaluates the CEO s performance in light of those goals and objectives, and together with the other independent directors, determines and approves the CEO s compensation level based on this evaluation. The Committee reviews its determination with respect to the CEO s compensation level with the independent non-management members of the Board, and seeks ratification by this group of all compensation items for the second highest-paid executive.

Members of the Committee are non-management directors who, in the opinion of the Board, satisfy the independence criteria established by the Board. Members are not eligible to participate in any of the plans or programs that the Committee administers. The Committee has the sole authority to retain consultants and advisors as it may deem appropriate in its discretion, and sole authority to approve related fees and retention terms for these advisors. The Committee reports to the Board of Directors on its actions and recommendations following every meeting, and periodically meets in executive session without members of management or management directors present.

**COMPENSATION PHILOSOPHY AND PRACTICES**

The key objectives of IBM s executive compensation programs are to attract, motivate and retain executives who drive IBM s marketplace success and industry leadership. IBM s programs support these objectives by rewarding individuals for advancing business strategies and aligning Company interests with those of the stockholders. The programs are designed to:

Provide executives with competitive compensation that maintains a balance between cash and stock compensation and provides a significant portion of total compensation at risk, tied both to annual and long-term financial performance of the Company as well as to the creation of stockholder value. For example, for the named executive officers, the typical portion of total compensation at risk was 85% in 2005.

Differentiate strongly so that IBM s best performers receive a highly competitive compensation package, and poorer performers receive less.

Encourage executives to manage from the perspective of owners with an equity stake in the Company.

**COMPONENTS OF EXECUTIVE COMPENSATION**

The compensation program for executive officers consists of the following components:

Cash. This includes base salary and any cash incentive or bonus award earned for the year s performance.

Annual cash incentives link payments to Company performance, business-unit performance and individual performance. In 2005 the annual funding for incentive awards was determined based on achievement of financial performance measures, based 50 percent on IBM corporate performance and 50 percent on business unit performance, and reflect financial results in the areas of net income (weighted 70 percent), revenue growth (weighted 20 percent) and cash flow (weighted 10 percent). Total incentive funding is confirmed following evaluation against productivity measures and certain qualitative measures, including achievements in client satisfaction, market share growth, and workforce development. Individual awards reflect the individual s performance and contributions for the year.

Long-term, stock-based incentives. Stock options, long-term incentive program awards, and restricted stock or restricted stock unit awards are intended to closely align executive pay with stockholder interests.

IBM s approach to equity is designed to balance business objectives for executive pay for performance, retention, competitive market practices, and stockholder interests. In 2005, top executives were granted premium-priced options (granted with a strike price above the current market price), rather than more standard market-priced options. For these top executives, every component of annual equity awards has a performance feature. These stock options vest over a period of four years and expire after ten years. Stock options issued at market price are now a small percentage of equity granted to senior executives, and are only granted if the executives first buy IBM stock with a portion of their annual bonus, if any. These stock options vest in three years if the executive holds the underlying purchased stock (or equivalent).

Not all executives receive equity grants every year, and the value of grant varies based on individual and Company performance. There is an added link to Company and individual performance for the market-priced options, as they are directly tied to the amount of the executive s annual cash incentive award.

Equity awards are also granted periodically to a select group of non-executive employees whose contributions and skills are critical to IBM s long-term success.

Long-Term Incentive Program ( LTIP ) awards provide senior management with an incentive opportunity linked to multiple year corporate financial performance and stockholder value. Awards are generally made annually in the form of performance stock units. Each performance stock unit is equivalent in value to one share of IBM common stock on the date of the grant. Executives are awarded a number of units at the beginning of the three-year performance period. At the end of the performance period, that number of units is adjusted upward or downward in a range between 0% and 150% (as shown in Long-Term Incentive Plans-Awards in Last Fiscal Year table) based on performance against objectives. If performance results in a payout, the adjusted number of units is paid in stock or cash.

For LTIP awards made in 2005, covering the performance period 2005-2007, the performance stock units can be earned based on achieving cumulative financial goals measured by earnings-per-share (weighted at 80 percent) and cash flow (weighted at 20 percent). Financial measures and weightings were the same for LTIP awards made in 2003, covering the 2003-2005 performance period. Based on the Company s performance for the 2003-2005 period, 125% of the performance stock units were earned. Payouts for the named executives are reported in the Summary Compensation Table.

Restricted stock and restricted stock units are equivalent in value to IBM stock and are generally paid in stock, but only if the recipient remains with the Company throughout the vesting period, which typically ranges up to five years. These are awarded periodically to provide additional retention incentives to critical members of the executive team.

**ETHICAL CONDUCT**

To help ensure that stock-based grants reward only those executives who benefit the Company, the Company s equity plans and agreements provide that awards will be cancelled and that certain gains must be repaid if an executive violates certain provisions of the award agreement. These provisions include prohibitions against engaging in activity that is detrimental to the Company, such as performing services for a competitor, disclosing confidential information or violating the Company s Business Conduct Guidelines (annual cash incentive payments are also conditioned on compliance with these Guidelines).

Every executive is held accountable to uphold and comply with these Guidelines, which require the individual to maintain the Company s discrimination-free workplace and high standards of environmental protection. Upholding the Guidelines contributes to the success of the individual executive, and to IBM as a whole.

In addition, approximately 300 of our key executives are held to a non-competition, non-solicitation agreement which prevents them from working for a competitor within 12 months of leaving IBM or soliciting employees within 2 years of leaving IBM.

**HOW EXECUTIVE PAY LEVELS ARE DETERMINED**

IBM participates in several executive compensation benchmarking surveys that provide detail on levels of base salary, target annual incentives and stock-based and other long-term incentives. These surveys also provide the relative mix of short and long-term incentives, and mix of cash and stock-based pay. These surveys are supplemented by input from compensation consultants and practitioners on other factors such as recent market trends. The comparison group includes a broad range of key information technology companies, and the largest U.S. market-capitalized companies with whom IBM competes for executive talent. This is a more diverse set of companies than those included in the S&P 500 Computer Hardware Index and the S&P 500 Information Technology Index used for the Performance Graph.

IBM positions executive pay competitively compared to companies and jobs of similar size and complexity. Individual total compensation is strongly differentiated based on performance. The portion of annual total compensation at risk (both annual incentive and annual grants of stock-based awards) increases with responsibility ranging from 80% to 90% for senior executive officers, including the CEO.

In 2005, IBM continued to focus on cash competitiveness. While equity remains a significant component of total compensation, planned equity grant values have been reduced by over 30%, and total compensation levels have declined for most executives. These actions reflected the Company s priorities in a challenging business environment.

### STOCK OWNERSHIP REQUIREMENTS

Stock ownership guidelines were established for members of senior management in 1995 to increase their equity stake in the Company and more closely link their interests with those of the stockholders. These guidelines provide that, within a five-year period, senior executives should attain an investment position (not including unexercised stock options) in IBM stock or stock units of three to seven times their base salary, depending on the individual s scope of responsibilities, and thirteen times base salary for the CEO.

### HOW IBM S USE OF STOCK-BASED AWARDS IS DETERMINED

As noted, the Company s compensation and retention strategy includes the use of stock options, restricted stock awards and other stock-based awards. The level of usage is determined based on several factors, such as market practice and projected business needs, including key acquisitions (e.g., where IBM stock awards are used to replace stock awards of the acquired company). Each year, management determines the appropriate usage, balancing these factors against financial considerations, including the cost of equity awards and the projected impact on stockholder dilution. The Company has emphasized differentiation in executive stock awards, and a targeted, skill-based approach in allocating its stock program to non-executives. As a result, annual usage has remained below the level typically seen in the information technology industry.

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An important objective of the Company s stock awards is to link reward to performance and to stockholders interests. Because of this overriding objective, the Company is not considering repricing existing options whose exercise price is above current levels.

## TAX DEDUCTIBILITY UNDER SECTION 162(m)

Section 162(m) of the U.S. Internal Revenue Code of 1986 limits deductibility of compensation in excess of $1 million paid to the Company s chief executive officer and to each of the other four highest-paid executive officers unless this compensation qualifies as performance-based. Based on the applicable tax regulations, any taxable compensation derived from the exercise of stock options by senior executives under the Company s Long-Term Performance Plans should qualify as performance-based. 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. The Company s stockholders have previously approved terms under which the Company s annual and long-term performance incentive awards should qualify as performance-based, and did so again in 2004, as required by the Internal Revenue Service. 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.

## COMPENSATION FOR THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

As Chairman and Chief Executive Officer, Mr. Palmisano led IBM to diluted earnings per share growth above the Company s long-term financial model objectives. In the view that best represents IBM s ongoing operational performance without the PC business and the non-recurring items net income increased 15 percent to $8.7 billion. At the same time, he continued to set the Company on a course that combines solid profitability, prudent financial management for the future, and revenue growth, without IBM s former PC unit, in businesses that distinguish IBM from its competitors and in emerging geographies that underscore the global integration of IBM.

The Company continued to demonstrate its ability to capture the highest-value opportunities in an IT industry that is becoming increasingly global, commoditized, and competitive by developing and delivering innovation-enabled solutions technology, products and transformation services that improve clients operations for businesses and institutions of all sizes, in all industries. The strength of the IBM business model that Mr. Palmisano continued to shape and refine is not in any single component, but in the Company s ability to generate consistently strong cash and earnings with balanced contributions across a broad portfolio of industry leading business segments.

In 2005 including four months of the now-divested personal computing business and with the impact of several non-recurring items revenue was $91.1 billion, down 5 percent. Without the PC business, the Company delivered $88.3 billion of revenue, up 3 percent as reported and adjusted for currency. Pretax earnings were $12.2 billion as reported, and $12.5 billion, without the PC business and non-recurring items, an increase of 15 percent year-to-year. Net income from continuing operations grew 7 percent to $8 billion as reported. Diluted earnings per share were $4.91, up 12 percent as reported, but $5.32, up 18 percent without non-recurring items. The Company s return on invested capital, excluding the Global Financing business and the non-recurring charges, was 24 percent, significantly above the average for the S&P 500.

Net cash from operations, excluding Global Financing receivables, was $13.1 billion, up $200 million year-to-year. The Company had significant returns to shareholders through share buybacks and dividends of nearly $9 billion, and ended the year with $13.7 billion of cash and marketable securities on hand and low debt levels for its non-financing business.

Under Mr. Palmisano s leadership, the Company took a number of important actions to improve productivity, reallocate resources to the faster growing areas of the business, position IBM for future growth opportunities and create a more balanced portfolio. Consistent with its strategy to exit lower margin commoditized businesses, IBM completed the sale of its PC unit to Lenovo and better positioned itself in China s fast-growing market. At the same time, the Company continued to strengthen its capabilities by completing 16 acquisitions, primarily in software and services, at an aggregate cost of $2 billion. A major restructuring action improved the competitiveness of the Company s cost structure, and changed its operating model in Europe to drive resources and decision making closer to the client to improve speed and responsiveness. The redesign of its U.S. pension plan announced early in 2006 and effective in 2008 and actions taken and under consideration in other countries will result in less volatility and a more competitive cost structure, while still preserving the benefits employees have earned and offering U.S. employees one of the richest 401(k) savings programs.

Mr. Palmisano s continued investment in the Business Performance Transformation Services (BPTS) market opportunity that he identified in 2004 paid off in 2005, growing to $4 billion, up 28 percent year-to-year. Key BPTS businesses such as Business Transformation Outsourcing and Engineering & Technology Services, both grew more than 35 percent year-to-year, reinforcing the Company s unique qualifications to lead the industry in this emerging growth area. IBM also continued to show robust growth in emerging countries with the combined revenue in Brazil, China, India and Russia increasing 14 percent adjusted for currency to $3.8 billion without the PC business.

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In servers, IBM maintained its lead in the overall server market, marking 11 consecutive quarters of share leadership. IBM gained leadership in the UNIX server market in 2005 with share gain in every quarter of the year and retained its leadership in the blade server market in 2005, marking 10 quarters of blade leadership in the market per IDC. While IBM did not gain revenue share in the overall Intel server market, the Company gained volume share in 2005. In storage, IBM gained over a point of share in 2005 in the external disk space, including share gain in every quarter of the year, and gained share in the tape market for 2005.

Services revenue grew 2 percent and gross profit margins improved 2 points year-to-year, as productivity initiatives and restructuring actions began to take hold and the Company increased its global delivery capabilities. Overall signings increased 9 percent year-to-year and long-term signings grew 19 percent, which, coupled with reduced erosion, enabled the Company to maintain a steady year-to-year backlog.

In Software, overall revenue grew 4 percent year-to-year to nearly $16 billion and key branded middleware grew 9 percent, led by double digit growth in WebSphere, Lotus and Tivoli. All five key branded middleware areas, which also include Information Management and Rational, gained market share in 2005. Software gross profit margins continued to improve year-to-year and the segment, including Enterprise Investments, contributed 37 percent of IBM s segment pretax profit, without the second quarter restructuring and the PC business.

In 2005, Mr. Palmisano pushed IBM s technology leadership beyond the traditional areas, demonstrating how intellectual property could be used to spark collaborative innovation inside and outside IBM. In addition to investing more than $5 billion in research and development and receiving the most U.S. Patents for the thirteenth consecutive year some 1100 more than the next closest company IBM stamped itself as a leader in balanced intellectual property by establishing a patent commons and pledging royalty-free open access to 500 of its patents to individuals and organizations working in support of open standards. IBM also helped lead a consortium of companies to create the Open Innovation Network, an intellectual property trust that will acquire and make available royalty-free patents to further support open standards.

The Committee s criteria for determining Mr. Palmisano s compensation are driven by three factors: the competitive marketplace, the complexity inherent in leading IBM, and most importantly, Mr. Palmisano s performance. The Committee believes that, in an environment of business pressures, rapidly shifting client demands, increasing complexity and globalization, Mr. Palmisano led IBM through several difficult challenges, while moving the Company forward relative to its competition. His leadership in rallying IBM from a difficult first quarter, strengthening IBM s strategy, positioning the Company for growth while solidifying its financial foundation, and continuing to differentiate IBM s capabilities and offerings from those of competitors has been instrumental in positioning the Company for future growth.

Mr. Palmisano s annual incentive for 2005 is reported in the Bonus column of the Summary Compensation Table. In addition, he earned a payout from the 2003-2005 long-term incentive award program, based on the Company s cumulative financial results over that three-year period, reported in the LTIP Payouts column of the Summary Compensation Table. Considering all of the factors, the Committee believes that the total value of Mr. Palmisano s compensation is appropriate compared to Chairmen/CEOs of the Company s large, complex global competitors.

Charles F. Knight (chair)*

Juergen Dormann

Joan E. Spero

Sidney Taurel*

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* Mr. Knight served as chair of the compensation committee until March 1, 2006, and he is not standing for reelection at the 2006 Annual Meeting. Mr. Taurel rejoined the committee on January 1, 2006 and became chair on March 1, 2006.

*The selected references in this report to the Company s financial results: (1) excluding the effects of the divestiture of the Company s PC business, (2) excluding non-recurring charges, (3) excluding the Global Financing Business and (4) adjusted for currency are non-GAAP financial measures and are made to facilitate a comparative view of the Company s ongoing operational performance. See the Company s Form 8-K dated January 17, 2006, Attachments II and III, for additional information on the use of these non-GAAP financial measures.*

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Summary Compensation Table

| | | | | | LONG-TERM COMPENSATION(1) | | | |
|---|---|---|---|---|---|---|---|---|
| | | ANNUAL COMPENSATION | | | AWARDS | | PAYOUTS | |
| NAME AND PRINCIPAL POSITION | YEAR | SALARY | BONUS | OTHER ANNUAL COMPENSATION(2) | RESTRICTED STOCK AWARDS | SECURITIES UNDERLYING OPTIONS(#) | LTIP PAYOUTS | ALL OTHER COMPENSATION |
| S.J. Palmisano Chairman, | 2005 | $ 1,680,000 | $ 5,175,000 | $ 103,032 | $ 990,674 | 230,325 | $ 4,241,981 | $ 205,650(3) |
| President | 2004 | 1,660,000 | 5,175,000 | 104,406 | 0 | 250,000 | 1,676,480 | 211,800 |
| and CEO | 2003 | 1,550,000 | 5,400,000 | 11,037 | 0 | 250,000 | 769,095 | 181,500 |
| N.M. Donofrio | 2005 | 755,834 | 1,210,000 | 1,589 | 594,423 | 6,944 | 1,000,470 | 58,225(3) |
| Executive VP Innovation & | 2004 | 743,750 | 1,185,000 | 1,041 | 0 | 57,702 | 692,912 | 57,863 |
| Technology | 2003 | 637,501 | 1,185,000 | 1,390 | 0 | 59,028 | 425,566 | 36,075 |
| D.T. Elix | 2005 | 760,001 | 1,130,000 | 6,176 | 0 | 63,595 | 1,136,972 | 55,860(3) |
| Senior VP and | 2004 | 756,251 | 1,102,000 | 10,967 | 0 | 65,575 | 804,696 | 52,988 |
| Group Executive | 2003 | 622,501 | 1,010,000 | 764,092(4) | 1,817,740 | 67,082 | 553,748 | 33,925(5) |
| M. Loughridge Senior VP and | 2005 | 617,500 | 1,025,000 | 4,926 | 0 | 44,331 | 489,484 | 47,175(3) |
| CFO | 2004 | 575,000 | 955,000(6) | 1,210 | 0 | 48,232 | 442,451 | 42,750 |
| | 2003 | 425,000 | 850,000(6) | 0 | 0 | 28,881 | 210,219 | 22,513 |
| W.M. Zeitler | 2005 | 664,584 | 955,000 | 3,183 | 0 | 58,650 | 881,561 | 44,035(3) |
| Senior VP and | 2004 | 625,001 | 879,000 | 2,623 | 0 | 60,963 | 692,912 | 48,600 |
| Group Executive | 2003 | 487,501 | 995,000 | 2,928 | 908,831 | 52,010 | 425,566 | 24,125 |

(1) At the end of 2005, Mr. Palmisano held 116,829 performance stock units and 39,803 restricted stock units having a combined value of $12,875,150; Mr. Donofrio held 19,433 performance stock units and 18,127 restricted stock units having a combined value of $3,087,432; Mr. Elix held 31,654 performance stock units and 44,773 restricted stock units having a combined value of $6,282,299; Mr. Loughridge held 19,329 performance stock units and 11,107 restricted stock units having a combined value of $2,501,839; and Mr. Zeitler held 27,768 performance stock units and 32,603 restricted stock units having a combined value of $4,962,496. Restricted stock units earn dividend equivalents at the same rate as the dividends paid to stockholders; otherwise, restricted stock units have no value to the recipient until the restrictions are released. No dividend equivalents are paid on outstanding performance stock units.

(2) For Mr. Palmisano, this amount includes perquisites and personal benefits in excess of reporting thresholds, including $61,571 and $69,639 imputed as income for use of corporate aircraft in 2005 and 2004, respectively (calculated in accordance with Internal Revenue Service requirements). In 2003, Mr. Palmisano did not have any perquisites and personal benefits in excess of reporting thresholds, and $18,259 was imputed as income for the use of corporate aircraft that year (calculated in accordance with Internal Revenue Service requirements). The variable cost to the company from this usage (calculated to include fuel, maintenance, and certain fees and expenses) was $356,576, $261,776 and $86,107 in 2005, 2004 and 2003, respectively.

(3) Represents the Company s contributions to the IBM Savings Plan and the Executive Deferred Compensation Plan ( EDCP ).

(4) This amount includes reimbursement for tax liabilities related to payments for overseas assignment (see footnote (5) below).

(5) This amount includes payments for certain expenses related to relocation from assignment outside the home country, as well as $33,225 for the Company s contributions to the IBM Savings Plan and the EDCP.

(6) Mr. Loughridge also received a payment of $125,000 in each of 2004 and 2003 in connection with a previous position.

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Stock Option/SAR Grants in Last Fiscal Year [1]

| | INDIVIDUAL GRANTS | | | | | POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR TEN-YEAR OPTION TERM (4) | | |
|---|---|---|---|---|---|---|---|---|
| **NAME** | **NUMBER OF SECURITIES UNDERLYING OPTIONS/SARS GRANTED** | **% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR** | **EXERCISE PRICE PER SHARE** | **AVERAGE HIGH/LOW MARKET PRICE ON DATE OF GRANT** | **EXPIRATION DATE** | **0%** | **5%** | **10%** |
| S.J. Palmisano | 200,000(2) | 1.51% | $ 101.33 | $ 92.12 | 3/07/15 | $ 0 | $ 9,744,800 | $ 27,521,100 |
| | 30,325(3) | 0.23% | 92.12 | 92.12 | 3/07/15 | 0 | 1,756,800 | 4,452,200 |
| N.M. Donofrio | 6,944(3) | 0.05% | 92.12 | 92.12 | 3/07/15 | 0 | 402,300 | 1,019,500 |
| D.T. Elix | 57,137(2) | 0.43% | 101.33 | 92.12 | 3/07/15 | 0 | 2,783,900 | 7,862,400 |
| | 6,458(3) | 0.05% | 92.12 | 92.12 | 3/07/15 | 0 | 374,100 | 948,100 |
| M. Loughridge | 38,734(2) | 0.29% | 101.33 | 92.12 | 3/07/15 | 0 | 1,887,300 | 5,330,000 |
| | 5,597(3) | 0.04% | 92.12 | 92.12 | 3/07/15 | 0 | 324,300 | 821,700 |
| W.M. Zeitler | 53,499(2) | 0.40% | 101.33 | 92.12 | 3/07/15 | 0 | 2,606,700 | 7,361,800 |
| | 5,151(3) | 0.04% | 92.12 | 92.12 | 3/07/15 | 0 | 298,400 | 756,200 |

| | 5% (to $150/share) | 10% (to $239/share) |
|---|---|---|
| Increase in market value of IBM common stock for all stockholders at assumed annual rates of stock price appreciation (as used in the table above) from $92.12 per share average of high/low market price, over the ten-year period, based on 1,574.0 million shares outstanding on December 31, 2005. | $ 91 billion | $ 231 billion |

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(1) No Stock Appreciation Rights (SARs) or Incentive Stock Options were granted to the named executive officers during 2005.

(2) These options were granted on March 8, 2005 and vest in four equal annual installments from the date of grant. The exercise price reflects a 10% premium over the average of the high/low market price on the date of grant.

(3) These options were granted on March 8, 2005 and vest 100% three years from the date of grant.

(4) Potential Realizable Value assumes that the average of the high/low market price appreciates in value over the ten-year option term at the assumed annual growth rates. For example, a $92.12 per share price with a 5% annual growth rate results in a stock price of $150 per share, and a 10% rate results in a price of $239 per share. Actual gains, if any, on stock option exercises are dependent on the future performance of the stock.

Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Options/SAR Values

| NAME | SHARES ACQUIRED ON EXERCISE (#) | VALUE REALIZED | NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT FISCAL YEAR-END | | VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS/ SARS AT FISCAL YEAR-END | |
|---|---|---|---|---|---|---|
| | | | EXERCISABLE | UNEXERCISABLE | EXERCISABLE | UNEXERCISABLE |
| S.J. Palmisano | 193,634 | $ 9,451,615 | 1,062,500 | 617,825 | $ 10,605,110 | $ 508,750 |