

INTERNATIONAL BUSINESS MACHINES CORP  
Form DEF 14A  
March 08, 2010

**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:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- 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):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
  - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  - (4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o  
o

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act

Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

**Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

---

IBM Notice of 2010 Annual Meeting and Proxy Statement

*INTERNATIONAL BUSINESS MACHINES CORPORATION*

Armonk, New York 10504  
March 8, 2010

Dear Stockholders,

You are cordially invited to attend the Annual Meeting of Stockholders on Tuesday, April 27, 2010 at 10 a.m., in the Midwest Airlines Center, Milwaukee, Wisconsin.

We are very pleased that Mr. Andrew N. Liveris, chairman, president and chief executive officer of The Dow Chemical Company, and Mr. W. James McNerney, Jr., chairman, president and chief executive officer of The Boeing Company, 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 27, 2010 at 10 a.m., in the Midwest Airlines Center, 400 West Wisconsin Avenue, Milwaukee, Wisconsin 53203. 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. Four stockholder proposals if properly presented at 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 8, 2010 to all stockholders entitled to vote. The IBM 2009 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 27, 2010: The Proxy Statement and the Annual Report to Stockholders are available at [www.ibm.com/investor/material/](http://www.ibm.com/investor/material/)**

**Table of Contents**

<u>1.</u>	<u>Election of Directors for a Term of One Year</u>
<b><u>General Information:</u></b>	
<u>•</u>	<u>Board of Directors</u>
<u>•</u>	<u>Committees of the Board</u>
<u>•</u>	<u>Certain Transactions and Relationships</u>
<u>•</u>	<u>Certain Information about Insurance and Indemnification</u>
<u>•</u>	<u>2009 Director Compensation</u>
<u>•</u>	<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>
<u>•</u>	<u>Ownership of Securities</u>
<b><u>Executive Compensation:</u></b>	
<u>2009</u>	<u>Report of the Executive Compensation and Management Resources Committee of the Board of Directors</u>
<u>2009</u>	<u>Compensation Discussion and Analysis:</u>
<u>2009</u>	<u>Summary Compensation</u>
<u>2009</u>	<u>Grants of Plan-Based Awards</u>
<u>2009</u>	<u>Outstanding Equity Awards at Fiscal Year-End</u>
<u>2009</u>	<u>Option Exercises and Stock Vested</u>
<u>2009</u>	<u>Retention Plan</u>
<u>2009</u>	<u>Pension Benefits</u>
<u>2009</u>	<u>Nonqualified Deferred Compensation</u>
<u>2009</u>	<u>Potential Payments Upon Termination</u>
<b><u>Report of the Audit Committee of the Board of Directors</u></b>	
<u>Audit and Non-Audit Fees</u>	
<u>2.</u>	<u>Ratification of Appointment of Independent Registered Public Accounting Firm</u>
<u>3.</u>	<u>Stockholder Proposal on Executive Compensation Annual Incentive Payout</u>
<u>4.</u>	<u>Stockholder Proposal on Cumulative Voting</u>
<u>5.</u>	<u>Stockholder Proposal on New Threshold for Calling Special Meetings</u>
<u>6.</u>	<u>Stockholder Proposal on Advisory Vote on Executive Compensation</u>
<b><u>Frequently Asked Questions</u></b>	

### **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**, 66, is chairman of Alcoa Inc., a producer and manager of primary aluminum, fabricated aluminum and engineered products, and is a managing director at Warburg Pincus LLC, a global private equity and investment firm. 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 Alumínio 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. Additionally, during the past five years, he served as a director of E. I. du Pont de Nemours and Company. Mr. Belda became an IBM director in 2008.

**CATHLEEN BLACK**, 65, 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. Additionally, during the past five years, she served as a director of iVillage Inc. Ms. Black became an IBM director in 1995.



**WILLIAM R. BRODY**, 66, 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 and all T. Rowe Price fund companies. Additionally, during the past five years, he served as a director of Medtronic, Inc. Dr. Brody became an IBM director in 2007.

**KENNETH I. CHENAULT**, 58, 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**, 60, 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**, 63, 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.

**ANDREW N. LIVERIS**, 55, is chairman, president and chief executive officer of The Dow Chemical Company, a diversified chemical company. He is a member of IBM's Executive Compensation and Management Resources Committee. Mr. Liveris joined Dow in 1976 and subsequently held various executive positions, including vice president of specialty chemicals from 1998 to 2000, business group president for performance chemicals from 2000 to 2003, and president and chief operating officer from 2003 to 2004. Mr. Liveris was named president and chief executive officer of Dow in 2004 and chairman in 2006. He is a director of Citigroup Inc. Mr. Liveris serves as chairman of the US-China Business Council, vice chairman of the Business Roundtable, and a member of the Executive Committee of the Business Council. He is a member of the US-India CEO Forum, a trustee of Tufts University, and a member of the board of the Peterson Institute for International Economics. Mr. Liveris became an IBM director in 2010.

**W. JAMES MCNERNEY, JR.**, 60, is chairman, president and chief executive officer of The Boeing Company, an aerospace company and manufacturer of commercial jetliners and military aircraft. He is a member of IBM's Audit Committee. Mr. McNerney joined The Boeing Company in his current role in 2005. Beginning in 1982, he served in management positions at General Electric Company, including as president and chief executive officer of GE Aircraft Engines from 1997 to 2000. From 2001 to 2005, he served as chairman and chief executive officer of 3M Company, a diversified technology company. He is a director of The Procter & Gamble Company. Mr. McNerney became an IBM director in 2009.

**TAIZO NISHIMURO**, 74, 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, Inc. (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**, 64, 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 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 Business Council, a member of the President's Economic Recovery Advisory Board, and a trustee of North Carolina State University. Mr. Owens became an IBM director in 2006.

**SAMUAL J. PALMISANO**, 58, 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**, 65, 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. Under Secretary 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, the Wisconsin Alumni Research Foundation and the Morgridge Institute for Research. Additionally, during the past five years, she served as a director of Delta Airlines, Inc. and First Data Corporation. Ms. Spero became an IBM director in 2004.

**SIDNEY TAUREL**, 61, 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**, 65, 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 Fomento Economico Mexicano, S.A.B. de C.V. He is also chairman of the board of the Tecnologico de Monterrey. Additionally, during the past five years, he served as a director of Empresas ICA, S.A. de C.V., Grupo Televisa, and Vitro, S.A. de C.V. Mr. Zambrano became an IBM director in 2003.



## General Information

### IBM BOARD OF DIRECTORS

IBM's Board of Directors is responsible for supervision of the overall affairs of the Company. To assist it in carrying out its duties, the Board has delegated certain authority to several committees. Following the Annual Meeting in 2010, the Board will consist of 14 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. The Board held 10 meetings during 2009. The Board and the Directors and Corporate Governance Committee recognize the importance of director attendance at Board and committee meetings. In 2009, overall attendance at Board and committee meetings was over 93%. Attendance was at least 75% for each director, except for Mr. Zambrano, whose inability to attend Board and committee meetings during two months in 2009 took him below the 75% attendance level. Had he attended one meeting during those two months, his attendance would have exceeded 75%. The Board and the Committee believe that Mr. Zambrano continues to make vital contributions that benefit the Company's stockholders.

Mr. Zambrano is chairman and chief executive officer of CEMEX, one of the world's largest cement manufacturers, which is headquartered in Mexico, where he also resides. Mr. Zambrano is a highly regarded and well-known business leader, and his experience and stature in Latin America gives the Company and the Board a unique and valuable perspective. The Board recognizes that directors who reside or manage businesses headquartered outside the United States may at times have business engagements that conflict with the travel demanded by Board service. Mr. Zambrano's attendance in 2009 was impacted by significant events involving CEMEX, including the nationalization of its Venezuelan operations by the Venezuelan government in late 2008. These events led to unavoidable scheduling and travel conflicts. The Board and the Committee believe that the Company and its investors continue to benefit from Mr. Zambrano's participation as a Board member, notwithstanding his inability to attend the meetings referenced above. Information about board attendance at the Company's 2009 Annual Meeting of Stockholders and the Company's policy with regard to board members' attendance at annual meetings of stockholders is available at <http://www.ibm.com/investor/governance/board-of-directors/about-the-board.wss/>.

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 2009. 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/>.

The Directors and Corporate Governance Committee is responsible for leading the search for qualified individuals for election as directors to ensure the Board has the right mix of skills, expertise and background. The Board believes that the following attributes are key to ensuring the continued vitality of the Board and excellence in the execution of its duties: experience as a leader of a business, firm or institution; mature and practical judgment; the ability to comprehend and analyze complex matters; effective interpersonal and communication skills; and strong character and integrity. Each of the Company's directors has these attributes. In identifying potential director candidates, the Committee and the Board also focus on ensuring that the Board reflects a diversity of experiences, backgrounds and individuals.

The IBM Board is composed of a diverse group of leaders in their respective fields. Many of the current directors have leadership experience at major domestic and international companies with operations inside and outside the United States, as well as experience on other companies boards, which provides an understanding of different business processes, challenges and strategies. Other directors have experience as presidents of significant academic, research and philanthropic institutions, which brings unique perspectives to the Board. Further, the Company's directors also have other experience that makes them valuable members, such as prior public policy or regulatory experience that provides insight into issues faced by companies.





The Committee and the Board believe that the above-mentioned attributes, along with the leadership skills and other experiences of its Board members described in the table below, provide the Company with the perspectives and judgment necessary to guide the Company's strategies and monitor their execution.

A.J.P. Belda	<ul style="list-style-type: none"><li>• Global business experience as chairman and former chief executive officer of Alcoa Inc.</li><li>• Private equity management experience as a managing director of Warburg Pincus LLC</li><li>• Outside board experience as a director of Citigroup Inc. and Renault S.A.</li></ul>
C. Black	<ul style="list-style-type: none"><li>• Business leadership as president of Hearst Magazines</li><li>• Affiliation with leading business and public policy association (Council on Foreign Relations)</li><li>• Outside board experience as a director of The Coca-Cola Company</li><li>• Experience as a university trustee</li></ul>
W.R. Brody	<ul style="list-style-type: none"><li>• Leadership position as president of the Salk Institute for Biological Studies, a leading scientific research institution that develops solutions to a wide range of medical issues</li><li>• Leadership and teaching positions at research universities, including former president of The Johns Hopkins University</li><li>• Outside board experience as a director of Novartis AG and all T. Rowe Price fund companies</li><li>• Experience as a university trustee</li><li>• Experience as founder and chief executive officer of a high-tech medical device company</li></ul>
K.I. Chenault	<ul style="list-style-type: none"><li>• Global business experience as chairman and chief executive officer of American Express Company</li><li>• Affiliation with leading business and public policy associations (vice chairman of the Business Roundtable and member of The Business Council)</li><li>• Outside board experience as a director of The Procter &amp; Gamble Company</li></ul>
M.L. Eskew	<ul style="list-style-type: none"><li>• Global business experience as former chairman and chief executive officer of United Parcel Service, Inc.</li><li>• Outside board experience as a director of Eli Lilly and Company and 3M Company</li><li>• Chairman of a charitable organization</li></ul>
S.A. Jackson	<ul style="list-style-type: none"><li>• Leadership position as president of Rensselaer Polytechnic Institute, a leading science and technology university that brings technological innovation to the marketplace</li><li>• Industry and research experience as a theoretical physicist at the former AT&amp;T Bell Laboratories</li><li>• U.S. Government service (former chairman of the U.S. Nuclear Regulatory Commission and member of the President's Council of Advisors on Science and Technology)</li><li>• Affiliation with leading business and public policy associations (Council on Foreign Relations and Council on Competitiveness)</li><li>• Outside board experience as a director of FedEx Corporation, Marathon Oil Corporation, Medtronic, Inc., Public Service Enterprise Group Incorporated, and NYSE Euronext</li><li>• Leadership and teaching positions at a research university</li></ul>
A.N. Liveris	<ul style="list-style-type: none"><li>• Global business experience as chairman, president and chief executive officer of The Dow Chemical Company</li><li>• Affiliation with leading business and public policy associations (chairman of the US-China Business Council, vice chairman of the Business Roundtable, and member of the Executive Committee of The Business Council)</li><li>• Outside board experience as a director of Citigroup Inc.</li><li>• Experience as a university trustee</li></ul>

- W.J. McNerney, Jr.
- Global business experience as chairman, president and chief executive officer of The Boeing Company
  - Manufacturing and technology experience as former chairman and chief executive officer of 3M Company and senior executive of General Electric Company
  - Affiliation with leading business and public policy association (Business Roundtable)
  - Outside board experience as a director of The Procter & Gamble Company
  - Experience as a university trustee
- T. Nishimuro
- Leadership position as chairman of the Tokyo Stock Exchange Group, Inc.
  - Global business experience as former chairman, president and chief executive officer of Toshiba Corporation
  - Experience as an international advisory board member of Rolls-Royce Group plc, China Investment Corporation, and NTT DoCoMo, Inc.
- J.W. Owens
- Global business experience as chairman and chief executive officer of Caterpillar Inc.
  - U.S. Government service (member of the President's Economic Recovery Advisory Board)
  - Affiliation with leading business and public policy associations (chairman of The Business Council and director of the Council on Foreign Relations)
  - Experience as a university trustee
- S.J. Palmisano
- Global business experience as chairman, president and chief executive officer of IBM
  - Affiliation with leading business and public policy associations (Business Roundtable and member of the Executive Committee of the Council on Competitiveness)
  - Outside board experience as a director of Exxon Mobil Corporation
- J.E. Spero
- Research experience with national non-profit service organization (Visiting Fellow at the Foundation Center)
  - Leadership position as former president of the Doris Duke Foundation
  - Business experience as a former senior executive of American Express Company
  - U.S. Government service (former U.S. Under Secretary of State for Economic, Business and Agricultural Affairs and former U.S. Ambassador to the United Nations for Economic and Social Affairs)
  - Affiliation with leading business and public policy association (director of the Council on Foreign Relations)
  - Outside board experience as a director of ING Group
  - Experience as a university trustee and former university professor
- S. Taurel
- Global business experience as former chairman and chief executive officer of Eli Lilly and Company
  - U.S. Government service (Homeland Security Advisory Council, President's Export Council, Advisory Committee for Trade Policy and Negotiations)
  - Affiliation with leading business association (The Business Council)
  - Outside board experience as a director of The McGraw-Hill Companies, Inc.
  - Member of a university oversight board
- L.H. Zambrano
- Global business experience as chairman and chief executive officer of CEMEX S.A.B. de C.V.
  - Outside board experience as a director of Fomento Economico Mexicano, S.A.B. de C.V.
  - Leadership position as chairman of a private educational institution

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 available at <http://www.ibm.com/investor/governance/board-of-directors/director-independence-standards.wss/>. Applying those standards for the non-management directors 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, M.L. Eskew, S.A. Jackson, A.N. Liveris, W. J. McNerney, Jr., T. Nishimuro, J.W. Owens, J.E. Spero, S. Taurel, and L.H. Zambrano. The Committee and the Board have determined that 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, he 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 and other terms of employment are determined on a basis consistent with the Company's human resources policies. Based on the foregoing, the Board has determined that this relationship does not preclude a finding of independence for Mr. Eskew.

As noted below, the Directors and Corporate Governance Committee is responsible for the continuing review of the governance structure of the Board, and for recommending to the Board those structures and practices best suited to the Company and its stockholders. At present, Mr. Palmisano serves as IBM's chairman and chief executive officer. The Board currently has three independent presiding directors, with the Chair of the Board committee responsible for the principal subject under discussion presiding at the executive sessions of non-management directors. For example, the Chair of the Executive Compensation and Management Resources Committee presides at executive sessions of independent directors in which compensation for the CEO and CFO is determined. The Directors and Corporate Governance Committee and the Board believe that this leadership structure is appropriate for the Company at this time as it provides for focused engagement by the Board committees and their Chairs in their respective areas of responsibility, while also providing for engagement and participation by all Board members with respect to items presented for deliberation.

Much attention has recently been given to the subject of risk and how companies assess and manage risks across the enterprise. At IBM, we believe that innovation and leadership are impossible without taking risks. We also recognize that imprudent acceptance of risk or the failure to appropriately identify and mitigate risks could be destructive of stockholder value. Senior management is responsible for assessing and managing the Company's various exposures to risk on a day-to-day basis, including the creation of appropriate risk management programs and policies. IBM has developed a consistent, systemic and integrated approach to risk management to help determine how best to identify, manage and mitigate significant risks throughout the Company. The Board is responsible for overseeing management in the execution of its responsibilities and for assessing the Company's approach to risk management. The Board exercises these responsibilities periodically as part of its meetings and also through the Board's three committees, each of which examines various components of enterprise risk as part of their responsibilities. In addition, an overall review of risk is inherent in the Board's consideration of the Company's long-term strategies and in the transactions and other matters presented to the Board, including capital expenditures, acquisitions and divestitures, and financial matters. The Board's role in risk oversight of the Company is consistent with the Company's leadership structure, with the CEO and other members of senior management having responsibility for assessing and managing the Company's risk exposure, and the Board and its committees providing oversight in connection with those efforts.

The process by which stockholders and other interested parties may communicate with the Board or non-management directors of the Company is available at <http://www.ibm.com/investor/governance/board-of-directors/contact-the-board.wss/>.

## COMMITTEES OF THE BOARD

Name	Directors and Corporate			
	Audit	Governance	Resources	Executive Compensation and Management
A.J.P. Belda			X	
C. Black		Chair		X
W.R. Brody			X	
M.L. Eskew	Chair			X
S.A. Jackson		X		
A.N. Liveris			X	
W.J. McNemey, Jr.	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. 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 2009. 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/>.

## 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. As discussed above, 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. Liveris and McNerney 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 DolmatConnell & Partners 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 2009. 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/>.

#### 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 has retained Semler Brossy Consulting Group, LLC since

Edgar Filing: INTERNATIONAL BUSINESS MACHINES CORP - Form DEF 14A

July 2009 as its compensation consultant to advise the Committee on market practices and specific IBM policies and programs. Semler Brossy 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 Semler Brossy for the Committee is documented in a formal scope of work and contract which is executed by the consultant and the



Committee. The Committee engaged a Managing Director of Towers Perrin as outside compensation consultant through July 2009. The work performed by the Managing Director was similar to the responsibilities described above for Semler Brossy. See Section 1 of the 2009 Compensation Discussion and Analysis for additional information about compensation consultants.

The Committee reports to stockholders as required by the SEC (see 2009 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 2009. 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/>.

#### 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 2009.

#### 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. He is an executive of the Company. In addition, an adult child of Mr. M.E. Daniels (Senior Vice President, Global Technology Services) and a sibling of Mr. J.E. Kelly, III (Senior Vice President, Research and Intellectual Property) are employed by the Company in non-executive positions. Further, a brother-in-law of

## Edgar Filing: INTERNATIONAL BUSINESS MACHINES CORP - Form DEF 14A

Mr. M. Loughridge (Senior Vice President and Chief Financial Officer) and the spouse of Mr. T.S. Shaughnessy (Senior Vice President, Services Delivery) are executives of the Company. The compensation and other terms of employment of each employee are determined on a basis consistent with the Company's human resources policies. Each employee mentioned above received compensation in 2009 between \$120,000 and \$400,000. Additionally, the son of Mr. Eskew, the brother-in-law of Mr. Loughridge and the spouse of Mr. Shaughnessy each received equity grants in 2009.

### 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, 2009 through June 30, 2010, at a total cost of \$8,160,107. The primary carrier is XL Specialty Insurance Company.

## 2009 Director Compensation Narrative

*Annual Retainer:* In 2009, non-management directors received an annual retainer of \$250,000. Chairs of the Directors and Corporate Governance Committee and the Executive Compensation and Management Resources Committee received an additional annual retainer of \$10,000, and the chair of the Audit Committee received an additional annual retainer of \$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 PFS equal to the benefits accrued under that retirement plan. For 2009, 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 nonmanagement 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 2009 Director Compensation Table does not include any option awards. However, the table below entitled "Aggregate Number of Option Awards Outstanding" reflects any options outstanding under the DSOP as of year end for directors in 2009.

*IBM's Matching Grants Programs:* Prior to January 1, 2010, non-management directors were 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 provided specified matches in cash or equipment in connection with a director's eligible contributions to approved colleges, hospitals, and cultural or environmental institutions. Under the second program, directors could have also made a contribution toward the donation of personal computer equipment to eligible primary and secondary schools of their choice. Under this second program, directors were required to donate 20% of the list price of a particular pre-packaged configuration, and the Company contributed the remaining 80%. Under each of these programs, each director's gifts were limited to a total of \$10,000 per calendar year.

Effective January 1, 2010, the two programs described above were combined into a single matching grants program. Non-management directors are eligible to participate in this program on the same basis as the Company's employees based in the U.S. Under this program, the Company will provide specified matches in cash or equipment in connection with a director's eligible contributions to approved educational institutions, medical facilities, and cultural or environmental institutions. Each director's gifts are limited to a total of \$10,000 per calendar year.

## 2009 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.
- 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 (\$)		All Other Compensation \$(1)		Total (\$) (d)
	(b)		(c)		
A.J.P. Belda	\$	250,000	\$	4,285	\$ 254,285
C. Black		260,000		40,723	300,723
W.R. Brody		250,000		23,098	273,098
K.I. Chenault		250,000		26,288	276,288
M.L. Eskew		265,000		35,095	300,095
S.A. Jackson		250,000		29,038	279,038
W.J. Mc Nerney, Jr.(2)		45,834		17	45,851
T. Nishimuro		250,000		3,713	253,713
J.W. Owens		250,000		17,853	267,853
J.E. Spero		250,000		27,868	277,868
S. Taurel		260,000		33,921	293,921
L.H. Zambrano		250,000		18,799	268,799

Mr. Liveris joined the Board in February 2010; therefore, he is not included in the table above.

(1) Amounts in this column include the following: for Ms. Black: \$40,623 of dividend equivalent payments on PFS; for Dr. Brody: \$15,000 contributed by the Company under the matching grants program; for Mr. Chenault: \$26,189 of dividend equivalent payments on PFS; for Mr. Eskew: \$16,234 of dividend equivalent payments on PFS and \$18,761 contributed by the Company under the matching grants program; for Dr. Jackson: \$13,939 of dividend equivalent payments on PFS and \$15,000 contributed by the Company under the matching grants program; for Mr. Owens: \$12,754 of dividend equivalent payments on PFS; for Ms. Spero: \$17,769 of dividend equivalent payments on PFS and \$10,000 contributed by the Company under the matching grants program; for Mr. Taurel: \$23,821 of dividend equivalent payments on PFS and \$10,000 contributed by the Company under the matching grants program; and for Mr. Zambrano: \$18,699 of dividend equivalent payments on PFS.

(2) Mr. McNerney joined the Board in October 2009.

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, Liveris, McNerney and Nishimuro joined the Board after the termination of the DSOP, they did not receive any options and therefore are not included in the following table.

C. Black	28,000
K.I. Chenault	28,000
M.L. Eskew	8,000
S.A. Jackson	4,000
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, 2009.

Name and address	Voting Power		Investment Power		Total	Percent of Class
	Sole	Shared	Sole	Shared		
BlackRock, Inc.(1) 40 East 52nd Street New York, NY 10022	73,221,566	0	73,221,566	0	73,221,566	5.57%
State Street Corporation(2) State Street Financial Center One Lincoln Street	0	67,758,740	0	67,758,740	67,758,740	5.2%

Boston, MA 02111

---

(1) Based on the Schedule 13G filed with the Securities and Exchange Commission on January 29, 2010 by BlackRock, Inc. and certain subsidiaries. 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 shares were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of IBM.

(2) Based on the Schedule 13G filed with the Securities and Exchange Commission on February 12, 2010 by State Street Corporation and certain subsidiaries (State Street). 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 is the beneficial owner of any securities covered by the report, and that State Street expressly disclaims beneficial ownership of all shares reported. The Schedule 13G states that the shares were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of IBM.



## 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, 2009 by IBM's current directors and nominees, the executive officers named in the 2009 Summary Compensation Table, and such directors and all of the Company's executive officers as of December 31, 2009 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.

Name	Stock-based			Acquirable within 60 days
	Common Stock(1)	Holdings(2) (3)	Options(4)	Directors' DCEAP Shares(5)
A.J.P. Belda	0	0	0	3,279
C. Black	4,324(6)	4,718	28,000	20,081
W.R. Brody	0	0	0	5,073
K.I. Chenault	1,060(7)	1,060	28,000	13,632
M.E. Daniels	62,424(8)	126,709	164,458	N/A
M.L. Eskew	0	0	8,000	9,026
S.A. Jackson	0	0	4,000	7,868
A.N. Liveris(13)	0	0	0	0
M. Loughridge	57,006	141,384	150,416	N/A
W.J. McNerney, Jr.(14)	0	0	0	348
S.A. Mills	88,453(9)	139,353	338,429	N/A
T. Nishimuro	0	0	0	3,009
J.W. Owens	1,000(7)	1,000	4,000	7,310
S.J. Palmisano	311,249(10)	602,383	1,100,050	N/A
V.M. Rometty	29,358(11)	132,505	152,303	N/A
J.E. Spero	1,000	1,000	12,000	9,670
S. Taurel	5,265	5,265	24,000	12,570
L.H. Zambrano	4,000	4,000	12,000	10,108
Directors and executive officers as a group	773,603(12)	1,820,908	2,976,477(12)	101,974(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. Standard brokerage accounts may include nonnegotiable provisions regarding set-offs or similar rights. This column includes 461,867 shares in which voting and investment power are shared. 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 931,713 shares held by the IBM Personal Pension Plan Trust Fund, over which the members of the IBM Retirement Plans Committee, a management committee presently consisting of certain executive officers of the Company, have voting power, as well as the right to acquire 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, all restricted stock units (including retention restricted stock units), officer contributions into the IBM Stock Fund under the IBM Excess 401 (k) Plus Plan, and Company contributions into the IBM Stock Fund under the Excess 401(k) Plus Plan. Some of these restricted stock units may have been deferred under the Excess 401(k) Plus Plan in accordance with elections made prior to January 1, 2008, and they will be distributed to the executive officers after termination of employment as described in the 2009 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 2009 Director Compensation Narrative for additional information).
- (4) Shares that can be purchased under an IBM stock option plan within 60 days after December 31, 2009.
- (5) Shares earned and accrued under the IBM Deferred Compensation and Equity Award Plan (DCEAP) as of December 31, 2009, 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 2009 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 61,724 shares in which voting and investment power are shared.
- (9) Includes 51,295 shares in which voting and investment power are shared.
- (10) Includes 197,617 shares in which voting and investment power are shared.
- (11) Includes 28,705 shares in which voting and investment power are shared.
- (12) The total of these three columns represents less than 1% of IBM's outstanding shares, and no individual's beneficial holdings totaled more than 1/5 of 1% of IBM's outstanding shares.
- (13) Mr. Liveris joined the Board in February 2010.
- (14) Mr. McNerney joined the Board in October 2009.

## Executive Compensation

### 2009 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 long-term interests of stockholders.

Sidney Taurel (chair)  
Alain J. P. Belda  
William R. Brody

## 2009 Compensation Discussion and Analysis

### 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 assessing and updating them to meet new voluntary criteria as well as requirements from the SEC. Most recently, we have updated our process around the review by our Compensation Committee and management of IBM's compensation policies and practices with a focus on incentive programs. The purpose of this review is to ensure that our compensation program and policies do not encourage excessive risk taking. A description of the process and its conclusions are in Section 2 of this Compensation Discussion and Analysis (CD&A), Compensation Program as it Relates to Risk.

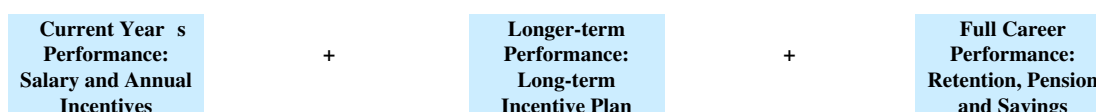
Investors—IBM's owners—want senior leaders to run the Company in a way that protects and grows their investment over the long term while appropriately managing risk. This is no simple task at any company, and at a company as large and complex as IBM, it is a particularly exciting leadership challenge. 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;
- 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 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 long term 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:



1. **Current Year** 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.

On average, 88% of IBM's senior leaders' annual compensation varies year to year based on business results and individual performance, with the remainder coming from base salary. In addition, 67% of the Chairman and CEO's annual pay and 70% 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 the long-term interests of 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 2009, for example, Chairman and CEO Sam Palmisano earned 9% of his compensation in salary, and the rest of the senior team earned an average of 14% of their 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 six years, these results-based payouts for individual leaders have ranged from 0.6 times target to a high of 1.66 times target. In 2009, the annual incentive earned by the Chairman and CEO represented 24% of his total compensation; incentives achieved by the rest of the senior team averaged 16% 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*.

*Other Compensation.* The SEC 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 such as 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 concerns 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 \$63,000 to the IBM International Foundation to fund contributions to Columbia University.

#### **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 nine years, program payouts have ranged from a low of 54% to a high of 147% of the target number of shares. In 2009, the long-term incentive grant to the Chairman and CEO and approximately 60 senior executives, including each SVP, was comprised entirely of PSUs. For the CEO, this represents 67% of his total compensation assuming future performance at target. PSUs were, on average, 70% of the SVPs' total compensation in 2009. In 2010, the annual long-term incentive grant for this group will again be entirely PSUs.

The IBM Integration & Values Team (I&VT) consists of a select group of approximately 320 executives charged with working beyond the scope of their regular job responsibilities to drive growth through integration and by 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.* Our LTIP also provides for grants of other stock-based awards in addition to PSUs to focus senior leaders on delivering performance that increases the value of the Company through the growth of IBM's stock price over the long term. Although in 2009 the senior leaders received only PSUs, other stock-based grants have been made to this group in the past and are made to other executives. Other stock-based grants may include stock options, restricted stock, restricted stock units or any combination. These grants vest and become available for sale or exercise over time, typically over one to four years. Until vested, the grants have no cash 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. Senior leaders 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 outstanding stock-based grants for the named executive officers are shown in the 2009 Outstanding Equity Awards at Fiscal Year-End Table in this Proxy Statement.

#### **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. Eleven of the Company's top 13 executives at the end of 2009, 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 is determined by the same formulas for executives and non-executives.

*Savings.* IBM's senior executives are eligible to participate in the Company's savings plans just like any other IBM employee. Company contributions to the defined contribution plans comprise a significant portion of the All Other Compensation found in the Summary Compensation Table for the CEO and other senior executives. 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 saved 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 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, through June 30, 2009, IBM contributed transition credits to eligible participants' 401(k) Plus Plan accounts. The amount of the transition credits was based on a participant's age and service as of June 30, 1999. 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, to retain 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 IBM Excess 401(k) Plus Plan are recordkeeping (notional) accounts and are not held in trust for the participants. Participants in IBM's non-qualified plan, the Excess 401(k) Plus 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 and automatic contributions 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. Through June 30, 2009, eligible participants also received transition credits. IBM does not pay guaranteed, above-market or preferential earnings on deferred compensation. For executives with long and successful careers at IBM, the deferrals can accumulate to sizeable amounts over time.

The value of Chairman and CEO Palmisano's account, made up of money he earned during the past 14 years that the program has been available, was worth approximately \$49 million at the end of 2009. 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.

#### History of Chairman and CEO Palmisano's Deferred Compensation (Nonqualified) Since 1999

Year	Executive Deferrals	IBM Contributions	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
2009	3,355,300	705,500	48,875,578

#### 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. As part of this review and approval process, many factors are considered, including an understanding of the business risks associated with the commitments.

## **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 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. These summaries provide the Committee an understanding of how their decisions affect other compensation elements and the impact that separation of employment or retirement will have.

### **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 a multi-year period and a competitive benchmark analysis provided by the Committee's outside consultant, Semler Brossy.

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.

## Edgar Filing: INTERNATIONAL BUSINESS MACHINES CORP - Form DEF 14A

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 surveys that provide general trend information and details 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. The benchmark companies that are used by the Compensation Committee to guide its decision making have included 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. The surveys and benchmark data are supplemented by input from the Compensation Committee's outside consultant on factors such as recent market trends. The Committee reviews and approves this list annually.

#### 2009 Benchmark Group:

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

As a result of industry consolidation and the impact of the economic crisis, the Compensation Committee re-examined the benchmark group for 2010. The Compensation Committee reviewed the selection criteria for the benchmark group and determined that companies from the survey participants that meet the following criteria should be included in the 2010 benchmark group:

- All companies in the technology industry with revenue that exceeds \$15B, plus
- Up to two (depending on availability of data) companies per other industry, with revenue that exceeds \$40B and that have a global complexity similar to IBM.

This group does not include companies that have participated in the U.S. Government's Troubled Asset Relief Program (TARP).

2010 Benchmark Group:

Accenture	Dell	Microsoft
Archer Daniels Midland	Dow Chemical	Motorola
Apple	EMC	PepsiCo
AT&T	Ford	Pfizer
Boeing	General Electric	Procter & Gamble
Bunge	Google	Time Warner
Caterpillar	Hewlett-Packard	United Technologies
Chevron	Intel	UPS
Cisco Systems	Johnson & Johnson	Verizon
ConocoPhillips	Lockheed Martin	Xerox

The data from this survey 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 benchmark group. For individual compensation decisions, the benchmark 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. Because factors such as performance and retention, as well as size and complexity of the job role, are considered when compensation decisions are made, the cash and total compensation for an individual named executive officer may be higher or lower than the median of the total benchmark group.

##### 5. Compensation Committee Consultant

The Committee enters into a consulting agreement with its outside compensation consultant on an annual basis. The Committee has retained Semler Brossy since July 2009 as its compensation consultant to advise the Committee on market practices and specific IBM policies and programs. Semler Brossy does not perform any other 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 Semler Brossy for the Committee is documented in a formal scope of work and contract which is executed by

the consultant and the Committee.

The Committee engaged a Managing Director of Towers Perrin as its outside compensation consultant through July 2009. The work performed by the Managing Director was similar to the responsibilities described above for Semler Brossy. The fees paid to Towers Perrin for services provided to the Committee totaled \$101,175 during 2009, and the Managing Director did not perform any other consulting work for the Company. Towers Perrin also provided other services to IBM during this period. The decision to engage Towers Perrin for these other services was made by management and was reviewed by the Compensation 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 fees paid to Towers Perrin and its affiliates for services provided to IBM from January 2009 through July 2009 totaled \$2,436,349. The Committee assessed the nature and significance of the Company's other engagements with Towers Perrin during the period in which Towers Perrin also provided consulting services to the Committee. Based on the assessment, the Committee determined that the consultant was free of any relationships that would impair professional judgment and advice to the Compensation Committee.



CHAIRMAN AND CEO COMPENSATION DECISIONS FOR 2009 AND 2010

The Compensation Committee made decisions for the Chairman and CEO's 2009 and 2010 compensation following the process and using the pay components that were previously described. The Compensation Committee noted the following as key points regarding the Chairman and CEO's performance against his Personal Business Commitments for 2009:

- Achieved very strong financial performance including record profit, cash flow and earnings per share (EPS), out-performing the market and our industry in a challenging economic environment
- Accelerated the achievement of our long-term financial roadmap delivering \$10 per share a year early
- Returned significant value to shareholders including increasing dividends from \$2.6 billion in 2008 to \$2.9 billion in 2009
- Continued IBM's leadership position as the premier globally integrated enterprise
- Capitalized on our growth market strategy during a time period where major markets were in a recession
- Established the Smarter Planet strategy and delivered solutions that allow companies, industries and cities to innovate and work better enabled by smarter technologies and systems
- Developed robust offerings to drive client value in use of cloud and next generation data center technology
- 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 ever, driven in part by global delivery, quality, and productivity

- Established the Business Analytics and Process Optimization unit to integrate the Cognos and SPSS acquisitions with offerings targeted toward line-of-business buyers
- Continued leadership in technology and innovation, earning more U.S. patents than any other company for the 17th consecutive year
- Invested in workforce and leadership programs for employees worldwide to motivate high performance and drive business objectives

The Committee considered these results and recommended that Mr. Palmisano receive \$4,750,000 in annual incentive for his 2009 performance.

The Committee worked with its outside consultant, Semler Brossy, to review Mr. Palmisano's base salary, annual incentive target and long-term incentive award value using a framework based on the 2010 benchmark groups described earlier in the section "Ensuring Competitive Pay Approach to Benchmarking", 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 2010 remain at \$1,800,000 and \$5,000,000, respectively.

The Committee recommended a 2010 long-term incentive award comprised entirely of 2010-2012 Performance Share Units valued at \$14,000,000. The 2009 award was valued at \$12,000,000. The 2010 grant will be made on June 8, 2010. 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 2009 AND 2010

The Compensation Committee also made decisions for each of the executive officers following the process and using a mix of the components that were previously described. 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*

- Exceeded net income and earnings per share (EPS) objectives
- Exceeded cash flow objectives in a difficult global economic environment

- Managed IBM's portfolio, including six new acquisitions
- Created Financial Risk Management role and a Financial Risk Assessment function to coordinate the identification and management of enterprise-wide financial risk
- Achieved 2010 EPS roadmap set in May 2007 one year early

Following IBM's practice, the Compensation Committee approved Mr. Loughridge's compensation, which was ratified by the independent directors on IBM's Board.

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

- Grew Software Group Middleware share while also growing pre-tax income double digits
- Created the Business Analytics and Process Optimization (BA&PO) unit which is focused on offerings targeted toward industry solutions
- Continued custom integration plans for new acquisitions in 2009 and accelerated the full integration of Telelogic and Cognos
- Realigned the sales force, changing the focus to new markets and enabling market share growth

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

- Held market share while growing signings year to year and pre-tax income double digits
- Implemented global delivery framework in all geographies leading to enhanced service delivery
- Attained highest levels ever of services delivery quality as measured by contract health, service level agreement performance, and referenceability
- Capitalized on announced cloud strategy through the introduction of 15 new offerings to meet market demand

*Virginia M. Rometty, Senior Vice President, Global Sales and Distribution*

- Held market share while growing signings; Yielded an eight point differential between growth and major markets revenue growth
- Developed integrated industry-based IBM Smarter Planet solutions to deliver innovation and value to our clients
- Drove the strategic transformation priorities with our sales forces to respond to the challenging market conditions
- Transformed operational processes to enable speed of execution
- Developed new strategic business partnerships to drive incremental value for our clients

Based on these results and following the process outlined above, the Compensation Committee approved the following 2009 annual incentive payouts for these named executive officers:

Name	2009 Annual Incentive Payouts
M. Loughridge	\$975,000
S.A. Mills	846,000
M.E. Daniels	792,000
V.M. Rometty	680,000

For 2010, 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 has been no change to the salary rate or annual incentive target since 2008.

Name	Salary Rate	2010 Cash Annual Incentive Target	2010 Long-Term Incentive Awards Performance Share Units(1)
M. Loughridge	\$ 720,000	\$ 975,000	\$ 3,750,000
S.A. Mills	695,000	940,000	3,250,000
M.E. Daniels	665,000	900,000	3,750,000
V.M. Rometty	630,000	850,000	