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Opinion: IBM's greedy former CEO escapes scrutiny

By John R. Kotson, Special to the News
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Countless articles have been published in the Denver newspapers detailing the misdeeds of Joe Nacchio and the resulting near destruction of Qwest. But no attention has been given to Louis V. Gerstner, former chief executive and current chairman of the board of IBM, one of the largest employers in northern Colorado.

The Denver news media and the U.S. government have looked the other way while Gerstner and friends have engaged in some of the largest insider stock manipulations in corporate history.

Here are a few of the sordid details. In the last five years, Gerstner has reaped a profit of \$345 million in the sale of awarded stock options. These stock options were awarded while he held the joint positions of IBM CEO and chairman. During that period, IBM spent \$44 billion buying back its own stock to drive the price up so that executives could cash out at handsome profits. This is money that could have been spent on developing new products, attracting new talent and honoring promises made to employees and retirees.

Where did all that money come from?

Not from profit growth, which remained flat at about 2 percent per year when you strip out the retirees' pension fund surplus "vapor profits."

It came from selling off large chunks of the company and its assets, laying off tens of thousands of employees and slashing pension and health care benefits for employees and retirees. In 2002 alone, IBM has quietly cut 15,000 jobs. Health benefits, which were promised "free for life," now cost retirees a substantial amount of their pensions. Only one minuscule cost-of-living increase has been awarded pension recipients in the past 11 years.

The greed doesn't stop there. Now, Lou has not only been retained as chairman of the board, he has been awarded a 10-year consulting contract, with fully paid expenses at his previous salary of \$2 million a year. These expenses have been conservatively estimated to be \$100,000 annually.

Since Lou's last big stock cash-out in January of this year, IBM stock has declined from \$126 per share to less than \$70. While the percentage drop does not rival the decline in Qwest stock, the loss in real dollars does. Individual stockholders have suffered huge losses.

For people in the news media who think Lou has done a great job, talk to people in Endicott, N.Y.; Burlington, Vt.; San Jose, Calif.; Raleigh, N.C. and many other locations whose jobs have been eliminated. Get their opinions on Lou's performance.

IBM is now under investigation by the attorney general's office in Vermont for age discrimination, since the layoffs there and elsewhere appear to be strongly oriented towards older employees.

Lou's hand-picked successor as CEO, Sam Palmisano, appears to be headed down the same path. The conversion of the once-great data processing giant to a service organization is nearly complete with the sale of the Data Storage Division and its 17,000 employees to Hitachi Corp.

IBM no longer produces the revolutionary new products that once made it America's most admired corporation. "Respect for the Individual," "Service to its Customers" and "The Pursuit of Excellence" have been



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Louis Gerstner, chairman of IBM, made \$345 million by selling stock in the company over the last five years. IBM spent \$44 billion to buy back its own stock, which had the effect of driving up the price of Gerstner's shares.

replaced by "Reward the Greedy Few".

But IBM has not escaped unscathed. The Alliance@IBM , the U S West and Johns Manville Retiree Associations and the National Retirees Legislative Network are actively pursuing an agenda with Congressional representatives to put an end to these abuses of employees' and retirees' rights by IBM, Qwest and other large corporations. The agenda includes reforms in retiree health care and pension benefits, independence of corporate boards and accounting reforms.

In the end, we will prevail.

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