

IBM Notice of 2007 Annual Meeting and Proxy Statement

8. STOCKHOLDER PROPOSAL ON PENSION AND RETIREMENT MEDICAL

Management has been advised that Mr. James Leas, 37 Butler Drive, South Burlington, VT 05403, the holder of 408 shares, on behalf of himself and 43 co-filers of the proposal, whose names, addresses and IBM stockholdings are available upon request, intends to submit the following proposal at the meeting:

Stockholders ask the Board to adopt the following policy:

Age discrimination in retirement policies will be ended by allowing all employees, regardless of age, to choose the promised pension and retirement medical insurance under the terms in effect before IBM adopted changes in 1995 and 1999.

Highlighting executive greed, the New York Times noted on 8/1/2003 that some of the savings produced from slashing employee pensions in 1999 “was to be used to create pensions for executives.” IBM enacted a separate “top hat” pension plan for executives in 1998.

IBM first implemented age discrimination when it divided employees into three groups based largely on their age on June 30, 1999 and treated employees in each age group vastly differently.

While an appeals court reversed the district court’s conclusion that IBM’s action violated pension law, it did not reverse the court’s finding that the cash balance plan would “cause reductions in retirement pay of up to 47% for older workers.” Many employees calculated their pension losses in the hundreds of thousands of dollars.

When IBM executives slashed promised pensions in 1999, employees responded with an unprecedented national campaign of protest meetings. IBM partially backed down, allowing about 35,000 additional employees to choose between the pension plans. That protest campaign produced substantial gains for those employees and for the company.

IBM executives further implemented age discrimination when they laid off older workers at a far greater rate than younger workers. An IBM engineer in Burlington, Vermont analyzed data provided by IBM and showed that while about 20% of younger engineers and technicians were selected for the June, 2002 layoff, 32% of those in their early fifties, 48% of those in their late fifties, and 67% of those in their early sixties were selected.

Older laid-off IBMers filed suits. IBM executives suffered stunning defeats when two appeals courts reversed district court dismissals and found that the company’s “General Release,” that employees signed in exchange for severance pay, violated age discrimination law, and that laid-off employees can proceed with their suits for age discrimination notwithstanding that Release.

In my view, boosting executive pay was the central reason IBM implemented blatant age discrimination. Under a pension fund accounting rule, executives boosted the report of profit based on the 1995 and 1999 changes—even though no actual money was transferred to IBM from the pension trust fund. The court acknowledged that \$1 billion—13% of IBM’s net income—came from this accounting rule treatment in 2001. IBM executive pay is tied to the report of profit, as elevated by this vapor profit. Targeting older workers nearing retirement for layoff also slashed pension obligation, boosting the vapor profit and executive pay.

IBMers and laid-off IBMers are the best defenders of IBM from greed-driven top executives who put personal interest ahead of company, employee, customer, and stockholder interest. Concerted action, legal action, and stockholder resolutions have become part of the job of working for IBM to challenge and reverse self-serving executive decisions.

THE IBM BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

To stay competitive in the marketplace, IBM must attract and keep the industry’s most talented people. We do that, in part, by offering compensation and benefit programs that provide value to our employees. In this context, IBM remains convinced that the changes made to its pension and retirement medical insurance plans were the right thing to do.

The pension changes adopted in 1995 addressed a specific set of corporate purposes: to manage long-term liabilities, to reduce early retirement subsidies, and, recognizing the changing needs of a more diverse talent pool, to provide a more attractive benefit for mid-career hires and those who might not spend a full career with IBM. These objectives were set, and the plan changes were adopted, in the context of urgent efforts by IBM to resuscitate a business that was sustaining enormous losses in the early 1990s. Further, this new approach to pension benefits was part of a broader package of changes being made by IBM, including allocating greater resources to the 401(k) plan and to various forms of incentive compensation and the hiring of experienced employees to staff its growing services business.

Since then, IBM has made other changes to its pension benefit programs to provide its employees with a total compensation and benefits package that is competitive and that serves to attract and retain the best performers. After analyzing its own workforce and the practices of the companies against which it competes for employee talent, IBM found that over 50% of its U.S. employees have

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5 years or less with the Company, validating the Company's decision to change its pension plan in 1995. The Company also found that approximately 75% of its competitors did not offer a pension plan. As a result of these studies, the Company concluded that its pension plans were not delivering the kind of benefit this workforce valued, and effective in January 2005 moved forward with a new 401(k) plan for new employees, under which they would receive a new, enhanced benefit in lieu of traditional pension benefits, including an increased Company match on employee investments – from 50% to 100% of the first 6% of eligible pay.

Most recently, in January 2006, based on a review of competitive benchmarks, the Company announced that effective December 31, 2007, it will no longer accrue for future pay or service, but age and service after 2007 will continue to count toward retirement eligibility. At the same time, the Company announced that no further accruals would be made to the Supplemental Executive Retention Plan. Also beginning in 2008, the Company plans to implement a new 401(k) savings plan with increased Company matching and automatic contributions. The Company also has made retirement plan changes and related changes in several other countries in 2006 and is reviewing possible changes in several other countries. These changes continue IBM's global strategy of shifting the future focus of retirement benefits toward the more predictable cost structure of defined contribution plans.

In the past 10 years, IBM has invested a total of over \$11 billion in U.S. cash compensation for employees, including salary increase and bonus programs. Since 1991, IBM has also increased U.S. base salaries by 88%.

As all of these actions evidence, the Company continually reviews its plans and programs to take account of shifts in the marketplace and to help ensure that IBM continues to offer the right mix of pay and benefits to attract the top talent needed to lead the business in today's competitive marketplace. The flexibility to conduct these reviews and make these changes is vital to the Company. **FOR ALL OF THESE REASONS, THE BOARD RECOMMENDS A VOTE AGAINST THIS PROPOSAL.**