

# IBM Notice of 2007 Annual Meeting and Proxy Statement

## 10. STOCKHOLDER PROPOSAL ON OFFSHORING

Management has been advised that Michael L. Saville, P.O. Box 397, Riverton, UT 84065, the owner of 82 shares, intends to submit the following proposal at the meeting:

**RESOLVED:** The stockholders request that the Board establish an independent committee to prepare a report on the potential damage to the Company's brand name and reputation in the United States that could result from IBM's offshoring efforts and make copies of the report available to shareholders of the Company upon request.

### SUPPORTING STATEMENT:

IBM's brand name may be its most important asset. For Harris Interactive, "the value of a company's reputation may be as much as 40% of its total market value." [IN FACT, Press Release, 2/07/01] Company reputations affect consumer purchases. And "reputation, once lost, is extremely difficult to reclaim." [Wall Street Journal, 2/07/01]

The offshoring of manufacturing and service work may be profitable in the short term, but in our view may have significant long-term consequences. The shift of production to low-wage countries in general, and to China in particular, has generated negative press stories in the U.S. [InformationWeek, 10/30/06; Knight Ridder news service, 11/10/03] Two in three Americans think that job losses to China are a "serious issue." [Greenberg Quinlan Rosner Research, 2003]

Damage to reputation can impair the internal functioning of companies as well. There is some evidence to suggest that when companies, such as IBM, engage in the offshoring of significant amounts of work, it reduces the morale for employees in the U.S. [CIO Insight, 3/6/06; CIO Magazine, 9/1/03] It appears that IBM's U.S. workers are now in direct competition with IBM's workers in China and other countries where the exercise of labor rights is discouraged.

The impact on morale is especially important for U.S. based companies, as acknowledged in 2003 by Tom Lynch, IBM's Director of Global Employee Relations. He anticipated problems would arise when IBM workers were asked to train their replacements, referring to it as a "dignity issue." [http://www.allianceibm.org/articles/execoffshoremeet.htm]

There is also evidence that the offshoring of highly skilled jobs has a detrimental impact on the choices made by American college students. Young Americans may wonder whether they should study computer science or engineering since these jobs are going offshore and the remaining engineers will be subject to downward pressure on pay and benefits as well as the possibility of having to train their replacements. [Computerworld, 5/5/2006]

Finally, there is evidence that offshoring on a large scale basis undermines the knowledge base in the U.S. In 2004, the IEEE-USA wrote that offshoring "poses a very serious, long term challenge to

the nation's leadership in technology and innovation, its economic prosperity, and its military and homeland security." [http://iee-usa.org/policy/positions/offshoring.html]

When offshoring takes place, we believe there is potential for significant damage to the company's brand name and reputation. Accordingly, we submit that an authoritative report is appropriate on that potential.

We urge shareholders to vote for this proposal.

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

The Board believes there to be no credible basis for the Proponent's concerns about the potential for damage to IBM's brand name and reputation. IBM has one of the strongest brand names in the world — in fact, in the history of branding. According to the 2006 BusinessWeek Interbrand survey, the IBM brand is the third most valuable brand in the world, having an estimated value of over \$56 billion. For our customers, the IBM brand stands for industry-leading technology and solutions that provide business advantage. Their expectations of the IBM brand are that we will deliver business value, produce the best infrastructure, and create a superior experience for them.

Globalization is a complex issue that requires a collaborative approach by business, government, labor and universities to develop appropriate approaches. Since its founding, IBM has been one of the true global companies, now serving customers in over 160 countries and since 1987 deriving more than half of its revenue from outside the United States. At the same time, IBM remains one of the largest employers in the U.S., with approximately 134,000 employees. In addition to the continued investment in our domestic workforce, IBM posted double-digit headcount growth in 29 countries within Latin America, Europe, Africa and Asia, and we expect to continue to pursue growth opportunities across the global marketplace.

IBM is a truly global company, but it is also important to note that IBM continues to invest more of its research and development spending in the United States than anywhere else in the world. For example, in 2006 while over 60% of IBM's revenues came from outside the U.S., over 75% of its \$6.1 billion in research and development spending was in the U.S. In 2005, Governor George E. Pataki of New York announced more than \$2.5 billion in investments by an IBM-led consortium of high-tech companies, with IBM leading the investment of \$1.9 billion in nanoelectronics manufacturing and development in East Fishkill, New York. This investment is on

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top of IBM's approximately \$3 billion investment in 2002 in a new 300 millimeter semiconductor facility in the same area, believed to be the most advanced of its kind.

In the end, IBM believes that what matters most is whether companies and nations are investing to support innovation, which is and will continue to be the engine of growth around the world. This is reflected in the statement of IBM values put together by IBM employees in 2004 as part of ValuesJam — Innovation That Matters, for the Company and the World. IBM has a distinguished record of investing in its people, providing training to develop market leading expertise and leadership skills that help drive business growth and success. This year, we expect to spend over \$600 million training our workforce worldwide, with over \$260 million being invested in the U.S. We are also one of the leaders in employee training, with employees spending 20 million hours—or 58 hours per employee—on training this past year.

IBM continues to focus on driving business performance by building organizational capability through learning focused on business requirements and skills valued in the market, in the areas of professional, technical, product, sales and leadership development, with 33% of its training investment focused on employee professional development, 26% focused on technical and product training, 15% focused on sales training, and 10% focused on management and leadership training, with the remainder spent on general educational training.

IBM has consistently been recognized as one of the best companies in the U.S. for employee training. IBM's training and learning initiatives inspire an innovative climate and enable IBM employees to flourish and deliver value for clients and the world. Training Magazine ranked IBM among the top five in the Training Top 100 listing every year since this magazine began issuing the awards in 2001, including winning the award for being the #1 training company in two of those years. IBM also receives numerous other awards each year for its extensive training and learning programs.

IBM has a history and demonstrated success as a global company investing for innovation in ways that continue to promote its brand. Management and the Board do not believe a study of this kind is necessary or warranted. **THE BOARD THEREFORE RECOMMENDS A VOTE AGAINST THIS PROPOSAL.**