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<div data-bbox="451 569 886 600" data-label="Text"> <p>Updated 10/19/09, 12:01AM HIT</p> </div> <div data-bbox="410 636 922 672" data-label="Text"> <p><i>They Say Trouble Comes in Threes...</i></p> </div> <div data-bbox="302 711 1039 772" data-label="Section-Header"> <h1>Triple Trouble Hits Armonk</h1> </div> <div data-bbox="155 808 1174 844" data-label="Text"> <p><i>New Antitrust Investigation, Stock Price Hit, Insider Trading Charges...</i></p> </div> <div data-bbox="147 882 1187 1176" data-label="Text"> <p>HAIKU, Maui, Oct 18 – They say trouble comes in threes. Big Blue found that out this week as triple trouble hit Armonk. First, the federal government launched an antitrust investigation of IBM's mainframe business. Then Wall Street launched a completely nonsensical attack on the IBM stock, despite solid third quarter results. But what probably hurt the most was the third strike - an inside job - the news that a senior IBM executive was charged Friday with insider trading law violations.</p> </div> <div data-bbox="147 1211 1179 1278" data-label="Text"> <p>The latter news came as a shock, both to this writer and to everybody else we contacted at IBM and around the industry.</p> </div> <div data-bbox="147 1314 1170 1383" data-label="Text"> <p>"It isn't often that big blue gets a black eye," read the lead of the Reuters story "Scandal hits corporate role models IBM, McKinsey" (Oct 16).</p> </div> <div data-bbox="147 1419 1187 1556" data-label="Text"> <p>"If there's any company that's always been a model of pristine behavior, being above it all, it was IBM," this writer also told Reuters Friday. "I don't think it will have an effect on IBM's business because it has deep talent. However, it is a black eye to IBM's reputation."</p> </div> <div data-bbox="147 1591 1190 1656" data-label="Text"> <p>"Who will be next?" this writer also wondered in other interviews. "St. Peter being carted off to prison in handcuffs?"</p> </div> <div data-bbox="147 1694 1135 1864" data-label="Text"> <p>So there appear to be no saints left anymore. But we must be careful not to jump to conclusions. Accused doesn't mean convicted. Still, the U.S. Attorney Preet Bharara (right) sounded pretty confident of that at the Friday press conference in New York based on the overwhelming evidence collected by court-authorized wiretaps of the six defendants conversations.</p> </div> <div data-bbox="147 1900 880 1934" data-label="Text"> <p>Bharara told the media it was the largest hedge fund case ever</p> </div> <div data-bbox="904 1797 1177 1948" data-label="Image"> </div>	<div data-bbox="1203 569 1455 680" data-label="Text"> <p>A Rally of Hope over Fact (Analysis of Top IT cos' latest market and business performances)</p> </div> <div data-bbox="1203 716 1455 800" data-label="Text"> <p>A Fading Star (Analysis of Accenture's 4Q09 business results)</p> </div> <div data-bbox="1203 835 1455 919" data-label="Text"> <p>Tempest in a Tea Pot (Analysis of latest IT services industry M&A's)</p> </div> <div data-bbox="1203 955 1455 1039" data-label="Text"> <p>Less Than Meets the Eye - Analysis of HP's 3QFY09 results</p> </div> <div data-bbox="1203 1075 1455 1159" data-label="Text"> <p>Big Blue Blows Lid Off Forecasts - Analysis of IBM's 2Q09 results</p> </div> <div data-bbox="1203 1194 1455 1312" data-label="Text"> <p>Apple, Google Lead Comeback - Analysis of Top IT Cos' stock & business performances</p> </div> <div data-bbox="1203 1348 1455 1432" data-label="Text"> <p>Revenues, Earnings Drop - Analysis of Accenture's 3QFY09 business results</p> </div> <div data-bbox="1203 1467 1455 1556" data-label="Text"> <p>IBM Wins the "Gold" - Analysis of IT Services Octathlon 2009 results</p> </div> <div data-bbox="1203 1591 1455 1677" data-label="Text"> <p>Suddenly, All Lines Point South - Analysis of HP's 2Q09 business results</p> </div> <div data-bbox="1203 1713 1455 1799" data-label="Text"> <p>Back on Growth Track - Analysis of IBM Global Services 2008 results</p> </div> <div data-bbox="1203 1835 1455 1919" data-label="Text"> <p>Sometimes Less Is More and Down Is Up - Analysis of IBM's 1Q business</p> </div>

prosecuted, and marked the first use of court-authorized wiretaps to capture conversations by suspects in an insider trading case. He said the case should cause financial professionals considering insider trades in the future to wonder whether law enforcement is listening.

"Greed is not good," Bharara said. "This case should be a wake-up call for Wall Street."



For example, transcripts from the wiretaps showed Raj Rajaratnam (left), founder of the Galleon Group and the principal defendant, and Danielle Chiesi, a portfolio manager at hedge fund New Castle Partners, the alleged conduit between Rajaratnam and the corporate informant network, discussing IBM's Bob Moffat, senior vice president in charge of all hardware (right).



"Put him in some company where we can trade well," Rajaratnam, told Chiesi on a recorded telephone call in September 2008.

In other words, the Sri Lankan-born Rajaratnam appears to have wielded such power that he thought he could move around one of the top IBM executives, who was considered as an heir apparent to the Big Blue throne, like some sort of a chess piece.

The Way We Were...

When this writer worked for IBM in the 1970s, we had to be holier than thou. No disparaging of competition. No special deals. Selling only at list prices. And we had to review and sign the IBM Business Conduct Guidelines document agreeing to adhere to it.

Being lily white and pure as mountain spring water was ingrained as part of the Big Blue culture. No longer. Not after what Bob Moffat, senior IBM vice president in charge of all of company's hardware, has been accused of doing - passing proprietary company information to his Wall Street co-conspirators for personal gains.

So Friday, Oct 16 may be go down in the annals of Armonk as a "Black Friday." It was the day Wall Street's Greed Inc. washed over the last remaining vestige of high ethics in corporate America. Stains of that kind are easy to obtain and hard to wash off.

Tom Watson Sr, the man who built IBM into a great company it had become by the time he turned it over to his son in the 1950s, knew that. He knew it from experience. For, in 1913, he and his boss at his former employer NCR were convicted of antitrust violations. Like Moffat today, both men faced prison sentences. Then a higher power intervened, giving them a chance to redeem themselves. Their hometown Dayton, Ohio, was hit by devastating floods. Here's an excerpt about that from ["Is Antitrust Dead?"](#) (1989):

Watson is often mistakenly termed a "founder" of the IBM company. Instead, this man, revered inside IBM almost like an "icon" (his pictures used to hang on the walls of IBM offices), joined the company which was to become IBM only [after](#) being convicted in the U.S. government's first-ever

results

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[IBM Tries to Pull Dow, HP Up](#) - Big Blue stock up sharply after CFO remarks at investor conf

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[Two Thumbs Up for Big Blue](#) - Analysis of IBM 4Q08 business results

[Big Blue: All Heart](#) - IBM creating new jobs in American Heartland

[When You Catch a Tiger by the Tail...](#) - An editorial about greed & success

[Squeezing the Consumer Dry](#) (Greed fueled both bankers & oilmen's try to squeeze blood out of stone - consumer)

[The Year of Living Dangerously](#) - Analysis of global investment trends

criminal antitrust case in 1913. He was sentenced to a \$5,000 fine and a year in jail on February 13, 1913 -- for his antitrust violations while working for NCR. He escaped serving his sentence by taking part in NCR's flood relief efforts in Ohio during that year. The incoming President (Woodrow Wilson), offered his congratulations to NCR executives and urged a pardon for their humanitarian work (see *"IBM: Colossus In Transition,"* by Robert Sobel). In 1915, the original judgment was overturned on a technicality. The case was never refiled.

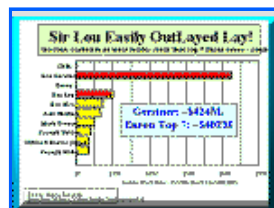
Perhaps chastened by this experience, Tom Watson Sr later developed and enforced probably the strictest code of ethics for IBM employees of any large company in America. Any violators were summarily fired even at lower levels of the company. This writer has personal knowledge of some such cases and people. Greed Inc. was not welcome at Big Blue.

In return, Watson offered his people life time employment and a paternalistic sort of love and care for their families. Senior IBM executives were also rewarded with lucrative stock option programs. For most, that was merely a retirement savings fund. For, it was considered inappropriate for anyone to cash in on such options while still on the job. One had to get special dispensation from top management before selling them on account of some extraordinary circumstances.

Gerstner Ushered the "Era of Greed" at IBM

All that changed when Lou Gerstner took over in 1993. Massive layoffs ensued, showing his "disrespect for the individual." Nothing of the kind had ever happened before. Gerstner also allowed senior IBM executives to profit from their stock options. "Greed is good," became IBM's new philosophy.

In fact, insider sales was one of the few areas in which this imperial-style autocrat led them all by example. After nine years at the IBM helm, Gerstner made off with over \$420 million in various forms of compensation, including about \$238 million in insider stock trades in his last two years at IBM. This was more than the top seven executives of the now defunct Enron - combined (see ["Sir Lou OutLayed Lay"](#), April 2002 and the chart on the right).



We had been warning about the dangers of this cultural shift at IBM in various articles ever since mid-1996 (see [Louis XIX of Armonk](#), Aug 1996). Gerstner, who came to IBM from RJR Nabisco, via American Express and McKinsey, the latter consulting firm's executive also involved in the latest insider trading charges, injected a new type of virus into a staid culture. He showed conservative IBM people that greed was good.

Our warnings fell on deaf ears. For, Gerstner's timing was perfect. Greed was also considered goodness on Wall Street in the mid-1990s. Check out these excerpts:

["Where Armonk Meets Wall Street, Greed Breeds Incest"](#) we wrote in Nov 1998:

If the latter day Armonk connotes "Greed Inc." (and most indicators point that way), then the latter day Wall Street stands for "Incest Inc." (as most

signals also suggest). And where Armonk meets Wall Street, greed evidently breeds incest. While the Big Blue was buying back its stock by the tens of billions of dollars, IBM insiders were selling their shares by the tens of millions of dollars. Talk about self-dealing. And NOT putting their money where their mouths were.

Also check out and ["Executive Suite: How Sweet!"](#) (July 1997) and several other stories from the late 1990s which pointed out that how "Greed Inc." was being welcomed to Armonk. Here's another excerpt:

Back in the good old days of the Watson era, when high morals complemented IBM's high profit margins, the "Big Blue" used to connote a "Lily White" in the computer industry. No longer. The Gerstner administration has now ushered a new era of corporate immorality, paralleling the "anything goes" ideology which rules Wall Street and Washington these days. (from Annex Bulletin ["Big Blue" Is No Longer "Lily White"](#), July 1998)

Summary

They say you reap what you sow. Gerstner planted the seed of greed at Armonk. And it grew out of control in Moffat's case. What this IBM executive has alleged done is simply an unlawful extension of the "anything goes" greed-driven era the former IBM chairman had brought to Armonk.

Since taking over as CEO in 2002, Sam Palmisano has done a lot to focus the company on quality of business rather than quantity. As a result, IBM has been able to continue to improve its profit margins even as its revenues shrank. Now he faces a new challenge.

The "Moffatgate" will force Palmisano and the IBM Board to tackle a much more difficult task - purification of IBM's corporate body. They must get rid of any remaining greed-infested moral toxins. And that's no small challenge in any company, especially one with over 400,000 employees.

Perhaps they can start by quoting the U.S. Attorney Bharara: "Greed is not good. This case should be a wake-up call for Wall Street."

Maybe also a wake up call for Armonk.

Happy bargain hunting!

Bob Djurdjevic

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Bob Djurdjevic, Editor
e-mail: annex@djurdjevic.com
Tel/Fax: +1-602-532-7789

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