

## IBM is Temporary Suspended from New Business with U.S. Federal Government

According to the **EPLS list (Excluded Parties List System)**, starting with the 27th of March, the **IBM group has been temporary suspended** from participating in new business with U.S. Federal government agencies, as a result of an EPA (Environmental Protection Agency) investigation

**EPA temporarily suspended IBM** from receiving access to new contracts with the federal Government, pursuant to **Executive Order 12549**, created in 1986 to curb fraud, waste and abuse in federal programs.

The suspension concerns "all federal agencies and all IBM divisions". The reasons for the ban have not been made public yet.

EPA made the decision as a result of an investigation concerning possible fraud linked to a bid made by the American Administration in March of 2006.

An **official IBM release**, from the 31st of March 2008, announces that the temporary suspension, issued by the Environmental Protection Agency, relates to an EPA investigation concerning possible violations

of the Procurement Integrity provisions of the Office of Federal Procurement Policy Act regarding a bid for business originally submitted in March 2006. The release states that IBM has served the Federal agency community for many decades as a vendor in good standing and that IBM is committed to the highest standards of business ethics. IBM provides training on its Business Conduct Guidelines to all employees, with specialized training to those employees working on matters with the Federal Government, to ensure compliance with all applicable Federal requirements.

Under Federal procurement procedures, IBM has 30 days in which to contest the scope of the temporary suspension, which can continue for an initial period of up to one year pending the completion of the investigation.

An EPA official confirmed that the suspension is related to a 10-year, \$84 million deal awarded February the 12<sup>th</sup>, 2007 to **CGI Federal**, a wholly owned U.S. subsidiary of Canada-based CGI Group Inc. The contract is to modernize the agency's financial management system. IBM, which was also vying for the contract, protested the award two months later. A decision still hasn't been made on IBM's protest. IBM officials confirm the cooperation with the U.S. Attorney's Office for the Eastern District of Virginia, which served grand jury subpoenas seeking documents and testimony relating to interactions between the agency and IBM employees. The subpoenas were emitted on the 28<sup>th</sup> of March on the basis of the EPA investigation concerning the illegal gain of information from a EPA employee about a bidding contract.

Name	IBM
Classification	Firm
Exclusion Type	Reciprocal
Description	none
Address(es) --	
Address	New Orchard Rd., Armonk, NY, 10504
DUNS	001368083
CT Actions) --	
Action Date	27-Mar-2008
Termination Date	Indef.
CT Code	S
Agency	EPA
Agency POC	<a href="#">EPA Contacts</a>
EPLS Create Date	27-Mar-2008
EPLS Modify Date	

The **EPLS** list is an online database for government agencies that name the parties excluded from receiving federal contracts, some subcontracts and certain types of federal financial and non-financial assistance and benefits. The government can take such action against violations of the Federal Acquisition Regulation, of specific agency regulations, or of the Government wide No procurement Suspension and Debarment Common Rule, and other federal standards.

Cause and Treatment Code: **S**

**Cause:** Suspension by any Federal agency pursuant to Executive Order 12549 and the agency implementing regulations based on an indictment or other adequate evidence (a) to suspect the commission of an offense that is a cause for debarment or (b) that other causes for debarment under the agency regulations may exist.

**Treatment:** Listed persons are excluded as participants or principals in all primary and lower tier covered transactions of all agencies and may not receive contracts under Federal procurement programs (see Treatment A). Further, agencies and participants shall not renew or otherwise extend the duration of covered transactions or consent to lower tier covered transactions with such persons. Exceptions to this treatment require a written determination by the head of the Federal agency or designee stating the reasons for entering the transaction. Suspensions are temporary actions and the period of suspension is indefinite. Therefore, the termination date will be listed as "Indefinite (Indef.)."

I.B.M. spokesman, **Fred McNeese** the company was blindsided by the government suspension. He added that the company plans to cooperate in the investigation but will fight to limit the scope of its suspension from bidding on new contracts.

The suspension could be serious, but the reason for the ban is unclear at the moment.

Stan Soloway, who heads the **Professional Services Council**, a trade group representing IBM and other government contractors, complained that the EPA imposed the suspension without first informing IBM of its concerns and letting the company respond. "A suspension is normally not assessed unless there is a very serious infraction that has been not only alleged but documented," he said. He called the EPA move "very unusual" and said "it has enormous ramifications."

"It's potentially a big deal," said Bjorklund (senior vice president la **FedSources**). Until the matter is resolved, all federal agencies are likely not to award contracts or even task orders to IBM. The ban could last a few days or a few months, he said. However, Bjorklund said agencies do have some leeway to award a contract if there is a specialized requirement that only the suspended company could perform.

The **Defense Advanced Research Projects Agency** awarded IBM a four-year, **\$244 million contract** to develop a machine that provides 100 times the sustained performance of today's general purpose supercomputers.

IBM was also hired by the **Energy Department's National Nuclear Security Administration** to design and build the world's first supercomputer to harness the power of the Cell Broadband Engine processor. This will produce a machine capable of processing 1,000 trillion calculations per second.



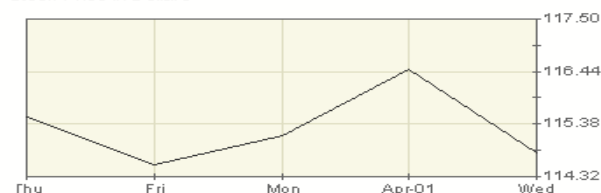
Revenue in 2006: 91.4 billion \$  
 Profit in 2006: 9.5 billion \$  
 Revenue in 2005 : 91.1 billion \$  
 Profit in 2005 : 7.9 billion \$

**Financial results at the end of 2007**

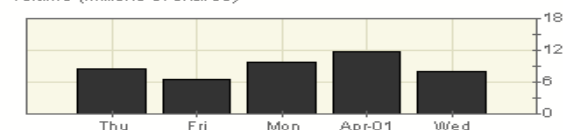
Revenue: 98.8 miliarde \$  
 Profit: 10.4 miliarde \$  
 Total number of employees: 355.766  
 Number of shareholders: 613,993

Despite the public clients' importance for IBM, the investors didn't seem very affected by the announcement of the suspension, IBM titles dropping only 0,99%, at 114\$ per share the first day.

Stock Price in Dollars



Volume (millions of shares)



In the fiscal year 2007, IBM won from the federal contracts 1,427 billion dollars (a number of 3.396 transactions) representing about 1,5% of its total revenues for 2007.

In 2007 IBM ranks the **37<sup>th</sup> position in the Top 100 companies with federal contracts** (according the governmental source [www.usaspending.gov](http://www.usaspending.gov)).

In 2007 IMB ranks the **18<sup>th</sup> position in the top 100 IT suppliers and system integrators** (according to the Washington Technology 2007 Top 100).



#### Comments:

"You don't see this very often, particularly for large companies," said **Ray Bjorklund**, senior vice president and chief knowledge officer for **FedSources**. He notes MCI among the exceptions. After filing for bankruptcy, MCI received a suspension from U.S. government contracts that lasted from August 2003 to January 2004.

"The U.S. government contributes only 2 percent of IBM's total revenue, roughly half of which comes from existing multi-year contracts that are not expected to be affected by the suspension", according to **Citigroup** analyst Richard Gardner.

This suspension **costs IBM \$3.5 million per day**, so it is not trivial that their Federal Account Managers have not received training on illegal Government Procurement Practices, then IBM should pay the price. In any case, all personnel involved should be subject to criminal prosecution. (**NetworkWorld.com Community**)

"The new **partnership between IBM and virtual-world-builder Forterra Systems Inc.** won't be affected by IBM's suspension", according to Forterra's Vice President for Marketing, Chris Badger.

Analyst **David W. Wright** says that the ban may aid other suppliers like **CGI** in obtaining larger amounts of federal contracts, at least on a short term.

These contracts are part of CGI's long-term growth strategy, thinks **Mike Abramsky**, bearing in mind that 29% of its revenues come from activities with the U.S. and 15% (in the past 12 months) derive from federal contracts.

Furthermore the accusations against IBM may have as consequence the renewal of the 10 year - 84 million \$ contract awarded by EPA to CGI which is presently suspended. It seem like the good relationship between CGI and EPA will not end here. The group recently obtained the right to participate, along with four other companies, to a bidding for EPA's Research-Development Department. The seven year contract is estimated at 100 million dollars, of with 30% to 50% would go to CGI.

**Impact:** *IBM's suspension has shut down the company's entire federal government channel*

VARs and system integrators are banned from selling IBM products and services to the federal government.

GSA- The General Services Administration- confirms that **the suspension applies to all the IBM sales –direct or indirect.**

A GSA spokesman declared that the government can not buy IBM products regardless of the source. The measure will have a major impact over IBM's partners. While some of them have business relations with more than one prime vendor, others only have IBM as a vendor.

In the long term, they will close contracts with the competition, costing IBM much more than just its direct business.

Many companies that benefit from federal contracts think that **the suspension will financially punish the companies that relate very much on IBM products** when the bid, which will slow down federal acquisitions and finally strike the government's capacity to obtain the products it needs.

The restriction enraged some of the contractors against the actions initiated by EPA. "*The whole thing stinks, and someone ought to ask EPA, 'Who are you to shut down critical components of government IT, and stick people like us with this problem?'*" said one federal IT contractor who resells IBM products and who declines to reveal its identity.

"*Why does an official in an agency have the ability to shut down an entire operation?*" asks **Daniel Serpico president and CEO at Jeskell** an IBM premier business partner. "*We're a 60-employee business that is focused on selling good products to the federal government. Certainly, I'm not condoning unethical behavior, but it wasn't us that did anything unethical. This just doesn't seem right. It hurts everyone -- including the government.*"

**Bob Laclede**, vice president and general manager of public sector business for IT distributor Ingram Micro says : "*The suspension will most likely cause a shake-up in the federal IT market. There's definitely going to be a delay in business [for resellers], or even a shift to another manufacturer . I hope IBM will get it solved very quickly. It can definitely hurt a reseller that is focused on that vendor's business. There will be a lot of people calling their congressmen and senators and saying, 'I had nothing to do with this.'*"