

IBM could shake up Silicon Valley with Sun deal (Update 2)

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In this Nov. 14, 2008 file photo, the exterior view of Sun Microsystems Inc. headquarters is shown in Santa Clara, Calif. Sun Microsystems Inc. shares soared Wednesday, March 18, 2009, after a published report said International Business Machines Corp. is in preliminary talks to buy Sun for at least \$6.5 billion in cash. (AP Photo/Paul Sakuma, file)

(AP) -- If IBM Corp. scoops up Sun Microsystems Inc. for at least \$6.5 billion in cash, as the companies are discussing, IBM would be making an opportunistic grab for a deep well of technology that Sun has nearly buried itself developing.

The proposed acquisition would be IBM's biggest ever. It would shake up [Silicon Valley](#) and the corporate computing world, marrying two traditional foes whose animosity was relatively recently squashed.

A person familiar with the negotiations confirmed the talks Wednesday to The Associated Press. This person spoke on condition of anonymity because the discussions are ongoing and might not lead to a deal. The acquisition negotiations were reported earlier by The [Wall Street Journal](#).

The news sent Sun shares soaring \$3.92, or 79 percent, to \$8.89. [IBM](#) shares fell 96 cents, or 1 percent, to \$91.95.

If a deal can be done it would come as companies specializing in computing infrastructure are consolidating, and encroaching deeper onto each others' turf. Hewlett-Packard Co. paid \$13.9 billion last year to buy technology-services provider Electronic Data Systems, and this week Cisco Systems Inc. announced its long-rumored plans to start selling servers, a move that pits Cisco against longtime partners like HP and IBM.

Merging the corporate cultures of Armonk, N.Y.-based IBM and Santa Clara, Calif.-based Sun would be a challenge, and lots of Sun's jobs would probably be cut. Sun revealed plans in November to jettison up to 6,000 jobs, or 18 percent of the global work force, after slashing 7,000 jobs the previous three years in several rounds of layoffs.

But Sun would come relatively inexpensively, because its shares have been on a steady downfall since the dot-com bust. Although \$6.5 billion would represent a significant premium over the market value of less than \$4 billion that Sun had before the talks leaked, Sun's last quarterly report shows it with more than \$2.6 billion in cash and securities that could be readily converted to cash.

IBM would get access to many businesses that use Sun's servers or software and could be pitched on buying other things from IBM. Despite its long-running financial problems, Sun's customer base is loyal: market

research firm IDC estimates that there are more than 1.6 million active Sun servers in use worldwide.

"Sun has a wealth of technology and intellectual property," said Jean Bozman, a research vice president with IDC. "You have to look at Sun in a three-dimensional way. It provides hardware, it does servers and storage, it has software - it has all these elements that would go into the next-generation data center, not just one or two. And it has historically been on the leading edge of technological trends."

As of the end of 2008, Sun owned 10.1 percent of the worldwide server market. IBM held nearly 32 percent and HP had nearly 30 percent.

In addition, many of Sun's customers are heavy hitters in finance, telecommunications and the government. Those are areas where IBM also has a strong presence but is looking for an even bigger footprint as it rolls out new services geared toward digitizing key pieces of infrastructure, from electric utilities to water supplies.

Sun is well regarded in engineering circles for spending big on research and development even in tough times. Sun put \$1.8 billion toward R&D last year, more than 13 percent of the company's total sales. That's a much bigger slice of total revenue than either IBM or Hewlett-Packard devoted to their R&D.

Sun's commitment to R&D has made it a pioneer in high-end servers, microprocessors for servers, and the open-source software it gives away for free in hopes of attracting new customers to the Sun brand. Sun has also been a pioneer in networked computing and its technology was instrumental in the rise of the Internet.

In fact, in the heady 1990s when Sun was a darling, IBM often got a ribbing from Sun's then-CEO, Scott McNealy. Touting Sun's

decentralized server technology, McNealy derided big, centralized mainframes - a core product from IBM for decades - as dinosaurs. IBM responded by naming a line of mainframes the "T-Rex."

Although Sun and IBM worked together to spread the Java programming language, which became a key ingredient of the Internet, the companies' relationship appeared to make its biggest improvement after Jonathan Schwartz took over from McNealy in 2006. Schwartz reached out to IBM and CEO Sam Palmisano to brainstorm ways they could cooperate - especially since they share Microsoft Corp. as a rival - and the companies ended up announcing an August 2007 pact to collaborate on server technologies.

Rick Hanna, an equity analyst with Morningstar Inc., said one advantage for Sun in selling to IBM is that the move could give longtime customers peace of mind that Sun will continue investing heavily in its technologies. A deal would also give Sun customers access to more technologies that IBM offers.

"It's a necessary move for Sun - Sun by itself wasn't viable long term," Hanna said. "IBM could probably take advantage of Sun's variety of assets better than almost anybody else."

AP Technology Editor Brian Bergstein contributed to this report from Boston.

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