

IBM to pay \$1.5B to shed its costly chip division

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In this Tuesday, July 16, 2013, file photo, an IBM logo is displayed in Berlin, Vt. IBM is paying \$1.5 billion to Globalfoundries in order to shed its costly chip division. IBM will make payments to the chipmaker over three years, but it will take a \$4.7 billion charge in the third quarter when it reports results, Monday, Oct. 20, 2014. (AP Photo/Toby Talbot, File)

IBM will pay \$1.5 billion to Globalfoundries in order to shed its costly chip division.

IBM Director of Research John E. Kelly III said in an interview Monday that handing over control of the semiconductor operations will allow it to grow faster, while IBM continues to invest in and expand its chip research.

IBM will make payments to the chipmaker over three years, but it took a \$4.7 billion charge for the third quarter when it reported earnings Monday.

The company fell short of Wall Street profit expectations and revenue slid 4 percent, sending shares down 7 percent at the open of trading.

IBM's performance dragged down shares across the semiconductor industry.

Privately held Globalfoundries will get IBM's global commercial semiconductor technology business, including intellectual property and technologies related to IBM Microelectronics. It also gets IBM's semiconductor manufacturing operations and plants in East Fishkill, New York and Essex Junction, Vermont, as well as access to thousands of patents and IBM's commercial microelectronics business.

Globalfoundries said that it plans to employ substantially all IBM workers at the East Fishkill and Essex Junction plants, except for a team of semiconductor server group employees who will stay with IBM.

Under the agreement, Globalfoundries will become IBM's exclusive server processor semiconductor technology provider for 22 nanometer (nm), 14nm and 10nm semiconductors for the next 10 years. Globalfoundries was spun off from Advanced Micro Devices in 2009 to

handle chip production.

IBM said handing over the chip division will allow it to concentrate on fundamental semiconductor research and the development of future cloud, mobile, big data analytics, and secure transaction-optimized systems.

The transaction is expected to close next year.

On Monday, IBM reported that its adjusted earnings from continuing operations were \$3.68 per share, while revenue totaled \$22.4 billion. The performance missed the expectations of analysts polled by FactSet, who predicted earnings of \$4.32 per share on revenue of \$23.39 billion.

Shares of International Business Machines Corp., based in Armonk, fell \$13.05 to \$169 in premarket trading.

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