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IBM-Endicott deal saves 4,000 jobs

Local investors buy site, Microelectronics

BY **TODD MCADAM**
Press & Sun-Bulletin



IBM workers listen as Gov. George E. Pataki outlines the plan that sold IBM's Endicott facilities to a group of Southern Tier investors, who will operate IBM's Microelectronics Division and will lease a portion of the 4.1-million-square-foot facility back to IBM.

WAYNE HANSEN / *Press & Sun-Bulletin*

Key Points

Endicott Interconnect Technologies is a partnership of the Maines family of Maines Paper & Foods, the Matthews family of Matco Technology, Tom Davis of Piaker & Lyons accountants and James Orband of the Hinman, Howard & Kattel law firm.

* The buyers are eligible for \$5 million in state development grants to defray the \$100 million

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cost of buying and upgrading the plant.

* IBM Corp. has signed a 10-year lease to house its remaining 2,000 workers at the facility.

* The site sold for \$65 million, but the new owners will not challenge its \$15.5 million assessment, which suggests a market value of \$230 million. That means that more than \$10 million IBM makes in property tax payments every year will remain unchanged, for at least the next year.

ENDICOTT -- The pay remains the same, as do the benefits. Even the property tax assessment won't change. But when the sign changes at IBM-Endicott to Endicott Interconnect Technologies Inc., about 2,000 people will have a new future with a company other than IBM.

Endicott Interconnect, a partnership of several Broome County entrepreneurs, will pay \$65 million for the 62 buildings on the Endicott campus and invest another \$35 million or so in improvements. The partnership, led by William Maines of Maines Paper & Foods, also bought the Microelectronics Division at the IBM facility and signed an agreement to provide IBM with chip carriers and other high-tech products for the next four years.

As part of the deal, IBM leased back 1.4 million square feet of the 4.1-million-square-foot campus to house its remaining 2,000 workers. IBM has a 10-year lease on the building, but that does not necessarily commit the company to keeping employees in Endicott.

"All 4,000 jobs are going to be protected and remain in Endicott for at least the next 10 years," Gov. George E. Pataki told hundreds of IBM employees and community leaders outside the site's headquarters on North Street. He and state Sen. Thomas W. Libous brokered the deal with IBM.

For Gerald Kiballa, a microelectronics employee who had watched his company drop from 11,000 workers to 4,000 in less than a decade, that's just fine.

"They're not concerned with politics," he said of the new owners. "It's about getting the product out the door."

The deal, expected to be completed in about 90 days, affects the entire Southern Tier in a number of ways:

* For IBM Corp., it's the equivalent of selling off its childhood home, shedding costs and streamlining its operation.

* For employees, it's an affirmation that someone values their skills and they'll have jobs for a while, but leaves them cautious about the fate of their paychecks and benefits.

* For the Tier, it's a guarantee that for at least a few years, a plant that maintains 4,000 jobs and supports about 3,000 more will stay in town. After that, it's a matter of markets and good management.

"This is very similar to what they did in Raleigh, (N.C.)," said analyst Sam Albert of Sam Albert Associates in Scarsdale. IBM sold its desktop computer operation there to Sanmina Corp., then agreed to buy the plant's products.

What's different here? No other place in the world can say it was the birthplace of IBM.

"They've already killed the band. That was a portent of things to come," said analyst Robert Djurdjevic of Annex Research of Phoenix, Ariz. "If you kill the band, who plays at the wake?"

IBM eliminated the company band in 2001.

Djurdjevic has been telling IBM executives to shed its manufacturing operations for years. "Amen," he said. "They're getting out of a business they shouldn't be in."

Business behemoths sell off units and outsource products when another company can do it more cheaply, said Albert, a member of the board of Outsourcing Institute, a professional association. And in Endicott Interconnect's case, company leaders think they can increase efficiency by shaving the IBM corporate overhead.

"There's a lot of additional cost in the IBM model that won't be in this model," said James Orband, the new company's general counsel and a lawyer with the Binghamton firm of Hinman, Howard & Kattel.

Maines is looking to build the company, not rob it for profit.

"Rather than being the abandoned step-child of the company, it is the company," Maines said. "The last thing we want is to cut this, cut that and everyone exit stage left."

Endicott Interconnect is a private company, so it has one advantage over a publicly owned company like IBM. If Maines decides that accepting a smaller profit margin is in the best interest of the company, he needs only the approval of his board, which includes his brother and his father, Floyd. He doesn't have to worry about the stock price.

Djurdjevic and Albert aren't sure how much more efficient Endicott Interconnect can be over IBM without cutting salaries or benefits -- something Maines said he wouldn't do. But the new company can shave costs.

The deal guarantees work for the new company for the next four years, as well as the opportunity to seek contracts elsewhere.

"IBM has made a very strong commitment to the Southern Tier with a 10-year lease," said IBM spokesman Todd Martin.

Senior site executive Diana Bendz echoed that.

"We will remain a very important part of the Southern Tier economy," she said.

Michael Najarian, Broome County Democratic Committee chairman, isn't so sure. He wonders what would happen after IBM's 10-year lease and four-year purchase contract expires.

"This will have an eventually disastrous effect," he said.

Broome County Legislator Vincent Pasquale, D-Binghamton, said Pataki is trying to glamorize the deal.

"It is not honest or helpful to ignore the other side of the coin," said Pasquale, the panel's minority leader. "These are not good times. The reality is that this is a bad day."

Najarian compared the IBM deal to Paul Bilzerian's purchase of Singer-Link in Kirkwood in 1987. Bilzerian later sold the company to the third of six owners over 13 years. The company, which once provided 3,000 jobs, now employs fewer than 200.

The Maines family, however, has a history of building companies rather than breaking them up.

"The nice thing about this company is it's not broken. It doesn't need to be fixed," Maines said. "Once we got to know the employee group and the management group, the decision was an easy one."

And if he can't predict the future, the analysts say outsource companies such as Endicott Interconnect are the way of the future, supplying companies like IBM or Sun Microsystems.

"By 2006, all information technology will be outsourced," Albert said.

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