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H-P Gambles on Ailing Palm

By JUSTIN SCHECK And YUKARI IWATANI KANE

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Hewlett-Packard Co. (HPQ +1.74%) scooped up Palm Inc. for about \$1 billion in cash, pushing the computer giant deeper into the competitive smartphone market and ending the independence of a struggling company that was rapidly running out of prospects.

H-P said it will pay \$5.70 for each share of Palm, a 23% premium to Palm's price before the deal was announced. The companies put the value of the deal at \$1.2 billion, including Palm's cash and debt.

Palm, a onetime mobile device pioneer with its Palm Pilot, has been eclipsed by Apple Inc. (AAPL -1.23%)'s iPhone, Research In Motion Ltd. 's BlackBerry and devices running Google Inc.

(GOOG -1.47%)'s Android software. The company recently hired bankers to explore a sale amid weak demand for its newest phones, the Pre and Pixi.

Palm is a relatively inexpensive catch for H-P; Palm's share price was down more than 53% this year before the deal's announcement Wednesday.

Still, an acquisition of Palm is risky. The company is unprofitable and Palm's global market share in smartphones dropped to

Hewlett-Packard will buy Palm for \$1.2 billion, ending months of speculation about the fate of the struggling handset maker. MarketWatch's Dan Gallagher tells Stacey DeLo why the No. 1 PC maker would want to buy into the rapidly growing smartphone market.

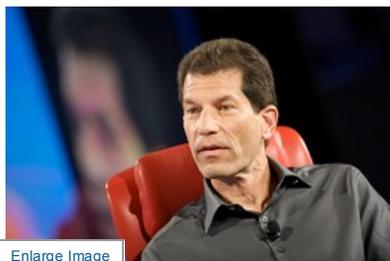
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1.5% last year from 3.5% in 2005, according to research firm IDC.

On Wednesday, Palm warned revenue in its current quarter would fall in the range of \$90 million to \$100 million, down from a previous forecast of less than \$150 million. Palm said it expects to close the quarter with \$350 million to \$400 million in cash, down from nearly \$600 million in late February.



Enlarge Image

Jon Rubinstein of Palm in May 2009 Asa Mathat/All Things Digital

H-P said Palm will be integrated into its personal-computers business unit and the handset maker's chief executive and former Apple executive, Jon Rubinstein, is "expected to remain with the company."

The acquisition reunites H-P's PC-division chief Todd Bradley with Palm, where he was CEO from 2003 to 2005.

The deal is the latest illustration of how big technology companies are consolidating in the commercial and consumer markets,

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Brian Cooley, Editor-at-Large for CNET.com, comments on the news that Hewlett Packard is going to acquire Palm for nearly \$1.2 billion.

creating new rivalries between companies that used to have cooperative relationships. [Cisco Systems Inc.](#)

[CSCO -0.41%](#) last year bought Pure Digital Technologies, maker of the popular Flip video camera, thrusting it into the

consumer-device market. Cisco also branched into server-computers, taking direct aim at H-P.

It's also the latest purchase for H-P, which currently has a cash hoard of \$13.6 billion. Under CEO Mark Hurd, H-P has snapped up networking company 3Com and tech-services company Electronic Data Systems, among others.

The deal gives H-P a bigger presence in the smartphone market, in which the technology behemoth has so far had little traction. H-P sells a line of iPaq phones that run [Microsoft Corp.'s MSFT -1.17%](#) Windows software.

"It's an opportunity for us to get into a very big market," said Shane Robison, H-P's chief strategy officer, in an interview Wednesday. Consumers worldwide bought 172.4 million smartphones last year, according to market-research firm [Gartner](#), [IT -1.04%](#) up 24% from 2008.

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The purchase also gives H-P control of Palm's WebOS operating system for smartphones, which has struggled to win developers. The move comes at a time that other PC makers, including [Dell Inc.](#), are entering the phone market by building on Google's free Android software.

In addition to powering phones, H-P's Mr. Robison said he believes WebOS could be used in touchscreen "tablets," a market that H-P has said it plans to enter in the wake of Apple's iPad device. A tablet device that H-P said it will sell this year is based on Microsoft's Windows software.

Some app developers say the H-P acquisition bodes well if it means more Palm phones will be sold. "As a developer, it's about how big of an audience we can reach," said Josh Gould, director of product management for San Francisco-based Flixster Inc., which makes a movie-sharing app for Palm.

For Palm, the H-P deal gives the ailing company the deep pockets and scale that it lacked. "H-P recognizes the value of our platform, our IP and our people," Mr. Rubinstein wrote in an internal memo to Palm staff on Wednesday.

In 2007, private equity firm Elevation Partners took a stake in Palm and brought in Mr. Rubinstein. In total, Elevation has invested \$460 million in Palm for about a third of the company.

A spokesman for Elevation said the private equity fund "is supporting the deal." Elevation, whose stake in Palm mostly is in preferred shares and warrants, will receive about \$485 million from the deal.

"Palm had a lot of brand equity and a lot of insiders and even with that they weren't able to make it happen," said Ed Snyder, managing director of Charter Equity Research. "The H-P name is good but it doesn't mean anything for phones and it doesn't mean anything for operators."

—Roger Cheng contributed to this article.

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