

Sun unmoored as acquisition talks hit standstill

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In this combo made from file photos, the IBM logo is seen in front of the company's manufacturing plant in Essex Junction, Vt., left, and the Sun Microsystems logo is seen at the company's offices in Menlo Park, Calif. IBM and Sun were going over final details of a deal that would have seen IBM pay about \$7 billion to acquire Sun. But IBM pulled the offer this weekend and Sun ended IBM's status as its exclusive negotiating partner. (AP Photo)

(AP) -- Without IBM Corp.'s \$7 billion takeover offer, Sun Microsystems Inc., a Silicon Valley rebel known for independence, is possibly alone again. Unless a new suitor somehow emerges, Sun will have to overcome the wobbly finances that forced it to shop itself around.

Sun's shares tumbled 23 percent Monday to close at \$6.56, a day after talks between the corporate computing rivals fell apart.

The two sides had been nearing an agreement before the weekend. But Sun balked at IBM's last price of \$9.40 per share, which had come down from earlier offers but still was about double Sun's [stock price](#) before word of the negotiations leaked last month. Sun canceled IBM's exclusive negotiating rights, and IBM withdrew its offer, people familiar with the situation told The Associated Press. These people requested anonymity because they weren't authorized to disclose details of the talks.

IBM and Sun might still end up together. Investors appear to be taking that prospect into account, as Sun's stock hasn't fallen all the way back to the \$4 to \$5 range it occupied before the acquisition discussions surfaced.

Even so, the public unraveling of the talks is an embarrassment for Sun, which has been dogged by billions in losses since the dot-com bubble burst in 2001. The breakdown could be a boon for IBM, which doesn't need the deal as badly, and now could demand an even cheaper price if Sun's investors hammer the company for rebuffing the offer.

Sun's CEO, Jonathan Schwartz, whose peace offerings to former enemies like IBM paved the way for the once-hard-to-imagine deal talks, could get caught in the fallout.

The situation is reminiscent of what happened last year to [Yahoo Inc.](#), which rejected a \$47.5 billion takeover offer from [Microsoft Corp.](#) Yahoo shareholders howled about the squandered opportunity, and Yahoo co-founder Jerry Yang later stepped down as CEO. Yahoo's stock now trades for less than half the price Microsoft offered.

"Let's hope that Sun doesn't go down the same path as Yahoo," said Rick Hanna, equity analyst with Morningstar Inc. "I hope this wasn't a brinksmanship play by the company's board, because there really are so

few suitors for the company. A deal has to happen for Sun long term. I just can't see them remaining independent."

Analysts have been predicting Sun's demise as an standalone company for years, but the recession sharpened the company's problems. Sun has already cut thousands of jobs over the past few years and has about 33,500 employees now.

One hang-up in the talks with IBM has been the terms of a commitment from IBM that it will see the deal through even if antitrust regulators raise objections.

The two companies overlap in several areas that could draw antitrust scrutiny, particularly tape-based data storage, where together IBM and Sun would own 52 percent of a \$3.1 billion market. The companies also would have 65 percent of \$17.2 billion market for high-end server computers that run the Unix operating system, according to market research firm IDC.

It's not clear whether Sun has other potential partners waiting in the wings. The list of other possible buyers is very short: Hewlett-Packard Co., Dell Inc. and Cisco Systems Inc. are a few options, though none has publicly expressed interest.

Analyst Bob Djurdjevic, president of Annex Research Inc., said the premium IBM was offering was better than anything Sun could expect from other potential buyers in this rocky economy.

"My first thought was, oh my God, these guys are off their rockers - IBM threw them a rope, and they used it to make a noose," Djurdjevic said.

One reason IBM is interested in Sun is to claim more control over the

development of the Java programming language, which Sun invented and is widely used to develop applications for Web sites and mobile phones. Another is Sun's MySQL database software, which is used by Web sites and would strengthen IBM's challenge against Oracle Corp., the leader in database products. Both types of software are open-source, which means their underlying code is distributed freely over the Internet. Companies make money off open-source software by selling support services.

IBM believes it can cash in on Sun's software better than Sun can, because IBM has broader services and software offerings that it can sell as package deals.

Sun has long cultivated a go-it-alone attitude, epitomized by co-founder and former CEO Scott McNealy's relentless mocking of rivals like IBM and Microsoft. That posturing has been tamped down in recent years under Schwartz.

While Sun still has big sales - \$13.3 billion over the last four quarters - it has struggled to turn a consistent profit, losing \$1.9 billion in the same period.

Its biggest areas have been hurting. Its server division's sales fell \$225 million in the latest quarter to \$1.37 billion. The storage division's sales fell \$85 million to \$570 million.

Meanwhile, IBM has fared well because of constant cost-cutting and the Armonk, N.Y.-based company's increasing reliance on services and software, which can be more profitable than hardware sales. IBM earned \$12.3 billion last year.

IBM shares fell 66 cents to \$101.65 Monday, along with the market's broader decline.

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