HP is Palm's Silicon Valley savior in $1.4B deal (Update)

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Palm Inc. a pioneer in the smart phone business that couldn't quite make the comeback it needed, has agreed to be bought out by Hewlett-Packard Co. for about $1.4 billion in cash.

The two Silicon Valley companies announced Wednesday that the deal will see HP pay $5.70 for every Palm common share and certain preferred shares. Palm had closed trading Wednesday at $4.63 but traded as high as $18.09 in the past 52 weeks.

In after-hours trading, Palm shares jumped $1.25, or 27 percent to $5.88 - meaning some investors were willing to bet another suitor will step forward. HP shares dipped 35 cents to $52.93.

Palm was founded in 1992 by Donna Dubinsky and Jeff Hawkins and helped originate the handheld computing market with its Palm Pilot "personal digital assistants" in the 1990s. But after Palm reshuffled itself repeatedly - it was bought by U.S. Robotics, a modem maker that itself was bought by 3Com Corp. in 1997, and then spun off again as its own company in 2000 - other companies took control of the market.

In recent years, as handheld computers morphed into "smart phones," Palm struggled to keep up as consumers flocked to such devices as Apple Inc.'s iPhone and Research In Motion Ltd.'s BlackBerry. In the past year, phones that use Google Inc.'s Android operating software have added new competition.

Palm got itself into position for a turnaround last June, when it released a sleek touch-screen smart phone called the Pre and fresh operating software for it that won good reviews. But consumers were slow to embrace the Pre and its newer, smaller sibling, the Pixi. In the most recent quarter, Palm sold just 408,000 phones. In its last quarter Apple sold 8.75 million iPhones.

HP hopes Palm's webOS operating system, which runs the Pre and the Pixi, will help it participate more aggressively in the fast-growing market for Internet-connected mobile devices. Known for its printers and PCs, HP also has a line of phones called the iPAQ. But it had one-tenth of 1 percent of the worldwide cell phone market last year, according to IDC. HP shipped just 100,000 units.

IDC analyst Ramon Llamas said HP's deep pockets could help Palm catch up in a smart phone market that has taken on a furious pace. Motorola Inc., for instance, has said it will put out more than 20 new smart phones this year. Palm has introduced just two and hasn't disclosed plans for more.

"With HP backing them, I would expect things to get a lot faster," Llamas said.

A greater role in mobile products would give HP CEO Mark Hurd another way to enhance his company's ability to be a wide-ranging player in both consumer products and business technology services. Since taking the job in 2005, Hurd has made HP into the world's largest information-technology company with a mixture of cost-cutting maneuvers and acquisitions, such as the $13.9 billion buyout of Electronic Data Systems in 2008.

During a conference call with analysts to discuss the acquisition, Todd Bradley, executive vice president for HP's personal systems group, said that HP plans to invest "heavily" in developing Palm-based products. He pledged to build the business to reach "more customers in more countries on more products than Palm could do on its own."

Bradley also said that HP is interested in using Palm's technology for mobile devices besides smart phones, such as tablet computers.

That could give HP's tablets a better chance of competing with Apple's new iPad. It may also give HP a leg up as other computer makers, such as Dell Inc., enter the smart phone arena.

HP said Palm's current chairman and CEO, former Apple Inc. executive, Jon Rubinstein, is expected to remain with the company after the transaction closes in July. HP is based in Palo Alto, near Palm's headquarters in Sunnyvale.

The purchase will mean a small payday for private equity firm Elevation Partners, which bought nearly a third of Palm between 2007 and 2009 for $460 million. Elevation will walk away with $485 million.

Gartner Inc. analyst Ken Dulaney agreed the deal is probably the best outcome Palm shareholders could have hoped for. He said he expected it to sell for less than $500 million. He was surprised by HP's purchase, saying he would have expected RIM to buy Palm for its touch-screen technology.

Douglas Ireland, an analyst at JMP Securities, said he doesn't see another likely bidder emerging, unless a competitor such as RIM wants to keep Palm out of HP's hands.

"Palm has been for sale for quite a while," he said. "Everyone has had a look at it."