Adobe soars on report of possible Microsoft bid

October 7 2010, By BARBARA ORTUTAY , AP Technology Writer

The Adobe logo is displayed in January 2010 in San Jose, California. Adobe shares surged on Thursday following a report that the US software maker could be the target of an acquisition by Microsoft.

Shares of Adobe soared in heavy trading Thursday on a report that Microsoft CEO Steve Ballmer discussed a possible buyout of the company.

A report posted in the "Bits" blog of The New York Times said Ballmer recently met with Adobe CEO Shantanu Narayen to talk about Apple's control of the cell phone market and how Microsoft and Adobe could work together to fend off the iPhone maker.

It was in this context that a possible buyout of Adobe by Microsoft Corp. came up, according to The Times. Microsoft had no comment.

In a statement, Adobe said it shares "millions of customers around the world" with Microsoft, and "the CEOs of the two companies do meet from time to time. However, we do not publicly comment on the timing or topics of their private meetings."

Adobe Systems Inc., based in San Jose, Calif., makes software such as Photoshop and the Flash technology used for Web videos and games. The company has been in a long-standing feud with Apple Inc. over Flash, which Apple bans from mobile devices including iPad and the iPhone.

An Adobe acquisition would be a huge one for Redmond, Wash.-based Microsoft, whose last big purchase was in 2007, when it bought aQuantive Inc. for $6 billion. A proposed deal to buy Yahoo Inc. the following year fell apart when Microsoft withdrew a $47.5 billion bid. Adobe's market cap is close to $15 billion.

Gleacher & Co. analyst Yun Kim said a potential buyer would be "great" for Adobe, which is looking to grow its annual revenue to $5 billion in the next couple of years. It had revenue of about $3 billion last year.

"Their business is not going as well as people thought," he said.

But how a deal would benefit Microsoft is less clear, Kim added. It would only make sense if Microsoft could use Adobe's business to put itself in a better position in the online advertising market, where Google dominates.

"If they can't there is no reason to buy," Kim said.

Even if a deal were to be hashed out, regulatory concerns over the companies' overlapping products, such as Flash and Microsoft's Silverlight, could prevent it from going through.

Other analysts were skeptical, too.

"I don't think there is an acquisition by any means," said Trip Chowdry of Global Equities Research, calling it "wishful thinking" on the part of investors.

Instead, he thinks the meeting centered around Flash and Silverlight.

"Adobe is insisting Microsoft abandon Silverlight and get on the Flash bandwagon," he said. "Then together they can challenge Apple."

It's also not clear how an acquisition would benefit Microsoft's mobile business. The first smart phones running Microsoft's Windows Phone 7 operating system, which are set to launch Monday, won't have Flash.

Sasa Zorovic of Janney Capital Markets said while he wouldn't call a deal impossible, when it comes to Microsoft's priorities, he "could think of a few above Adobe."

Adobe ended the session up nearly 12 percent at $28.69, with trading volume more than six times the average. The shares were briefly halted earlier in the afternoon after they hit as high as $30.

In after-hours trading, the stock slipped 14 cents to $28.55. Microsoft ended trading up a dime at $24.53.

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