

# Qualcomm makes \$3.2B buy to ride new gadget wave

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This undated file image provided by Atheros Communications shows Atheros' XSPAN(TM) logo. Qualcomm Inc., the developer of chips and other technology for cell phones, says it has agreed to buy chip maker Atheros Communications Inc. for \$3.2 billion in cash. (AP Photo/Atheros Communications, Inc., File) NO SALES

(AP) -- Tech companies are sweating it out to keep ahead of what consumers want from their gadgets. Just look at Qualcomm Inc., which struck a \$3.2 billion deal Wednesday in hopes of tapping into the explosion of Wi-Fi connected devices such as tablet computers and TVs.

Qualcomm is a pioneer in the cell phone industry - if you have a Verizon or Sprint phone, a piece of its silicon is probably helping you access the

Web, get e-mail and make calls. But the company decided it needed to buy Wi-Fi chip maker Atheros Communications Inc. to ensure that it didn't miss the next big leap in connectivity.

Apple Inc. has sold more than 7 million iPads and imitators are lining up even now to show off competing tablets at this week's International Consumer Electronics Show in Las Vegas. Most of them will connect to the Internet via Wi-Fi, even if many of them can also use a cellular network.

Electronics we don't often associate with the Web are starting to connect as well. Atheros has chips that go into TVs and even wireless Nintendo games.

"Almost everything now seems to have Wi-Fi in it," said Jeff Brown, a vice president at UBM TechInsights. And at Qualcomm, Wi-Fi technology was "one of their major holes."

Other companies across the sector are using cash in the same way, filling strategic gaps as consumers and businesses shift the way they use technology.

Intel Corp., the world's biggest provider of computer processors - the "brains" inside PCs - has used acquisitions to catch up in the mobile computing market. Back-office technology providers including IBM Corp., Hewlett-Packard Co. and EMC Corp. have been snapping up companies that help store, analyze and protect the troves of data produced by businesses and government agencies.

In buying Atheros, Qualcomm will become a one-stop shop for gadget makers who want both cellular and Wi-Fi capability, giving it a competitive edge.

"Companies that make devices want to go to one company and get everything they need," said Linley Gwennap, an expert on mobile chips and founder of The Linley Group research firm. "The consumer market moves so fast, these companies don't have time to piece together a lot of components from different companies and make it work."

Qualcomm rose \$1.06, or 2.1 percent, to \$52.03 in trading Wednesday.

Qualcomm said it has agreed to pay \$45 per share for Atheros, a premium of 22 percent over the company's closing share price Monday, the last trading day before The New York Times reported the deal. Atheros shares rose sharply Tuesday and closed at \$44.64 on Wednesday.

The boards of both companies have approved the deal, though it still requires approval by Atheros shareholders and regulatory clearance. Qualcomm expects to close the acquisition in the first half of this year.

The company said Atheros CEO Craig H. Barratt will continue to lead the business as a Qualcomm division called Networking and Connectivity.

Atheros was founded in 1998 by Stanford University President John L. Hennessy and Teresa H. Meng, a colleague from Stanford's engineering department.

It has grown quickly over the past few years. The company booked \$542 million in revenue in fiscal 2009, up from \$472 million the year before. For the year that just ended, analysts expect \$922 million.

Atheros and Qualcomm have already been working together to integrate their products.

Mario Morales, an analyst at the research firm IDC, speculates that Qualcomm finally decided on an outright takeover because "someone else wanted to step in." An acquisition by a competitor would have left Qualcomm to find another partner for Wi-Fi, he said.

The deal is also a tacit admission by Qualcomm that its in-house efforts to develop Wi-Fi technology - starting with its 2006 acquisition of a company called Airgo Networks - fell short, analysts said.

"I don't understand why they've struggled so much," said Gwennap, from The Linley Group. "But for whatever reason Qualcomm has not been able to get the Wi-Fi thing to work well."

Barratt, Atheros' CEO, responded to the criticism in a conference call with analysts, saying the acquisition "has nothing to do with the Wi-Fi capability on Qualcomm's side having any issues or challenges." Instead Barratt said the deal is strictly aimed at pushing Wi-Fi on new devices.

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