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# Qualcomm to Buy Atheros for \$45 a Share

By [PETER LATTMAN](#) and [ANDREW ROSS SORKIN](#)



David Maung/Bloomberg News

Qualcomm, the wireless technology company, has agreed to buy the chip maker Atheros Communications for \$3.1 billion, or \$45 a share, in a deal that underscores the growing importance of smartphones and tablet computers.

The share price of the transaction, announced on Wednesday, is 29 percent above the average stock price of Atheros in the last month and 21 percent higher than on Tuesday afternoon, when [The New York Times DealBook reported](#) news of the talks.

Shares of Atheros jumped after DealBook's report, closing up almost 19 percent, at \$44. The shares have climbed about 50 percent from their lows in September as the outlook for business and consumer technology spending has improved.

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For Qualcomm, which has traditionally focused on developing its proprietary technologies for cellphones, the acquisition — its largest ever — signals a major shift. Qualcomm has been looking to expand beyond its core market of providing chips for wireless voice technology and move more aggressively into making chips for smartphones and tablets.

“It is Qualcomm’s strategy to continually integrate additional technologies into mobile devices to make them the primary way that people communicate, compute and access content,” Paul E. Jacobs, chief executive of Qualcomm, said in a statement. “This acquisition is a natural extension of that strategy.”

The announcement coincides with the start of the Consumer Electronics Show in Las Vegas, where the two companies will be displaying their products. The event will showcase many of the latest smartphones and tablets, some of which are powered by by Qualcomm and Atheros chips.

Qualcomm, based in San Diego, had more than \$18 billion in cash on hand in the quarter that ended Sept. 26.

Other technology companies have gone on spending sprees in the last 12 months. Intel, for instance, spent nearly \$10 billion in August to buy McAfee, the antivirus software maker, and units of Texas Instruments and Infineon.

Qualcomm has also exited noncore businesses, announcing a sale of wireless spectrum licenses to AT&T for about \$1.9 billion last month. Qualcomm had used the spectrum for Flo TV, a mobile television service that it plans to shut down in March.

The company has long been one of the dominant players in supplying chips to wireless phones for voice communications. But in recent years, Mr. Jacobs, its chief executive, has expressed an interest in diversifying and improving iQualcomm’s product line as cellphones have evolved into smartphones and tablet computers have gained popularity. These devices require more processing power and many types of connectivity, like Wi-Fi, Bluetooth and GPS.

At a meeting with analysts in November, Mr. Jacobs talked about the robust demand for smartphones, tablets and other devices.

“Consumers are demanding more and more wireless data, more and more capabilities out of their network and out of their devices,” he said. “Now we’re just looking at huge numbers of — projections are for almost 900 million smartphones to be shipped in 2014, 2.5 billion smartphones shipped between 2011 and 2014.”

As another Qualcomm executive said at the conference, “I don’t think it’s any hype to say that wireless communications really is the largest technology platform in the history of mankind.”

Atheros, based in San Jose, Calif., is one of the leading chip makers for these new technologies, so an acquisition would allow Qualcomm, which has a market value of \$82.5 billion, to make further inroads in these markets.

This week, Atheros announced several new wireless products that bring Wi-Fi and Bluetooth technology to tablets while reducing power consumption and increasing the longevity of batteries in such devices.

Through the first nine months of 2010, Atheros earned \$77.6 million on \$700 million in revenue. The company, whose chief executive is Craig H. Barratt, has about 1,700 employees. Atheros was partly founded in 1998 by

John L. Hennessy, now president of Stanford.

Atheros was in the headlines in late 2009, when it became linked to the insider trading case against Raj Rajaratnam, a founder of the Galleon Group hedge fund. Ali Hariri, a former Atheros vice president, was sentenced in November to 18 months in prison after pleading guilty to giving tips about Atheros to a hedge fund manager.

“Qualcomm and Atheros have a long history of collaboration and share a culture of technical innovation and execution excellence,” Mr. Barratt said in a statement. “The Atheros team will build upon Qualcomm’s strengths and leadership to bolster our customers’ ability to deliver innovative and differentiated products in the increasingly connected world.”

On Tuesday, Arnab Chanda, an analyst with Roth Capital, raised his rating on Qualcomm, citing among other things royalty opportunities in tablet computers and other new wireless devices. In an interview, Mr. Chanda said the deal was a smart move for Qualcomm and complementary to its existing businesses.

“The best way for Qualcomm to maintain its incumbency is to make sure that they are the leader in every piece of silicon that goes in these new devices,” Mr. Chandra said.

The deal between Qualcomm and Atheros heralds a promising start to what deal makers hope will be another strong year for mergers and acquisitions. Global deal volume rose 23.1 percent in 2010, to \$2.4 trillion, from the previous year, according to data from Thomson Reuters. Companies have again proved willing to spend the record amounts of cash on their balance sheets.

It also continues a string of mergers and acquisitions in the technology sector, which has been among the busiest for deal activity, accounting for about 8 percent of mergers worldwide last year.

Representatives of the two companies did not respond to requests for comment.

Qualcomm was advised by Goldman Sachs and the law firm Cravath, Swaine & Moore. Atheros was advised by Qatalyst Partners, the boutique investment bank started by Frank Quattrone, and lawyers at Pillsbury Winthrop Shaw Pittman.

*Michael J. de la Merced contributed reporting.*

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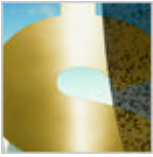
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