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MAKING A KILLING FROM CORPORATE HEADACHES

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May 11, 2001 – So you're a big corporation and you've totally screwed up a major acquisition or strategic development. Who're you going to call? Alec Gores, of course. Gores runs Gores Technology Group, the Los Angeles buyout shop that agreed Thursday to buy Hewlett-Packard's (HWP:NYSE - news) VeriFone division for an undisclosed amount of cash. Seeing as HP says the transaction isn't material, it's a safe bet that Gores is paying somewhat less than the \$1.29 billion in stock HP paid for the then-publicly traded VeriFone almost exactly four years ago.

This is great news for value investors interested in technology, though it's of little comfort to HP shareholders or thrill seekers (aka momentum investors) who own high-multiple tech stocks. The good news is that no matter how badly a big company botches a billion-dollar investment, it's likely that where a true technology product is involved there'll be a buyer at some price.

Of course, it's tough to know who got the better of this deal. Neither side is saying how much Gores is paying, though if Gores is paying anything that's better for HP than the \$70 million Micron Electronics (MUEI:Nasdaq - news) paid to Gores to take its PC unit away.

There's lots of history in this deal, and it shows how much HP was floundering long before CEO Carly Fiorina showed up. VeriFone sells a box used by merchants around the world to verify credit-card transactions. It's a classic annuity business, but apparently not a fast grower. It had \$472 million in revenue in its fiscal year 1996. Today, annual revenue is in the \$300 million to \$400 million range, according to Doug Bergeron, a Gores group president overseeing the VeriFone deal. HP originally bought the company in the hope that it could sell software to complement the hardware it already was supplying to financial institutions for their transaction networks. The architect of HP's strategy was Rick Belluzzo, then the head of HP's computer division and today president of Microsoft (MSFT:Nasdaq - news).

The public shareholders of VeriFone certainly did well on the deal. HP's stock was worth a split-adjusted \$27.35 when the deal closed on June 26, 1997, and subsequently traded well above \$70 during 2000. HP's shares closed Thursday at \$26.58, below their value the day the company bought VeriFone.

Meanwhile, if Alec Gores keeps up the pace of his purchases and makes a success of them, he'll cease to be an unknown. He's bought ailing units from numerous big-name companies, including Cabletron (CS:NYSE - news), Computer Sciences (CSC:NYSE - news), Unisys (UIS:NYSE - news) and Mattel (MAT:NYSE - news). He claims to have made The Learning Company, Mattel's near-death-inducing acquisition, profitable in 75 days. The proof will come if and when he can sell it -- or VeriFone -- or take it public.