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## SanDisk To Buy Rival M-Systems In \$1.55 Bil Deal

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**SanDisk (SNDK)** said Sunday it plans to buy M-Systems Flash Pioneers in a \$1.55 billion stock deal that would unite two pioneers in the flash memory market.

The deal should give SanDisk more sway in the industry and boost its innovation efforts, company officials say. Flash chips, which can store data even when their power is switched off, go into cell phones, cameras and other devices.

"Innovation is what's going to give us the ability to go up the food chain," SanDisk Chief Executive Eli Harari said during a conference call. "The strategic question now for this transaction is very simple: It's all about growth."

The deal would continue a wave of consolidation in the flash memory sector. **Micron Technology (MU)** last month completed its \$850 million purchase of Lexar Media, which makes flash chips.

"The trend to consolidate had already started when Micron bought Lexar," said Nimal Valipurim, an analyst at Hapoalim Securities. "This is the second phase."

Under the terms of the SanDisk deal, each share of M-Systems stock would convert into 0.764 share of SanDisk common stock.

The purchase is expected to be completed in the fourth quarter. Current SanDisk shareholders will own 80% of the merged company, with M-Systems shareholders owning the remaining 20%.

One possible concern: M-Systems is based in Israel, which is battling Hezbollah guerilla fighters in neighboring Lebanon. But M-Systems doesn't have any facilities near the border. And the company's chief executive, Dov Moran, sees very little danger of damage from Hezbollah rockets.

Moran will stay with M-Systems for six months as an adviser, while current SanDisk Executive Vice President Yoram Cedar takes charge of the business.

The merger should give SanDisk access to valuable patents, says Jim Handy, an analyst at Semico Research. "M-Systems has a lot of intellectual property they have not been as strong to defend or license as SanDisk has with its IP," he said.