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Data duel: HP tries to outbid rival Dell for 3Par

August 23 2010, By JORDAN ROBERTSON and JESSICA MINTZ , AP Technology Writers

A 3Par InServ Storage Server room is shown at 3Par headquarters in Fremont, Caif., Monday, Aug. 23, 2010. Hewlett-Packard Co. is bidding $1.5 billion for data storage provider 3Par Inc., offering 33 percent more than what rival Dell Inc. agreed to pay for the company just a week earlier. (AP Photo/Paul Sakuma)

(AP) -- The world's two biggest personal computer makers are locked in a pricey struggle over which can move away from the PC business the fastest.

Hewlett-Packard Co. offered $1.5 billion on Monday for 3Par Inc., a company whose data-storage machines are designed for "cloud computing," or delivering services over the Internet. HP's rival, Dell Inc., last week offered about $400 million less for 3Par, and many analysts and investors expect Dell to make a sweeter counteroffer.

HP's offer comes just weeks after HP CEO Mark Hurd's ouster over inaccurate expense reports and shows that the company is committed to continuing to grow through acquisitions, even without him at the helm.

The willingness to spend so much money on such an obscure company underscores how aggressively both companies are about moving into more profitable markets than PCs.

Cloud computing is one of those markets.

It has caught on because many companies aren't buying their own computer servers for certain tasks anymore. Instead, they're paying to have software they would have stored on those machines delivered to them over the Internet.

Companies such as Dell and HP are trying to take advantage of the trend by offering those kinds of cloud-computing services directly on a subscription basis, along with the equipment and software for customers to build their own cloud systems.

One problem, though, is the machines needed to run such operations are designed to be shared by multiple customers. Those machines need to ramp up or scale down their output quickly based on demand. Storage machines offered by 3Par could help cut the cost of operating those services because they are designed for such tasks.

Dell began the bidding contest last week by offering to buy 3Par for $18 per share, or $1.13 billion. HP responded by offering a third more, or $24 per share, for a total of $1.5 billion.

Investors, believing Dell will make a counteroffer, sent 3Par shares above HP's offer price. Shares of 3Par closed Monday at $26.09, up $8.05, or 45 percent.

But many analysts are worried that the price for 3Par has gotten too high, meaning HP or Dell would be overpaying for the company. HP shares fell 81 cents, or 2 percent, to $39.04. Dell shares were down 13 cents, or 1.1 percent, to $11.94.

Analyst Ben Reitzes with Barclays Capital called 3Par "a very good fit for HP strategically" but said the timing and price "may raise a few concerns."

Shaw Wu with Kaufman Bros. said 3Par's shares have traded at around $10 for most of the year, so some investors are wondering why HP is now offering more than double that price.

"The biggest winners here are clearly 3Par employees and shareholders," he wrote.

The tussle over 3Par comes at a time both companies are dealing with CEO troubles and badly need a win on Wall Street.

HP is eager to prove that it hasn't missed a beat since the abrupt departure of Hurd, who engineered more than $20 billion in acquisitions in his five years atop HP. HP's stock has fallen 16 percent since Hurd's resignation, erasing about $17 billion in shareholder wealth.

Hurd resigned Aug. 6 in a dispute with HP's board over how to handle a sexual-harassment allegation against him, something the board decided was meritless but felt it had to disclose anyway. As part of that probe, the board found he had filed inaccurate expense reports connected to his accuser. Hurd says he didn't do his own expenses, and that any errors were inadvertent.

Hurd had been instrumental in moving HP into markets beyond PCs and printer ink. One of his biggest bets was paying $13 billion for Electronic Data Systems, an outsourcing company. That deal made HP look a lot more like IBM Corp., which has milked its software and services model for better profits than the PC business it sold off.

HP, Dell and other PC makers are victims of their own success. The companies that made personal computers affordable and ubiquitous now have to lure new buyers with rock-bottom prices. Prices for parts, meanwhile, have increased this year, putting even more of a squeeze on the computer makers' profits.

There are signs the deal was being explored at HP before Hurd's departure.

In a letter Monday to 3Par CEO David Scott - who previously worked as a manager in HP's storage division - HP revealed that it had made an earlier offer for 3Par.

That offer wasn't made public. HP wouldn't say when the offer was made, or how much it was for. Dave Donatelli, an HP executive vice president, said HP has been looking at buying 3Par "for a period of time."

Jayson Noland, an analyst with Robert W. Baird & Co., said HP's earlier offer was likely rebuffed because the price was too low.

While HP looks for a new CEO, Dell needs to shore up support for the CEO it has.

Michael Dell has been embroiled in a scandal about undisclosed payments the company took from Intel Corp. for allegedly avoiding chips from an Intel rival. Dell and the company settled Securities and Exchange Commission charges on that matter last month, without admitting wrongdoing.

Dell has lost the faith of some investors. Two weeks ago, investors holding a quarter of the company's shares did not cast votes to re-elect him to the board of directors. A year ago, he was re-elected with 98 percent of the shares in his favor.

Dell can afford to bid up 3Par a bit, with almost as much cash on hand as the much larger HP.

Dell declined comment on the company's next move, while 3Par said its board was reviewing the offer.

The HP-Dell struggle has shades of earlier duels.

The recession has given cash-rich companies an opportunity to scoop up new technologies - or steal them away from rivals - relatively cheaply.

For more than a month last summer, a fierce bidding contest between EMC Corp. and rival NetApp Inc. for a company called Data Domain Inc. lit up the data-storage industry. EMC muscled its way into acquisition talks and eventually outbid NetApp to walk away with Data Domain for $33.50 per share. That was nearly double the price of Data Domain's shares when NetApp first announced its intent to buy the company.

And last spring, Oracle Corp. beat out IBM and won the right to buy slumping computer-server maker Sun Microsystems for $7.4 billion.

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