Hewlett-Packard buying ArcSight for $1.5 billion (Update)

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In this Feb. 16, 2010 file photo, Hewlett-Packard inks are seen on display at Best Buy in Mountain View, Calif. Hewlett-Packard Co. has agreed to buy the security software provider ArcSight for about $1.5 billion, the company said Monday, Sept. 13, 2010, as it extends a recent spree of acquisitions. (AP Photo/Paul Sakuma, file)

(AP) -- Hewlett-Packard Co. wants to have the answer to all of its customers' technology problems. So it is buying network-security provider ArcSight Inc. to help them respond to the growing threat posed by hackers, computer viruses and digital fraud.

The $1.5 billion deal announced Monday extends HP's recent spate of acquisitions and could help signal that even after ousting CEO Mark

Hurd, it hasn't lost its footing in the effort to win fatter profit margins beyond the personal-computer business.

HP continued to brush off concerns that it is paying too much to grow in new areas. The new deal came just weeks after HP won a bidding contest with Dell Inc. over the data-storage company 3Par Inc., agreeing to pay $2.07 billion, or $33 per share.

ArcSight's products pull in data from across an organization's computer networks and translate the information into a format that can be combed for evidence of a security breach, either in real time or after the fact. Nearly a third of its revenue comes from federal agencies looking to protect sensitive data.

The deal gives HP a major presence in an industry in which some of its main tech rivals, including IBM Corp. and EMC Corp., have already planted themselves through acquisitions.

The company wouldn't say whether Hurd had signed off on recent acquisitions before he stepped down Aug. 6 in a dispute over his relationship with a former HP contractor. Hurd has since moved to a job with rival Oracle Corp.

But the moves don't appear to take HP in a markedly different direction. Writing about the ArcSight deal in a note to investors Monday, Barclays Capital analyst Ben Reitzes said, "A software acquisition was highly expected for HP and the deal makes sense, providing a good fit with HP's existing security offerings."

Last month, HP said it was buying privately held Fortify Software for an undisclosed amount. It also spent $2.7 billion for 3Com, which came with a security-software subsidiary called TippingPoint; that purchase closed in April.

With ArcSight, HP is grabbing the biggest piece of market share in a network-security niche that amounts to about $1 billion a year in spending. The company, based in Cupertino, Calif. has about 412 employees and took in revenue of about $181 million in the most recent fiscal year. HP expects the deal to close by year's end.

HP is making a big bet on the network-security business later than some of the IT heavyweights it competes with in other areas.

ArcSight's nearest rival is data-storage provider EMC, according to Gartner analyst Mark Nicolett. EMC moved into the business in 2006 with its $2.1 billion purchase of RSA Security and a $175 million deal for Network Intelligence.

IBM Corp. also made a big push into security in 2006 with a $1.3 billion takeover of Internet Security Systems Inc.

These companies are competing to give customers an early heads-up when hackers have infiltrated their computer systems.

"This is an area where there's a lot of room for improvement," Nicolett said. "You need to notice that something is going wrong as soon as possible. A lot of breaches go unnoticed for a long time."

There's a growing need for this kind of forensic work not only because of the number of Internet attacks but also because of new government regulations that are forcing companies to keep better tabs on their data.

In a conference call with analysts, Bill Veghte, a former Microsoft Corp. executive who leads HP's software business, said the company estimates there are 80 existing and pending laws related to cybersecurity around the world, including 25 in the U.S.

Even so, HP faced more questions Monday about whether it is paying too much to expand.

Its final bid for 3Par was more than triple what the market had valued the company before Dell opened the bidding. And its offer of $43.50 per share for ArcSight represents a 54 percent premium over where the stock traded before news of a potential sale leaked a few weeks ago.

During its conference call Monday, Sanford C. Bernstein & Co. analyst Toni Sacconaghi called the acquisitions HP's "two most expensive deals in its history."

Veghte responded saying that HP is only making "acquisitions where they make strategic operational and financial sense."

Shares of HP, which is based in Palo Alto, Calif., slipped 2 cents to $38.18 in afternoon trading Monday, while ArcSight jumped $8.75, or 25 percent, to $43.85.