

HP's 3Com takeover marks a shot at Cisco

11 November 2009, By JORDAN ROBERTSON , AP Technology Writer



FILE - In this Sept. 28, 2007 file photo, 3Com Corp. offices are seen in Marlborough, Mass. Hewlett-Packard Co. on Wednesday, Nov. 11, 2009 said it has agreed to buy networking software and equipment maker 3Com Corp. for about \$2.7 billion in cash. (AP Photo/Lisa Poole, file)

(AP) -- Hewlett-Packard Co.'s \$2.7 billion takeover of 3Com Corp. is a shot at networking leader Cisco Systems Inc. - and a sign of how old relationships are being frayed by a flurry of maneuvers by technology heavyweights.

HP said Wednesday it has agreed to pay \$7.90 per share for 3Com, a 39 percent premium to 3Com's closing stock price before the deal was announced. 3Com makes things like routers and switches that direct Internet and other data traffic.

HP also raised its 2010 guidance and reported preliminary quarterly earnings that topped Wall Street's forecasts. The company didn't provide specific reasons for its better outlook, other than a statement from CEO Mark Hurd that "significant growth in China" and "solid execution" helped HP in the quarter.

The 3Com acquisition represents the latest attempt by HP, the world's No. 1 maker of personal computers, to expand into more profitable areas than PCs. HP's PC division made up nearly a third of the company's total revenue in the last nine months, but only 17 percent of its operating

income.

One of the areas HP is eyeing is computer networking, a market dominated by Cisco.

"Every customer I speak to has asked us to do more networking," said David Donatelli, executive vice president of HP's enterprise servers and networking group.

HP has been trying to muscle into Cisco's turf with its ProCurve line of networking gear, which has been growing but is still a very small part of HP's business. Adding 3Com beefs up HP's networking offerings and gives it a bigger presence in China. More than half of 3Com's \$1.3 billion in annual revenue comes from China.

The deal also means HP will be squaring off in more areas against Cisco, which has decided to compete against longtime partners like HP and IBM Corp. with a push into computer servers.

The moves show how the biggest companies that provide corporate computing infrastructure are consolidating quickly as they try to become one-stop technology shops.

The 3Com acquisition comes as HP is still digesting its \$13.9 billion takeover of Electronic Data Systems Corp., a company whose addition made HP's technology services group the company's biggest revenue and profit generator. That deal was a shot at IBM and a sign HP wanted a bigger piece of the services business, which has been key to IBM's turnaround from the brink of collapse in the 1990s.

HP, which is cutting 24,600 jobs as part of the EDS acquisition, didn't address whether there would be layoffs at 3Com, which has 5,800 employees worldwide.

HP's stock slipped 32 cents to \$49.68 while 3Com's shares leaped \$2, or 35.2 percent, to \$7.69 in extended trading after the announcements.

Co-founded by Robert Metcalfe, one of the inventors of the widely used Ethernet networking standard, 3Com is a former high-flyer whose business soared through the 1980s and 1990s but staggered after the dot-com meltdown. The company's shares briefly topped \$100 in 2000, but in recent years have languished below \$5.

HP's takeover comes after 3Com, based in Marlborough, Mass., tried and failed to sell itself to the Bain Capital Partners private equity firm and a Chinese partner, Huawei Technologies Co.

That deal fell apart last year over national security concerns. Lawmakers said they were worried sensitive military technology could be transferred to China. One sticking point appeared to be 3Com's Tipping Point subsidiary, which makes network-security software.

The dynamic of consolidation is playing out across the technology world.

One example is database leader Oracle Corp.'s proposed \$7.4 billion acquisition of Sun Microsystems Inc., the world's No. 4 server maker behind IBM, HP and Dell Inc. That deal has been approved in the U.S. but is being held up over antitrust concerns in Europe.

Others include Dell Inc.'s recent \$3.9 billion takeover of Perot Systems Corp., and Xerox Corp.'s \$6.4 billion takeover of Affiliated Computer Services Inc.

HP's preliminary report for the three months that ended in October showed the company, based in Palo Alto, Calif., earned 99 cents per share, compared with 84 cents in the year-ago period.

After adjusting for restructuring and other one-time items, HP earned \$1.14 per share. Revenue fell 8 percent from the same period a year ago, to \$30.8 billion. By both measures, HP did better than Wall Street was expecting, according to a Thomson Reuters poll.

HP said it now expects full fiscal year 2010 revenue of \$118 billion to \$119 billion, up slightly from a previous estimated range of \$117 billion to \$118

billion. Net income is expected to be \$3.65 to \$3.75 per share, or \$4.25 to \$4.35 per share excluding one-time charges.

HP is scheduled to report its full results Nov. 23.

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