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H-P gears up for battle with Cisco

Commentary: Computer maker shores up networking gap with cheap deal

SAN FRANCISCO (MarketWatch) -- The battleship Hewlett-Packard Co. is now full speed ahead, gunning toward its new archrival Cisco Systems Inc.

After recent chatter on Wall Street that the computer and printer giant was kicking the tires at Brocade Communications Systems Inc. (BRCD **8.77**, -0.48, -5.19%) , H-P (HPQ **50.00**, -0.40, -0.80%) surprised investors with a much more economical deal in the networking arena as it seeks to become more dominant in the data-center market.

H-P said Wednesday it was buying 3Com Corp. (COMS **7.65**, +1.96, +34.45%) , known for pioneering Ethernet networking technology, for \$2.7 billion. Read more about Hewlett-Packard's acquisition of 3Com Corp.

The move is clearly aimed at shoring up H-P's reborn networking business, which has seen new attention in the past year from Chief Executive Mark Hurd. This deal is also meant to seriously jab Cisco Systems Inc. (CSCO **23.75**, -0.17, -0.71%) , which is now in the computer server business, H-P's turf. Read column on H-P versus Cisco.

Long-forgotten 3Com, which moved away from Silicon Valley to Marlborough, Mass., has a market cap of about \$2.23 billion. Its revenue and profits have been on the decline. H-P appears to be getting the company on the cheap.

"They are not paying much of a premium," said **Rajan Varadarajan, vice president at Primary Global Research LLC in Palo Alto, Calif.**

Cisco is also battling H-P in the video-conferencing market and suffered a recent setback in its attempt to buy Tandberg, a developer of low cost video conferencing systems. Investors will be waiting for Cisco to make its next move in this battle.

--Therese Poletti