

Hewlett-Packard's NYSE:HPQ \$1.6-billion bid for storage system maker 3Par AMEX:PAR surprised some tech-industry observers, but it's just the latest in a string of merger activities stoking hopes that the economy is strengthening.

"It's a sign of economic recovery that we're feeling good about," said Graeme Frazier, principal and cofounder of research firm GF Data Resources.

Hewlett-Packard on Monday bid \$1.5 billion for data-storage software maker 3Par, topping a \$1.15 billion bid made by Dell (NMS:DELL) last Monday.

That follows Intel's (NMS:INTC) \$7.68 billion deal for security software firm McAfee (NYSE:[MFE](#) - [News](#)) last week.

And a recent \$39 billion hostile bid for Canadian fertilizer company Potash (NYSE:[POT](#) - [News](#)) by BHP Billiton (NYSE:[BHP](#) - [News](#)) looks to be heading toward a bidding war, suggesting a recovery international in scope.

So far this year, companies have announced 25,697 merger and acquisition deals. That's up 12% from the same period a year ago, according to research firm Dealogic. The combined value of those deals, \$1.7 trillion, is up 24%.

"Last year was one of the most difficult we've seen in a long time," Frazier said. "The fact that we're now starting to see a pulse in activity — though nowhere near peak levels — is movement in the right direction," he said.

GF Data collects data from 154 private equity firms involved in M&A deals in the range of \$10 million to \$250 million. Among them, 26 M&A transactions closed in the second quarter, up from 16 in the first quarter and 15 a year ago.

That's still well below the average of 40 deals per quarter in 2006-07 — but it's good enough, Frazier says.

The increase in M&A stems from increased confidence in the economy and a "slight uptick of senior banks willing to lend into these areas," Frazier said.

Frazier's confidence aside, other factors may include private equity firms' need to put cash to use or return it to investors. And some worry that taxes on capital gains will increase at the end of the year if Bush-era tax cuts expire as scheduled.

Technology has been the hottest sector with 3,799 deals totaling \$102 billion this year, Dealogic says.

But the telecom sector has attracted the most money, with 820 deals totaling \$193 billion.

In a research report issued Monday, Barclays Capital sees the software sector as ripe for consolidation, "due to increasing enterprise demand as we move into the later stages of the economic recovery."

The strongest area of growth is cloud-computing infrastructure, the report said. Cloud computing lets companies use software and other technology services delivered over the Internet rather than having to run their own data centers.

The trend is driving HP's newly launched bidding war for 3Par. The Fremont, Calif., company makes storage systems that use virtualization technology to make data storage cheaper and more flexible — ideal for cloud computing .

"We continue to view industry consolidation as a primary driver given attractive valuations of potential acquirers and strong balance sheets among the large tech buyers, with the acquisition of McAfee by Intel a perfect example of this ongoing trend," Barclays said.

Mobile technology is another hot sector for acquisitions, said Joe Steger, who leads Ernst & Young's Global Technology Transaction Advisory Services unit.

The largest tech deal in the second quarter was SAP's (NYSE:[SAP](#) - [News](#)) \$5.6 billion purchase of Sybase. SAP aims to leverage Sybase's leading position in software used in wireless phone systems and mobile applications, Steger says.

"We've seen a lot of deals in mobile for the last several quarters," Steger said. "It started with the phenomenon of smart phones, and now we have tablet devices."

Tech companies have been hoarding cash since the economic downturn that started in December of 2007. The 10 biggest tech firms by market value have \$258 billion in cash and other short-term reserves, up 30% from a year ago. The next 15 companies have \$192 billion, up 8%, according to E&Y.

"They are well-positioned to execute on attractive deals when the timing is right," Steger said.

Besides M&A deals, companies often use their cash to buy back stock or boost dividends.

Tech companies also may be looking at acquisitions to jump-start growth amid a halting economy and fears of a double-dip recession, especially as government stimulus runs its course and lawmakers' attention turns to cutting the deficit.

"The challenge for technology in 2010 is how it will react to the removal of policy stimulus and curtailments in government spending," Barclays said.

Long term, though, the research unit is encouraged by overdue technology upgrades and fast-growing areas such as smart phones and other mobile devices, broadband video, energy efficiency and cloud computing.