Major Dell Shareholder Favors Recent Buyout Offers

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SAN FRANCISCO (AP) — Dell's largest independent shareholder is leaning toward supporting one of the two bidders trying to scuttle the slumping personal computer maker's proposed $24.4 billion sale to a group including CEO Michael Dell.

Southeastern Asset Management expressed its preliminary support for the alternative offers in a letter sent Tuesday to the four-person committee overseeing the negotiations. The development doesn't come as surprise, given that Southeastern has been the most vocal opponent to Dell Inc.'s plan to sell itself to Michael Dell and Silver Lake Partners for $13.65 per share.

That price struck Southeastern as too low. The Memphis, Tenn., investment firm tried to prove its thesis Tuesday by noting that Dell Inc. has spent $3.4 billion during the past two years buying back the company's stock at an average price of $15.25 per share.

"The same board that was confident with Dell buying its shares for $15.25 is now attempting to convince all shareholders that Dell's business is in such dire straits that they should take $13.65 and exit their investments," Southeastern's top executives, O. Mason Hawkins and G. Stanley Cates, wrote in the letter. "We believe the Board's sudden rush to sell is triggered by one thing: Mr. Dell's desire to buy.

The backlash to the board's deal with Michael Dell emboldened buyout specialist Blackstone Group and billionaire investor Carl Icahn to submit separate proposals offering a slightly higher price. Blackstone is proposing to buy most of Dell Inc.'s stock for $14.25 per share while Icahn is willing to pay $15 per share for up to 58 percent of the shares.

Dell's stock dipped a penny Tuesday to close at $14.19.

Unlike the deal with Michael Dell, a portion of the company's stock will remain publicly traded if Blackstone or Icahn prevail. That would allow current shareholders such as Southeastern to share in some of the future gains if Dell Inc. successfully executes on a plan calling for the company to lessen its dependence on the shrinking PC market and diversify into more profitable sectors such as selling data storage services and business software.

The deal with Michael Dell and Silver Lake would end Dell Inc.'s 25-year history as a public company, allowing a potential turnaround to be worked out away from the scrutiny and pressure of Wall Street.

With an 8.4 percent stake, Southeastern is Dell's second-largest shareholder after

Michael Dell, who still owns 14 percent of the company that he founded as a college student in 1984.

That makes Southeastern a potentially influential player in Dell Inc.'s fate. Michael Dell is contributing $4.5 billion in cash and stock to the deal he worked out with Silver Lake because that agreement will leave him in control of the Round Rock, Texas, company.

It's unclear if Blackstone or Icahn will negotiate a similar arrangement with Michael Dell, who has said he is willing to work with the alternative bidders.

If Michael Dell remains exclusively aligned with Silver Lake, Blackstone and Icahn would either have to line up even more financing to pay for their proposed deals or find other ways to replace the cash and stock that Michael Dell could contribute. One way to do that would be to persuade Southeastern and other existing Dell shareholders to contribute some of their stock.

Southeastern didn't delve into that possibility in its Tuesday letter. But the firm called the Blackstone and Icahn bids better deals than the one worked out with Michael Dell.

"We view these proposals as superior primarily because each offers shareholders the opportunity to remain owners of Dell while also offering a higher cash price to owners who choose to exit their investment," Hawkins and Cates wrote. They urged Dell's special committee to negotiate with the alternative bidders in "good faith."

In a statement, the Dell committee said it's still backing the deal with Michael Dell and Silver Lake while it assess the alternate proposals. Both Blackstone and Icahn are reviewing Dell Inc.'s books before taking the next step in their bids.

"Our goal was, and remains, to ensure that whatever transaction is consummated is the best possible outcome for Dell's shareholders," the board committee said.

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