

Cisco uses cash hoard to buy Norwegian co. for \$3B

October 1 2009, By IAN MACDOUGALL , Associated Press Writer

(AP) -- Cisco Systems Inc. tapped its immense cash hoard and announced a deal Thursday to buy Norway's Tandberg ASA for \$3 billion in a bid to dominate the global market for videoconferencing equipment.

Cisco is paying twice the value of the entire global annual market for videoconferencing equipment, at about \$1.5 billion a year. But the fact that Tandberg is a Norwegian company allows Cisco to use an asset that's otherwise not very useful: the cash that has been piling up in its overseas subsidiaries.

Cisco, the world's largest maker of computer networking equipment, had a cash balance of more than \$35 billion at the end of July, most of that overseas. By buying an international company, Cisco is avoiding the U.S. taxes it would have to pay to bring the money home. The all-cash deal is Cisco's first acquisition of an overseas public company, CEO John Chambers said.

Chambers said the acquisition "showcases Cisco's financial strength and ability to quickly capture key market transitions for growth."

Cisco has been focusing on the high end of the videoconferencing market, selling so-called "TelePresence" systems with multiple plasma screens that present life-size images of the participants to provide the illusion of face-to-face communication.

With Tandberg, Cisco gets the leading maker of video systems that range from small "videophones" to full conference-room setups.

Tandberg, which already has a substantial U.S. presence, had 40 percent of the global videoconferencing market in the second quarter this year, according to Wainhouse Research.

The No. 2 is Pleasanton, Calif.-based Polycom Inc., with 34 percent. Polycom was until recently the biggest supplier of videoconferencing gear, but has seen its lead overtaken by Tandberg thanks to smart, aggressive marketing and a strong product lineup, according Wainhouse analyst Ira Weinstein.

"It's hard to say anything negative about Tandberg," Weinstein said. "This company knows how to do this."

Chambers said video communications is a key growth area, and getting Tandberg's product lineup will let Cisco further speed up adoption of the technology.

Cisco's most recent major acquisition was also video-oriented: It bought San Francisco-based Pure Digital Technologies Inc., maker of the popular Flip camcorders, for \$590 million.

Sales of videoconferencing equipment have held up relatively well in the global economic downturn, as companies look for ways to save travel dollars. Wainhouse said the industry's second-quarter sales were down just 6 percent from a year ago. Meanwhile, Cisco's TelePresence sales nearly doubled year-over-year in its latest quarter, which ended July 25.

Tandberg employs 1,500 people globally, with joint headquarters in Oslo and New York. It said in a statement that the proposal was recommended by a unanimous vote of its board of directors. The acquisition is

expected to close in the first half of 2010. Tandberg CEO Fredrik Halvorsen would continue to lead the group.

San Jose, Calif.-based Cisco is offering 153.50 kroner (\$26.50) per share for Tandberg's stock, an 11 percent premium on Wednesday's closing share price. In the afternoon, the company's shares were trading just under the offering price in Oslo, indicating that investors expect the deal to go through at that price.

Cisco shares fell 28 cents, or 1.2 percent, to \$23.26 in morning trading Thursday.

U.S.-listed shares of Radvision Ltd., an Israeli company that collaborates with Cisco on videoconferencing equipment, fell \$3.12, or 35 percent, to \$5.74. Chambers, however, emphasized that the goal was for Cisco to maintain its partnerships with other videoconferencing companies.

Polycom shares rose 94 cents, or 3.5 percent, to \$27.69. Stifel Nicolaus analyst Sanjiv Wadhvani speculated that the Cisco-Tandberg deal will bring Polycom into collaboration with Hewlett-Packard Co., which competes with Cisco for conference-room video setups.

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