



Cortina's Comfortable With Intel Inside

SEPTEMBER 13, 2006

This week's purchase of the [Intel Corp.](#) (Nasdaq: [INTC](#) - [message board](#)) optical networking business opens a new chapter for startup [Cortina Systems Inc.](#), making the company not only bigger, but possibly profitable.

Yes, that's right. The cluster of products sold to Cortina late last week -- including Ethernet chips, Sonet/SDH framers, and T1/E1 devices -- was making money, according to Drew Lanza, a [Morgenthaler](#) partner and Cortina board member. (See [Intel Hands Off to Cortina.](#))

Cortina hadn't gotten into the black yet but was "close," and the Intel add-ons push the company into profitability (on paper, anyway), Lanza says.

That's probably a surprise to most folks who have watched Intel struggle with its communications efforts the past several years. The selloff of optical networking chips is just the latest move in Intel's cost-cutting; other sales have included the former Dialogic and a line of processors for handsets, the latter going to [Marvell Technology Group Ltd.](#) (Nasdaq: [MRVL](#) - [message board](#)). (See [Intel Dumps Dialogic](#) and [Marvell Takes a Bit of Intel.](#))

Cortina's purchase, announced Sept. 11, was made for \$115 million and came with a \$132 million venture funding package that, according to Lanza, included Intel as an investor. Cortina has now raised around \$217 million in four rounds.

It's a significant deal for Cortina. Analyst Jag Bolaria of [The Linley Group](#) estimates Cortina was making \$30 million a year, and the Intel businesses another \$100 million.

"They've gone from just another startup to someone who's distinguishing themselves," says Bolaria, who's been tracking Cortina's progress. "It makes them more credible for what they were selling and gives them a revenue run rate."

Intel won't comment further on the deal, but those close to Cortina say it wasn't a desperation sale.

"Intel sort of picked Cortina as the people to take over that business -- and Intel now owns a piece of Cortina," Lanza says.

Lanza notes that Intel didn't try to toss in extras like the network processor or optical transceiver businesses, two product groups that some have speculated Intel might cut loose: "No, this was very specific. They had this family of chips in mind."

Cortina and Intel started talking in mid-May. "We were one of the few people they approached. They looked at us because of our relationship with the same set of customers they have," says Amir Nayyerhabibi, Cortina's CEO. "They wanted to make sure whoever gets this business unit wants to keep the customers whole."

About 120 Intel employees are affected by the sale. Cortina isn't specifying how many it expects to hire, but Nayyerhabibi says the company should number 160 to 180 employees after the acquisition. Cortina employs roughly 100 today.

Intel isn't saying if any other companies were interested, but Nayyerhabibi is under the impression that at least one of the public companies in the sector -- that would probably be [Applied Micro Circuits Corp.](#) ([AMCC](#)) (Nasdaq: [AMCC](#) - [message board](#)), [PMC-Sierra Inc.](#) (Nasdaq: [PMCS](#) - [message board](#)), or [Vitesse Semiconductor Corp.](#) (Nasdaq: [VTSS](#) - [message board](#)) -- was interested. "We had a very limited time to pull this off because of the competition," he says.

Lanza says he'd heard that private equity companies were taking a look, too. Firms like [Kohlberg Kravis Roberts & Co. \(KKR\)](#) have been on the hunt for public tech companies to take private, one example being the formation of [Avago Technologies Pte.](#) out of the [Agilent Technologies Inc.](#) (NYSE: [A](#) - [message board](#)) semiconductor business. (See [Avago Springs From Agilent.](#)) Rumors this week have [Freescale Semiconductor Inc.](#) (NYSE: [FSL](#) - [message board](#)), which began life as a [Motorola Computer Group](#) chip spinoff, pegged as a possibility to go private, too.

[Jag Bolaria](#) also relays a rumor that some employees from Intel and Level One Communications -- the chip company Intel acquired to kick off its communications push -- tried to arrange a leveraged buyout of the business. "But they couldn't raise the money," he says.

Cortina had already been diversifying, having gotten into metro Ethernet equipment and chassis-based enterprise gear, as well as the [Resilient Packet Ring Technology](#) infrastructure that had been its start. Cortina's next move will be to get into the access market, nudging into the territory of [Broadcom Corp.](#) (Nasdaq: [BRCM](#) - [message board](#)) and [Marvell Technology Group Ltd.](#) (Nasdaq: [MRVL](#) - [message board](#)), according to Nayerhabibi.

All those bits and pieces are nice, but Cortina saw the Intel deal as a chance to become a more serious player more quickly. "Small semiconductor companies are oxymorons. You have to create a bigger business," Nayerhabibi says.

The next step is to see if Cortina, with its newfound bulk, can start taking share from AMCC, PMC, and Vitesse. "I wouldn't say it's in the bag that they would displace the big guys," Bolaria says. "They should have a good three years of revenue stream and then an opportunity to figure out which products they think have merit. This is a pretty good deal, in contrast to other deals you've been seeing."

— Craig Matsumoto, Senior Editor, [Light Reading](#)

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