



Intel sells optical biz

by Olaf de Senerpont Domis Posted 05:48 EST, 11, Sep 2006

Communications chip startup **Cortina Systems Inc.** has acquired **Intel Corp.**'s optical network components business for \$115 million, it announced Monday, Sept. 11.

The Sunnyvale, Calif.-based startup said it bought the unit in exchange for an undisclosed amount of cash and a grant of Series D shares, which gives Santa Clara, Calif.-based Intel a minority stake in Cortina. The acquisition was funded primarily with a new \$132 million funding round in Cortina led by new investor **Institutional Venture Partners** and existing backers **Canaan Partners** and **Morgenthaler Ventures**.

For Intel, the transaction is part of a push CEO Paul Otellini announced in late April to review underperforming units and restructure and streamline the company. That announcement followed a disappointing first quarter for the chip company, which posted net income for the period of \$1.3 billion on revenue of \$8.9 billion.

The Cortina deal follows another Intel divestiture. The chipmaking giant in July said it would sell its communications and application processor business to **Marvell Technology Group Ltd.** for \$600 million. While that unit was losing money, the business Cortina acquired is profitable, though significantly smaller, the company said.

The optical components unit has fewer than 100 employees and will nearly double the size of Cortina, said CEO Amir Nayerhabibi. The business comprises pieces of several Intel acquisitions, including its purchases of Level One Communications Inc. and SoftCom Microsystems Inc., he said.

"We're honing Intel's focus in the communications and embedded market segments to align with our core businesses," said Bill Chatwell, general manager of Intel's optical networking components division, in a statement. "We believe this business and its assets are an optimal fit for Cortina as it grows the business while maintaining customer commitments."

The Intel unit, which will lift Cortina's annual revenue to roughly \$100 million, drew interest from several bidders, Nayerhabibi said.

"Ours wasn't the highest bid, but Intel felt we were the most attractive place to put its assets," said Morgenthaler general partner Drew Lanza. Morgenthaler was Cortina's first investor and holds the largest institutional stake, Lanza said.

Cortina's funding round brings the total raised by the five-year-old startup, which serves large networking equipment makers including **Cisco Systems Inc.**, to \$200 million.

The latest and largest round was pieced together in less than a month, Nayerhabibi said. A key player was round-leader IVP, which invested alongside **Sequoia Capital** in Nayerhabibi's previous company Stratum One Communications, a chipmaker Cisco acquired in 1999.

For financial advice, Cortina hired **Thomas Weisel Partners LLC**'s Ted Hulbert, John Stewart and Sameer Jinda and retained Jim Fulton and Nicole Brookshire of **Cooley Godward LLP** for legal counsel. Intel hired no banker, relying on its own Anupam Srivastava. **Gibson, Dunn & Crutcher LLP**'s Lucy Schlauch offered counsel.