



Higher IPO Bar, Force10 And Turin Merge

By Scott Denne

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Two of the most well-funded venture-backed companies of the last decade, Force10 Networks Inc. and Turin Networks Inc., have agreed to merge, with investors hoping that the combined company will be large enough to meet any threshold to go public once the markets reopen.

Together, the two optical-networking equipment companies, founded only a few months apart in 1999, have raised more than \$600 million in financing from investors and have more than \$200 million in annual revenue. Under the terms of the 50-50 merger, investors in each company will get half of their stake in the new combined company and none will be exiting, said Henry Wasik, the chief executive of Turin, who will become the CEO of the combined company, which will keep the name Force10 Networks.

"We will have the necessary criteria that JP Morgan - or whoever survives - needs to take us public," said Donald A. Lucas, managing partner and founder of Lucas Venture Group, successor to RWI Ventures, which has been an investor in Turin Networks for nearly a decade. "In a year or two you could see an enterprise that is going public at a billion-dollar valuation."

But investors see more than just an opportunity to tie together two companies to make a bigger one.

"Together they can go after joint customer opportunities that weren't available to either company alone," said Tim Weingarten, a general partner with Worldview Technology Partners and a member of Force10's board.

Force10 sells 10-gigabit Ethernet routers and switches for running data across local area networks at high speeds. The technology is mostly sold to data-intensive businesses, such as Web companies. This portion of the LAN market is loaded with competitors including Extreme Networks Inc., Foundry Networks Inc., and Woven Systems Inc. Cisco Systems Inc. and venture-backed ConSentry Networks Inc., whose switches emphasize security capabilities, both released new products a year ago to address the high end of the LAN market. At the same time, Juniper Networks, whose products are used to build telecommunications networks, announced that it was getting into the LAN game with a high-end product of its own.

Turin sells a variety of carrier Ethernet networking products for wireline and wireless network operators. In December 2007, Turin paid \$93 million to acquire Carrier Access Corp. to increase its exposure to the largest telecom-service providers like customer AT&T Corp.

One sector where Force10 and Turin investors see opportunities for the combined company is in wireless. As networks are upgraded to 3G and beyond, they will need Turin's wireless backhaul equipment to increase bandwidth and Force10's product line for aggregation between the wireless backhaul network and the Internet, Weingarten said.

Bringing new sources of revenue to the company could get the combined company to between \$300 million and \$400 million in revenue in a couple of years, Weingarten said.

Each company brings nearly identical annual revenue and cash balances to the table, he said.

The combination also provides the new company with further financial stability, a major focus of large carriers when vetting potential suppliers, said Dixon Doll, co-founder and general partner of DCM and member of Turin's board.

The deal is expected to close in March. At that time James Hanley, the current CEO of Force10, will become president, field operations, with responsibility for sales, marketing, services and business development.

The makeup of the combined company's board of directors has not yet been finalized, but each company will receive equal representation, Wasik said.

The two companies have about 900 employees, a number that is expected to be reduced due to operational redundancies, Wasik said.

Force10 has raised more than \$400 million in venture capital from investors that include Crosslink Capital, Meritech Capital Partners, Morgenthaler Ventures, New Enterprise Associates, U.S. Venture Partners and Worldview Technology Partners. Turin has raised more than \$215 million in venture capital from investors that include Baker Capital, DCM, Millenium Private Equity, Sequoia Capital, RWI Ventures and Tudor Ventures. Both companies have taken capital from Advanced Equities.

<http://www.force10networks.com>

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