

ACQUISITION HELPS TELECOMMUNICATIONS COMPANY MEET ITS GOALS IN A CHANGING MARKETPLACE



High-speed fiber optic communications networks that transmit billions of bits of data around the globe on a nonstop basis have emerged as the critical infrastructure of the Information Age economy. As a leading provider of next-generation optical transponders and subsystems—key components in the backbones of these networks—Kodeos Communications, Inc. has carved out an important position for itself in the marketplace. Now Kodeos is relying on a combination of venture capital financing and strategic acquisition to support its efforts in achieving their longer-term goals. These goals include advancing its market leadership globally and continuing to develop market-leading products.

As the networks grow in size and complexity, so do the challenges of making sure each packet of data reaches its intended destination in the most efficient and accurate way possible. The optical transponders and subsystems developed by Kodeos serve as digital expeditors in that endeavor, and there is immense and growing demand for the products among world-class systems equipment developers such as Lucent, Cisco, Scientific Atlanta and others. Simply put, Kodeos specializes in breaking through existing technological barriers to develop products that enable networks to operate cheaper, better and faster.

“The main benefit we offer is that our transponders are not affected by some of the channel impairments—in this case, called dispersion—that can occur during transmission,” explains John Wyatt, the company’s chief executive officer. When the opportunity to leverage its technological advantage for growth through a serendipitous acquisition presented itself, Kodeos seized the opportunity, relying on Geller & Company, its outsourced financial services team to help bring the deal to completion.

INNOVATIVE PRODUCTS INCREASE NETWORK REACH

As more and more businesses turn to the Internet to increase efficiencies and improve access to information, market requirements are evolving. Internet traffic has been rising exponentially, taxing the capabilities of metropolitan and regional networks, and regulators are pushing service providers to offer high-bandwidth access to more businesses and homes, increasing the stress on network capacity. At the same time, service-provider economics demand lower capital and operational expenditures.

Kodeos products provide a perfectly matched solution to those market forces. Compatible with existing optical networking infrastructure, its transponders combine high-speed electronic data signals into a single optical signal that can be transmitted and received over longer distances with no signal degradation. Through the use of unique line coding that enables an increased number of wavelengths per fiber, Kodeos technology can double a signal’s normal span distance.

Having met its early challenges, Kodeos is now focused on its long-term goal of becoming a worldwide market leader. In that regard, Kodeos recently completed a key move with the acquisition of Intersymbol Communications, Inc., a transaction that adds a new facet to Kodeos’ capabilities, and broadens its future market potential.

The company was founded by a pair of optical communication scientists, Jason Stark and Gadi Lenz, both of whom spent part of their careers at the renowned Bell Laboratories research facility and hold Ph.D.s from MIT, among their

many other degrees. Launched in January 2001, just as the telecom bubble burst, the company has worked hard to survive the ensuing lean market times, says Wyatt, former president of JDS Uniphase's Transmission Subsystem Group.

"We have hired the best staff in the industry for engineering and marketing, and during the past year we have successfully placed our optical transponders in eight of the top nine telecom system companies in the world," he says. "Also, our products have been rated as having the best-in-class transponder performance at the fiber optical communications industry's leading exhibition."

GEARING UP TO MEET THE NEXT ROUND OF CHALLENGES

Having met its early challenges, Kodeos is now focused on its long-term goal of becoming a worldwide market leader—no small task in an industry where rapid and constant change is the norm. In that regard, Kodeos recently completed a key move with the acquisition of Intersymbol Communications, Inc., a transaction that adds a new facet to Kodeos' capabilities, and broadens its future market potential. While Kodeos is the standard-setter on the transmit side in its product area, Intersymbol brings the same kind of leading-edge expertise to the venture on the receiver side.

Kodeos investors first met with representatives of Intersymbol, a leading developer of advanced electronic dispersion compensation (EDC) solutions four years ago to explore a partnership, but decided the timing was not right. Then 18 months ago, Kodeos began discussions with Intersymbol about using the company as a supplier for EDC chips in the receiver portion of Kodeos transponders, a straightforward vendor-supplier relationship.

However, because Intersymbol's expertise represents such a complementary technology to Kodeos' transmitter-side coding technology, when Wyatt met with Intersymbol Chairman Larry Marshall last summer, the discussion quickly focused on a possible merger-acquisition deal. "In particular, Intersymbol was looking to move up the subsystem value chain, and Kodeos was the perfect partner," Wyatt explains.

A deal was structured for Kodeos to acquire Intersymbol as a wholly-owned subsidiary. Since both companies are privately held, the details of the transaction have not been made public. This was Kodeos' first acquisition, and although Wyatt describes it as "a relatively simple deal," there was a learning curve involved.

"One thing we learned was how important it is to 'project manage' the overall document generation and sign-off processes. Otherwise, you can delay the process and incur additional legal fees," he says. "Once again Geller & Company was very active as our financial advisor since they support us in all of our accounting and finance needs. Joe Gitto, head of Geller & Company's New Jersey office, and Bruce Enayati, senior manager, both members of Geller's Emerging Business Group, were very involved in helping with the due diligence and financial analysis. They also advised us on how the deal should be structured and played an important role in the mechanics of the closing process by making sure all the documentation required by the lawyers was provided."

For more information, please contact Joe Gitto at jgitto@gellerco.com.