

VC - TechNews

Egenera nets \$26M fifth round

by Paul Bonanos

645 words

15 August 2006

TheDeal.com

English

Copyright 2006, The Deal, LLC. All Rights Reserved

A year after withdrawing its registration for an initial public offering and accepting a large debt funding, server virtualization hardware maker Egenera Inc. has elected to take in a \$26 million fifth round of equity funding that includes two new investors.

Dallas-based late-stage investor **Pharos Capital** Group LLC and strategic partner Fujitsu Siemens Computers (Holding) BV of Maarssen, the Netherlands, served as co-leaders of the new round.

According to Egenera chief financial officer Tom Sheehan, all of the other investors represented on Egenera's board of directors also participated. They include Spectrum Equity Investors of Boston; Technology Crossover Ventures of Palo Alto, Calif.; Kodiak Venture Partners of Waltham, Mass.; and Crosslink Capital of San Francisco.

Others holding stakes include CSFB Private Equity, Lehman Brothers Venture Capital Group and Goldman, Sachs & Co., all of New York; Austin Ventures of Austin, Texas; USB Capital of Minneapolis; and Mizuho Bank Ltd. of Japan.

Sheehan would not provide details regarding Marlboro, Mass.-based Egenera's current valuation but said company officials are "very pleased" with the terms of the deal.

Egenera has now raised a total of \$150 million in equity funding since its inception in March 2000. The company also completed two debt financings totaling \$45 million shortly before the April 2005 withdrawal of its IPO registration with the Securities and Exchange Commission.

Sheehan said Egenera considered pursuing another round of debt funding and pondered more than one term sheet featuring debt before selecting Pharos' offer. He noted that unlike most traditional venture firms, whose limited partners are often pension funds or insurance companies, Pharos sports a base of corporate investors who could potentially become Egenera customers.

Egenera's hardware products are used in data centers to distribute system requirements over unused parts of a network of servers so as to perform multiple tasks at the same time efficiently. The process is variously called "blade computing," "utility computing" and "server virtualization."

Since the time of its IPO registration, Egenera has broadened its customer base considerably. Sheehan said that while the company pursued an initial strategy of marketing to financial services companies, that sector now accounts for only 20% of its revenue. The remainder, he said, comes from other markets including the federal government, telecommunications and data-hosting sectors.

The company's partnership with Fujitsu Siemens Computers also brings in customers from Europe, the Middle East and Africa.

Sheehan said the original IPO filing was, "in retrospect, too early," in part due to the company's lack of a diverse customer base. The company remained far from profitability at the time but is now nearing that point, he said.

Egenera has not released any revenue figures since the time of its regulatory filings, but Sheehan said its income has increased in every quarter since that time. After posting \$41.2 million in revenue during all of 2003, the company's top line grew to \$20.3 million in the first quarter of 2004.

The company now competes most directly with large players such as IBM Corp. of Armonk, N.Y.; Hewlett-Packard Co. of Palo Alto, Calif.; and Sun Microsystems Inc. of Santa Clara, Calif., rather than other startups in the field, said Sheehan.

Sheehan would not speculate on when Egenera might file for a second attempt at an IPO but suggested an offering is likely. He noted that Pharos will not receive a seat on Egenera's board of directors but will instead locate a financial expert to take a board seat and become chairman of its audit committee in accordance with the Sarbanes-Oxley Act. That legislation applies to publicly traded companies.

Egenera did not rely on financial advisers as it completed the transaction and looked to Wilmer Cutler Pickering Hale and Dorr LLP of Boston for legal services.

<http://www.TheDeal.com>