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VENTURE CAPITAL

OneChip unveils \$19.5M funding

by Olaf de Senerpont Domis

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Semiconductors and optical networking componentry aren't prized technology sectors to top venture capitalists in today's environment, but that didn't stop optical chipmaker **OneChip Photonics Inc.** from announcing a significant amount of funding Tuesday, March 17.

The Ottawa startup revealed a total of \$19.5 million in funding, the latest of which was the second tranche of a \$16.5 million Series B round led by **DCM** and **Morgenthaler Ventures** that closed last week. OneChip raised a previously unannounced, \$3 million Series A round in February 2007 from Canadian venture firm **GrowthWorks** and the venture unit of the **Business Development Bank of Canada**, both of which also participated in the latest funding.

The company, which was founded in 2005 and has been operating in stealth mode, is developing a technology that enables several separate components used in delivering optical-fiber broadband directly to homes to be integrated on one chip.

The startup's product, which is set to start sampling with potential networking equipment customers this quarter, would replace a jumble of other, more costly optical componentry that must be assembled by hand, said DCM

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general partner Carl Amdahl.

"No one has been able to build an optical integrated circuit for low cost," he said. "OneChip's technology takes it down to a very low cost-point where we can compete with the cheapest producers. It's really a breakthrough in the sense of optics 'growing up.' "

In charge of OneChip is Jim Hjartarson, the co-founder and former CEO of Catena Networks Inc. The high-speed Internet access gear maker was acquired by telecom equipment maker **Ciena Corp.** of Linthicum, Md., in 2004 for \$498 million. Several other former Catena managers populate OneChip's executive suite. While at Ciena, Hjartarson was senior vice president of the company's broadband access group.

Citing research firm **Ovum**, OneChip said the market for fiber-to-the-home, or FTTH, and fiber-to-the-building, or FTTB, connections is set to expand from about 48 million by the end of 2009 to more than 100 million by the end of 2012. About 8% of all broadband users tap into the Internet via this direct optical fiber connection, but that percentage is set to double in three years, the company said.

"This market is multimillions of units and several hundreds of millions of dollars a year," Amdahl said.

With its latest investment, OneChip will be amply funded to get "well through the cycle" of production ramp-up, which is expected in the second half of this year, Amdahl said.

With so many optical componentry startups having died off in the telecommunications spending freeze early this decade, fundings for these companies have been rare. But Amdahl said the tide could be turning again for this sector, especially as technologies are developed that can lower cost for optical deployments.

"We saw many flameouts in the bubble, where excitement got in the way of economics," he said. "The fundamentals towards optical are regaining steam."

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