



Optical Networking

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## **Capella Reboots With \$20M Recap**

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After weathering the telecom bust, Capella Intelligent Subsystems, producer of optical modules for IP-based broadband networks, hopes to ride the Web 2.0 wave with a \$20 million Series B recap round.

The Series B recap was co-led by new investors Levensohn Venture Partners and Rustic Canyon Partners. Another new investor, Formative Ventures, also participated along with individual investors. The "bulk" of the round was equity with a small amount of debt financing coming from Square 1 Bank, said Larry Schwerin, chief executive and president of Capella, adding that "some" previous investors wanted in the round but weren't able to because it was "heavily oversubscribed."

Prior to the current round, Capella, formerly Capella Photonics Inc., had raised \$44 million, including \$4 million in debt financing, in Series A through E rounds. Under the terms of the recap, Series A through E will be rolled into a single Series A class, Schwerin said.

Bay Partners, BCE Capital and Vanguard Venture Partners contributed to the Series A through D rounds, with Bay contributing a small amount to the Series E. Sand Hill Group participated in the Series B round and Horizon Technology Finance provided the debt financing. All previous investors still hold Series A stock in the company. No one could be reached for comment on the decision not to invest in the recap.

Capella, founded in December 2000, was able to survive "the darkest of days" in the telecommunications industry by keeping close contact with developments in the market and the people in it, having "prudent cash management" and a dedication to the product, Schwerin said.

Capella manufactures switches for use by original equipment manufacturers to make reconfigurable optical add/drop multiplexers. The company is targeting Internet service providers that have been switching to optical networks to handle the increased bandwidth that has come with more users and more video traveling over the Internet.

"The problem in the past was that every entry and exit point needed to be converted from optical to electrical. Capella keeps traffic in optical format which allows incredible network efficiency, allows service providers to accommodate IP," said Dino Vendetti, general partner at Formative Ventures, who previously invested in Capella when he was with Bay Partners.

Kip Sheeline of Levensohn Venture Partners and Michael Kim of Rustic Canyon Partners will both take seats on the company's board as a result of the financing.

Schwerin declined to say how many employees Capella has and would not speculate on a possible exit.