

Surviving the crisis:

Venture gains

Sonoma County startups emerge from slump with \$312 million in funding last year, but investors warn that competition could heat up

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After a sluggish start, Sonoma County technology companies ended 2009 on an up note, raising almost \$100 million in venture capital in the fourth quarter.

It was a sign that tech startups survived the worst of the economic crisis, according to industry analysts.

"Venture deal activity returned to levels seen before the collapse of the financial markets," said Jessica Canning, research director for Dow Jones VentureSource, which tracks U.S. private equity deals.

But investors still are cautious, she said.

"The capital invested continued to lag as investors gave companies just what they need to reach the next milestone," Canning said.

There will be fierce competition for funding in 2010, said Scott Austin, another Dow Jones analyst.

"Some startups, especially those seeking first or second rounds, may be in for a rude awakening," he said.

Venture capital is the lifeblood of early-stage tech companies, which rely on private investment to grow. Most Sonoma County deals fund telecommunications, green technology and medical device startups.

Venture backing for local startups slumped in 2008, when they raised just \$130 million. The drought continued in the first quarter of 2009, with only two deals worth \$13 million reported.

Activity began to pick up last spring, when startups brought in \$60 million in the second quarter.

A flurry of deals in the third quarter raised \$141 million, and the fourth quarter was not far behind, bringing Sonoma County's 2009 total to \$312 million.

Petaluma laser startup Raydiance Corp. landed one of last quarter's deals, \$3.1 million in follow-on investment from a pair of venture funds. Last week, the company said it is partnering with NASA's Ames Research Center to use Raydiance ultra-fast lasers in space experiments.

The research, using tiny microfluidic devices, is aimed at improving molecular and cellular diagnostics, advancing drug discoveries and understanding how space affects biological systems.

"This collaborative work will have large implications for both the research and commercial worlds," said Raydiance CEO Barry Schuler.

Raydiance's powerful lasers remove material with high precision and no heat, so they're ideal for microfluidics, which deals with the unique behavior of microscopic amounts of liquid. Microfluidics are used in inkjet printers and tiny computer chips for DNA and drug analysis.

"We're very excited about the additional capabilities the Raydiance system gives us to fabricate complex, multilevel microfluidic devices," said Antonio Ricco, chief technologist at NASA Ames' Small Satellite Division.

Raydiance's laser platform has applications for the medical device, electronics, defense, bioscience and energy markets, the company said.

Raydiance isn't saying what it will do with the latest funding, but it is hiring for several positions, including a light engineer, according to its Web site. Founded in 2003, Raydiance has about 60 employees. It has raised about \$58 million in venture capital to date.

Last quarter's largest deal was a \$30 million infusion of cash for TriVascular, a Santa Rosa company developing next-generation technology for repairing aortic aneurysms. The investment will pay for clinical trials aimed at getting TriVascular's stent-graft technology approved for sale, the company said.

Other large deals targeted the telecommunications sector. Oclaro, which makes thin-film optical coating technology in Santa Rosa, raised \$26 million in December, according to a regulatory filing. The San Jose-based company makes optical filters and related products that are used in fiber-optic networks, medical imaging, scientific instruments and other applications.

Petaluma optical startup Cyan Optics landed \$22 million in venture capital last month. Cyan's technology platform helps telephone companies, cable systems and other network operators manage their growing digital traffic.

[Dilithium Networks](#), a Petaluma company that makes technology for delivering video over wireless and broadband networks, received \$10.9 million. Dilithium's growth is being driven by video sharing, social networking and smartphone use, the company said.

Teknovus, another Petaluma startup, raised \$5.6 million last quarter. Teknovus makes computer chips and software for transmitting voice, video and data over fiber-optic networks.

Nationwide, fourth-quarter venture deals totaled \$6.3 billion, up slightly from \$6.1 billion for the same period in 2008, according to Dow Jones. While there were more deals last quarter, their average size dropped.

Private equity investment for the full year was down 31 percent from 2008.

Venture funds cash out when startup companies get acquired or go public. Some tech startups were acquired last year, but there was almost no market for initial public offerings, according to the National Venture Capital Association.

It's unclear whether the IPO market will improve in 2010. One Sonoma County tech company, Petaluma's Calix Networks, has said it plans to launch an IPO this year.

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