

The Next Generation

Ottawa companies reach out for new CEOs, many of them U.S.-based with intimate knowledge of American markets. But will they stay? And do they have the best interests of Ottawa at heart?

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Ken Schultz is ungodly modest. In mid-June, with absolutely no hesitation, the co-founder and ex-CEO of Kanata-based SiberCore Technologies gave up his firm's top job in favour of Peter Becke, a former Nortel Networks executive.

"The last four years have been a tremendous learning experience for me," Schultz says, "but at some point it's good not to have a CEO on training wheels."

This, from the engineer who broke away from Nortel to co-found SiberCore, raise \$53 million, hire nearly 80 employees and, most impressive of all, land more than 20 revenue-paying customers for his company's semiconductor designs.

But Schultz is right. The stakes are higher now for SiberCore. It has pipelines into enough customers that it can begin to project annual revenues in excess of \$100 million U.S. within two or three years. That's up from just \$1-million-plus last year.

To get there, a lot has to go SiberCore's way. The companies buying its designs have to do well themselves because SiberCore earns its revenues by selling them components. It will help if the tech economy kicks into second gear. SiberCore also needs to raise some investment capital. Until it does, the firm will almost certainly be trimming its payroll, probably substantially.

In short, SiberCore needs a seasoned pro at the helm. Becke qualifies. The Ottawa native spent nearly 20 years at Nortel playing a wide variety of roles -- customer service, business development, human resources, operations, planning, you name it. He is a lawyer by training (Queen's University, 1980) but also has an MBA (Queen's, 1983). His last assignment at Nortel involved running a key chunk of the optical components division, at one point a \$4 billion-a-year business with more than 10,000 employees.

"I didn't come looking for this assignment, but I remember thinking it looked interesting," says Becke. "SiberCore has products it is selling to customers today and it's got one of the strongest semiconductor design teams in Canada. This is a sustainable play."

SiberCore is hardly unique in its quest for professional management at the



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This summer, Ken Schultz, left, stepped aside to allow ex-Nortelite Peter Becke to assume the top job at SiberCore. The Kanata-based company is not alone. In the past eight months, at least a dozen of Ottawa's more active startups have replaced their chief executives.



(Peter Becke, CEO SiberCore Technologies)



(David Clark, CEO MetroPhotonics)

top. In the past eight months, at least a dozen of Ottawa's more active startups have replaced their chief executives.

In almost every case, the companies' founders have, willingly or not, made way for newcomers with more experience.

It's a natural progression. Many of Ottawa's startups were launched during the tech boom of 1999-2000 when landing investment capital and winning customers was a breeze. Some of the founders were engineers with good ideas and little desire to actually run things. Others were charismatic leaders who could attract talent and understood how to exploit customers' fear of being left behind in technology.

Now, more than a year into the telecom depression, the emphasis is on tightening operations and nailing down customer contracts. A different set of skills is required at the top.

A deep knowledge of financing, for one, along with the need to connect with potential customers at the highest levels. The new CEOs also have to make shrewd bets about which buyers of their products to place their faith in -- because investing time and money in the wrong customers can be as deadly as not winning any business in the first place.

Because so many important customers are headquartered in the U.S., it's not surprising that Ottawa's startups are trying to entice well-connected Americans to lead them.

Indeed, half the newcomers -- including the top guns at WebHancer, Atreus Systems, Zucotto Wireless, Kyberpass, Atsana and Watchfire -- are U.S. citizens. Even this understates the pattern. SiberCore had been seeking a U.S. executive before it learned Becke, a Canadian, was available.

Disturbingly, for those who value home-grown managers, the CEOs in almost every case have opted not to move to Ottawa. True, they visit frequently. But it's not clear how much staying power they'll have -- or, in the crunch, how much sympathy they'll have for the Ottawa-based employees.

Certainly, the hiring of well-connected Americans isn't a panacea, at least judging by the experience of Kanata-based Catena Technologies. Bob Machlin, a former Ascend executive, joined Catena as CEO early in 2000 and made his home in California. However, Machlin stepped down earlier this year because it was clear he wasn't able to spend enough time in Kanata.

This was less of an issue two years ago when Catena was a much smaller firm. But now, with more than 300 employees, Catena co-founder Jim Hjartarson says the organization requires a "continuous presence" from its top gun. Hjartarson has temporarily reclaimed the CEO job while looking for a successor willing to live in the area.

The newcomers counter that they spend so much time on the road, often in the U.S., that it's not really very important where they live. The key is their ability to position a startup for sale or long-term survival.

At least three of the U.S. hires -- Keith Cooper (WebHancer), Wil Cochran (Atreus) and Tom Nolan (Kyberpass) have already sold at least one startup for a considerable fortune and are keen to repeat the performance.

Whether this experience, gained during the peak of the boom, remains



**(Michael Gassewitz,
president Meriton
Networks)**



**(David Longbottom,
CEO Chrysalis-ITS)**



**(Frederic Charpentier,
CEO BitFlash)**



**(Jim Hjartarson, CEO
of Catena
Technologies)**



**(Wil Cochran, CEO
Atreus Systems)**



**(Keith Cooper, CEO
WebHancer)**

relevant during harder times is an open question.

David Grooms, the newly installed chief at Zucotto Wireless, has a less entrepreneurial track record, having served as a senior executive with Shellcase and Kyocera America. But in the latter job he was responsible for identifying U.S. firms to acquire or invest in. Grooms remains tight with numerous VCs and technology companies that may prove useful to Zucotto.



**(David Grooms, CEO
Zucotto Wireless)**

He also sees his role as transitional. Grooms intends to exit Zucotto as soon as he's got the firm on a solid footing in terms of sales growth -- and has trained someone to succeed him.

Transforming Startups a Big Challenge

The Canadian-born CEOs also have a wide range of experience though much of it tends to have been with large corporations. The majority, like Becke, are Nortel veterans. For example, David Clark, the CEO of optical component maker Metrophotonics, spent two decades at Nortel, including a seven-year stint in Asia. In 2001, he got some startup experience by co-founding Optenia -- though he quit last autumn when he fell out with co-founder Moris Simson over strategy.



**(Alex Leupp, CEO
Atsana
Semiconductor)**

The ex-Nortel vets clearly have lots of know-how when it comes to running larger organizations that span many time zones. But an important question is whether they will be able to take over startups and transform them into bigger units.



**(Tom Nolan, CEO
Kyberpass)**

There's reason for optimism. The startups have attracted fresh blood because **their technologies have** been designed into some of tomorrow's more promising products, ranging from video-enabled handsets to high-speed DSL services. Success is far from guaranteed so the **founders are stepping** back to make sure their inexperience at running bigger organizations doesn't hold back the company.

Consider the example of Zucotto, a three-year-old wireless technology specialist with nearly 60 employees that has twice installed outsiders as CEO.

The first time was in 2000 when Zucotto's four co-founders picked Mark Wells, a former general manager with DSP Communications (subsequently acquired by California-based Intel Corp.), to run the company from his office in San Diego. That move proved only temporary.

In late 2001, one of the firm's investors -- L.A.-based Shelter Capital -- asked **Grooms to assess** Zucotto, possibly to determine whether it should continue backing it.

"I was approached initially to serve on the Zucotto board," says Grooms, "but **as I learned more, I** could see this was a golden opportunity."

The VCs eventually convinced Grooms to run Zucotto, with the appointment becoming official at the end of May. That's when Wells agreed to vacate the CEO slot and become Zucotto's chairman and chief strategist. Both executives live in San Diego.

"The customer traction is pretty good right now," says Grooms. "I see lots of **startups with great** technology but they don't have any customers and don't understand why."

Zucotto, which makes Java-based products for mobile devices, is on the verge of landing key supply deals with two Japanese conglomerates -- one is a global handset manufacturer **and the other is a** semiconductor company.

If these contracts actually come through, Grooms will be nicely placed to tap **his contacts within**

Qualcomm, Nokia, Sony and other handset manufacturers. "We're going to get a few more deals in the pipeline, tighten ourselves up a bit and add some appropriate talent," he says.

Zucotto isn't the only startup with excellent prospects. BitFlash and Kyberpass are set to unveil landmark customer deals that could serve as the foundation for sales growth for years to come. BitFlash, where founder Frederic Charpentier recently reclaimed the CEO role following the departure of hired gun Antoine Paquin, is expected soon to announce a multi-year arrangement to supply chips to a major U.S. manufacturer.

Kyberpass, one of Ottawa's more established startups, recently teamed up with IBM Corp. to develop products banks can use to secure electronic services with their customers. Tom Nolan, Kyberpass CEO since January, says the IBM relationship is opening doors in Europe, where he spends nearly half his time these days. At least one major bank on the continent has already committed to buying Kyberpass-IBM technology.

Even WebHancer, a Web analysis software firm that looked on the ropes a few months back, appears to be mounting a comeback. Keith Cooper, its Harvard-trained CEO, says he has signed "eight or nine" clients since taking on the top job eight months ago.

But few Ottawa startups have been as good at developing early customers as SiberCore, which has quietly been designing chips that expedite the flow of packets on communications networks.

The three co-founders -- Ken Schultz, Randall Gibson and Farhad Shafai -- learned their art at Nortel before launching SiberCore in 1998. The engineers decided very early on to diversify their marketing efforts; the company spent a lot of time in 1999 and 2000 cultivating customers in Asia.

"At the time, it was counter-intuitive," says Schultz. "North America was booming and it would have been easier to win deals here."

The result is that a majority of the firm's revenues this year will come from Asian customers. Schultz says SiberCore's sales in fiscal 2002 (ending Sept. 30) will be more than double the \$1 million U.S. plus worth of sales achieved the previous year.

An independent source says SiberCore is projecting sales in excess of \$5 million U.S. Whatever the true figure, the sales are coming from more than 20 customers around the globe.

Schultz and his colleagues have also made their dollars stretch further through good productivity. It costs anywhere between \$5 million and \$10 million for each design that makes it into manufacturing. Often the chips require further tweaking and redesign after the initial production sampling -- which adds \$1 million to \$2 million to the costs.

But SiberCore's last two chips managed to reach the production phase error free. These are not simple designs -- one of the firm's most recent chips is stuffed with more than 200 million transistors.

This kind of track record will no doubt help new SiberCore CEO Peter Becke with one of his top priorities for this fall -- raising more money. SiberCore's last big financing was a \$35 million deal unveiled in June, 2001 and conditions in the VC world have deteriorated sharply since then.

"That was a question for me because we do need to secure financing," says Becke, "but that's why I went to see the investment bankers (SiberCore's current investors) before I agreed to join." Becke is expected soon to trim a significant number of employees, a move which would give the firm more breathing room.

Becke is going into this job with his eyes wide open. During his last job at Nortel in 2001, he was responsible for developing a plan to spin out Nortel's optical components group. Just as the plan looked like becoming reality, the stock markets collapsed, thus killing the prospective deals.

He understands that just because customers are real one day, they won't necessarily stay that way.

But, like so many of Ottawa's other fresh CEOs, he's got a good feeling about this one. "My most important investment is my time," he says. "If I'm going to work full-time it had better be on something with a good chance at succeeding."

Top Gun Turnover

The (mostly) new faces at Ottawa's startups

Canucks:

Peter Becke, CEO SiberCore Technologies: Becke, 44, surprised a lot of people last month by accepting the SiberCore assignment. Early this year, the Ottawa native was settling into a new role as angel investor with Purple Angel after an 18-year career at Nortel Networks. When a head hunter employed by SiberCore gave him a call, he decided to have a look and liked what he found. Becke had spent the early part of his career in Nortel's semiconductor unit, making him a potentially good fit for SiberCore, which designs packet forwarding chips for communications networking customers. Becke has a law degree as well as an MBA and emerged from Nortel with a good reputation as a manager. The key question: Can he run a startup?

David Clark, CEO MetroPhotonics: Another Nortel veteran, Clark won the CEO assignment at MetroPhotonics in April following the departure of John-Peter Bradford. "You get tired when you're 60," Bradford said at the time. Clark had joined MetroPhotonics only a few weeks earlier as chief financial officer. The Hamilton native has some entrepreneurial experience, having co-founded Optenia early in 2001, but his formative professional experience was a seven-year stint with Nortel's Asia-Pacific operations in the 1990s. Clark returned to Ottawa in 1998 because he wanted his son, then 10, to become Canadian. He took on the job of business development for Nortel's high-performance optical components unit. Clark exited Nortel following the collapse of a deal that would have seen Corning buy the firm's optical components group.

Michael Gassewitz, president Meriton Networks: Gassewitz stepped into the top job at Meriton in late May following the promotion of Wes Biggs to chairman. Gassewitz and Biggs each spent a good chunk of their careers at Newbridge Networks, a data networking specialist. Meriton, an optical networking startup, has opted for the moment to leave the CEO job unfilled -- Gassewitz' only title is president. It's not clear why the Meriton board did not also make him CEO, which would have been the usual practice. Meriton had been hunting for an outsider to take on the job. It's possible Meriton is still quietly looking for a CEO. Either that, or the board is waiting to see how Gassewitz performs before adding the second title.

David Longbottom, CEO Chrysalis-ITS: Company founder and CEO Steve Baker paved the way for his succession early last year when he hired Longbottom as his vice-president of operations. Longbottom had held a number of executive positions at Nortel and Objectime (now part of Rational Software). When Baker decided to step down as CEO just before Christmas, Longbottom was the natural choice to replace him.

Peter McKay, President Watchfire: McKay joined the firm in February as part of a management influx that included Mikael Wipperfeld, executive vp of marketing and Mark Connolly, the vp of sales. All three executives are based in Lexington, Mass., likely at the behest of Watchfire's U.S.-heavy investors. McKay, a graduate of Boston's Northeastern University, has a strong background in sales. His most recent assignment before joining Watchfire was president of eCredit.com, a Boston-area firm. He earned the number two executive slot following a stellar stint as eCredit's top sales executive. McKay also worked in sales at Parametric Technologies and Computer Associates.

Canucks (second time around):

Frederic Charpentier, CEO BitFlash: Charpentier, the original founder and CEO of BitFlash, returned to the top job in February after Antoine Paquin, quit, citing a desire to pursue other interests. Charpentier says his five-year wireless graphics technology firm will soon unveil a landmark customer

with the prospect of more to follow. Charpentier, the son of a Canadian diplomat, grew up in Europe and South America and worked seven years as a journalist for the CBC before turning to entrepreneurial endeavours in 1981. Charpentier is not seeking a replacement for himself at BitFlash.

Jim Hjartarson, CEO of Catena Technologies: Hjartarson was the first CEO of Catena, which makes access gear for telecom firms. He and four other ex-Nortel colleagues co-founded the firm in late 1998 and subsequently managed to attract U.S. industry veteran Bob Machlin to run it. Machlin, based in California, helped Catena raise a ton of money but stepped down in late April. Hjartarson explains: "The reality is, Catena is an east coast firm and an organization this size (more than 300 employees) requires a continuous presence here." Hjartarson, though, does not want the CEO's job anymore than he did in the firm's early days. But he's prepared to be patient until the right candidate comes along.

Yanks:

Wil Cochran, CEO Atreus Systems: Cochran, who is based in San Diego, is a serial entrepreneur with tons of experience running firms in California's Silicon Valley. Companies he has led include OnPREM Networks, Domain Technology, Priam Systems and Comport. Cochran scored big early in 2000 when he sold OnPREM to Copper Mountain for \$150 million U.S. in stock. Cochran joined Atreus as CEO late last fall after his predecessor and co-founder Doug Bellinger stepped aside to become chief technology officer.

Keith Cooper, CEO WebHancer: A native of Watertown, Mass., Cooper is a Harvard-trained MBA with a strong background in finance. He worked for the Boston Consulting Group and a telecommunications services firm before taking on the top job at FaxNet in the mid-1990s. Cooper sold FaxNet in late 1999 to Critical Path for close to \$200 million U.S. in cash and stock then took some time off. He resurfaced in early 2001 as entrepreneur-in-residence at Vimac, a Boston-based VC with an investment in WebHancer, an Ottawa-based Internet software company. WebHancer's board invited Cooper late in 2001 to check out the firm's prospects. The result: Cooper agreed just before Christmas to run WebHancer.

David Grooms, CEO Zucotto Wireless: Grooms makes no bones about his status as a hired gun. He was installed as Zucotto CEO in late May and intends to stay only as long as it takes to put the Ottawa firm on a solid growth track and line up a successor for himself. Grooms, 51, lives on hilltop near San Diego overlooking the ocean and could not be convinced to move to Ottawa. However, he spends a considerable amount of time here. His new job is considerably less nerve-wracking than his previous assignment as head of America's operations for Shellcase, a chip packaging firm based in Jerusalem. Grooms traveled frequently to Shellcase headquarters but decided late last year it was just getting too "hot." He declined to renew his one-year contract.

Alex Leupp, CEO Atsana Semiconductor: Leupp was given the nod last month as CEO of Atsana, which used to be known as Lumic Electronics. The move marked the end of a six-month search to replace Atsana founder Luc Lussier who stepped down to pursue other interests. Atsana chairman Jim Derbyshire noted at the time that the firm's longer-term business plan envisaged appointing a CEO based in California's Silicon Valley, considered the heart of the globe's semiconductor industry. Leupp has long experience in the Valley, including executive stints at industry heavyweights such as Hughes, Fairchild Semiconductor and Siemens Microelectronics. His most recent assignment was as CEO of 3dfx, a graphics chip designer that lost a marketing war against Nvidia. Leupp presided over the sale of 3dfx assets to Nvidia late in 2000.

Tom Nolan, CEO Kyberpass. A native of Iowa, Nolan has spent nearly all his career in California. He was appointed top gun at Kyberpass in January. The press release announcing his move notes that he "will be based at the company's headquarters in Ottawa" but things have changed. "I'm not going to relocate to Ottawa," he says, though he does spend a couple of weeks every month here. The rest of the time Nolan visits customers in Europe or works out of his home office near San Francisco. Nolan, 59, is well connected in the world of electronic security -- Kyberpass' specialty. One of his previous assignments' involved running Xcert, which he sold to RSA Security in March, 2001 for \$70 million U.S.

in cash -- a smart move because the value of RSA shares later dropped substantially.

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