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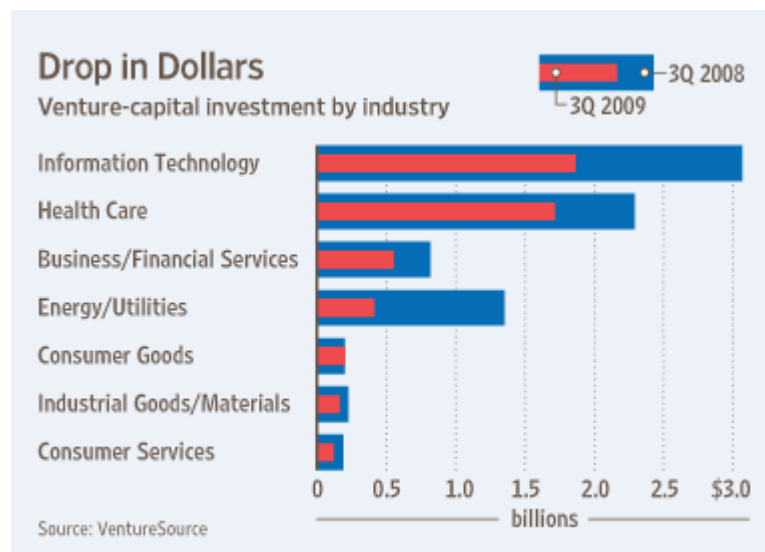
After Dry Year, Start-Ups Are Poised to Get Cash

By [PUI-WING TAM](#)

After a dismal 2009, venture capitalists are preparing to ramp up their investments, injecting much-needed cash into start-ups.

Some venture-capital firms have loosened their purse strings in recent weeks and are starting to invest new money. That has resulted in several deals, such as last month's \$52 million infusion into social-networking advertising and software company RockYou Inc. and the \$57 million invested in online textbook-rental service Chegg Inc.

In addition, many venture capitalists say they have been meeting investment bankers and working with their tech start-ups on filing for initial public offerings next year.



"When the year started it couldn't possibly have been worse," says Geoff Yang, a general partner at venture firm Redpoint Ventures in Menlo Park, Calif. "Now there's a significantly more optimistic view" in the venture industry.

Chegg Chief Executive Osman Rashid says it took just 30 days or so for the Santa Clara, Calif., start-up to raise its latest round of venture capital, which it announced in mid-November. With the money, Mr. Rashid says the company, which has raised more than \$160 million since its 2005 founding, plans to double its work force next year and expand the number of colleges it serves. Chegg currently has close to 100 full-time employees, he says.

Venture capital firms invest in young companies with the aim of profiting later when those start-ups go public or are sold. Their recent activity is a turnabout from what has been a challenging year for the venture-capital industry.

Hit by the financial meltdown and recession, many venture capitalists scrambled in 2009 to shut down their weaker investments and conserve cash. New investment activity declined, and profits from IPOs and acquisitions were few and far between.

Venture capitalists had invested just \$14.6 billion into start-ups through the first three quarters of 2009, down from more than \$25 billion in the same period in 2008, according to research firm VentureSource. And even with more investments unfolding in the fourth quarter, it's unlikely the venture industry will match the \$31 billion invested for all of 2008.

At the same time, companies backed by venture capitalists raised just \$683.4 million through IPOs in the first three quarters of 2009, according to VentureSource. While that was more than the \$550.6 million that was generated from IPOs of venture-backed companies in 2008, it remained far off the \$6.8 billion that was produced in 2007.

And mergers and acquisitions of venture-backed start-ups in the U.S. returned \$9.1 billion in the first three quarters of 2009, down 55.6% from the \$20.5 billion that such deals generated in the same period in 2008.

"This year will go down as one of those years that the venture industry will just be glad they managed to get through," says John Stewart, a partner at Claremont Creek Ventures, an Oakland, Calif., venture firm.

The venture industry only began stepping up its activity late in the year after the economy and stock market showed signs of stabilization. Redpoint's Mr. Yang says that helped lead to a flurry of sales and IPOs of some of his firm's venture-backed companies, including a \$405 million sale of video-conferencing company LifeSize Communications Inc. to [Logitech International](#) in November and an IPO of security-software company Fortinet Inc. that same month.

Tom Baruch, a venture capitalist at CMEA Capital, says that with the IPO window now appearing to open, he expects up to half a dozen of his firm's start-ups to file to go public in the foreseeable future. He says he's been spending about a third of this time working with the start-

ups to meet investment banks that would help lead an offering and is advising companies on pricing and other IPO-related processes.

"We were getting zero phone calls" from investment banks about taking companies public six months ago, says Mr. Baruch, who adds that 2010 could shape up to be the busiest IPO period for his firm since 2000. "Now we're getting phone calls constantly."

Other venture capitalists say they expect to ramp up their investment pace after a restrained year and are particularly looking at opportunities in tech sectors such as social networking, mobile technologies, health-care technology and clean technology.

Some start-ups have had a harder time raising money. Online ad technology maker LiveRail Inc. raised just \$1 million in June from its existing investors, but had been seeking more earlier in the year from venture capitalists.

Now the start-up is "opportunisticly" looking for more capital, says LiveRail executive vice president Niccolo Pantucci. "The doors are open for deals, but venture capitalists are still cautious," he says.

Claremont Creek's Mr. Steuart says his firm spent the first half of the year focused on ensuring its current start-ups would make it through the recession. Only in the past few months did the venture firm begin "telling our network that we're actively looking for new projects," he says.

Standish O'Grady, managing director at Granite Ventures, says his venture firm typically makes seven new investments annually but was more cautious this year and will have closed six new deals by year end. In some cases, it took five to six months to conduct so-called due-diligence investigations on a new investment, far longer than it would normally take, he says.

Next year, however, he figures the firm may do eight deals—or even up to 12—given that valuations on start-ups haven't yet returned to frothy levels.

"If we found 12 deals, we would figure out a way to make them," says Mr. O'Grady.

Write to Pui-Wing Tam at pui-wing.tam@wsj.com

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