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Venture Capitalists Head for the Door

By [PUI-WING TAM](#)

The revolving door of venture capitalists is swinging fast.

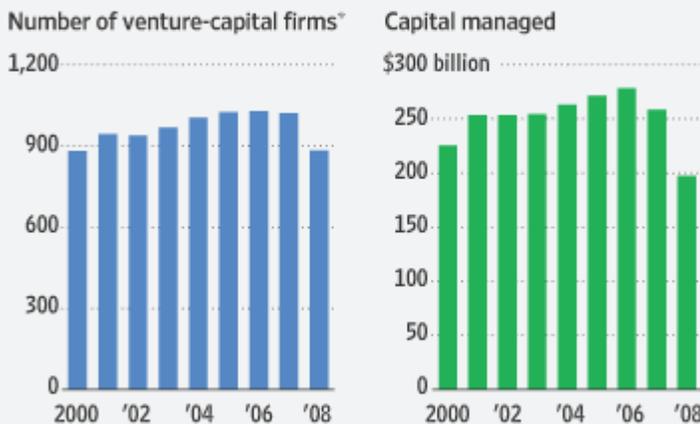
Not since the dot-com bust has the industry experienced as much turnover as it is now. Since the end of 2007, the number of venture-capital principals, who make investment decisions and are directors of start-up companies, has tumbled by more than 15%, according to the National Venture Capital Association.

The exits just in the past few months include a Who's Who of firms and partners, say venture capitalists and recruiters. General partners and underperformers are being dumped by recession-wracked firms, some of which now are having trouble raising money to invest. Meanwhile, some venture-capital stalwarts are retiring.

At Sequoia Capital in Menlo Park, Calif., famed for its investments in technology firms such as Google Inc. and Cisco Systems Inc., partners Pierre Lamond, Michael Beckwith and Eric Upin have left the firm recently. Longtime partner Mark Stevens also is transitioning out of Sequoia, according to people familiar with the situation.

Smaller Ventures

As some venture-capital firms form smaller funds and manage less capital, the number of venture firms has declined.



*Active venture-capital firms that have raised funds in the last eight years
Source: National Venture Capital Association

Atlas Venture, Advanced Technology Ventures, Foundry Group and VantagePoint Venture Partners also have lost partners. And lower-ranking vice presidents and associates are leaving some firms, including Bessemer Venture Partners.

The retirements include Tony Sun, a former managing partner at Venrock, which started as the venture-capital arm of the Rockefeller family and was an early investor in Intel Corp., and El Dorado Ventures partner Shanda Bahles, who joined the firm in 1987. "About once a week, a general partner leaves or a venture fund closes," says Jim Watson, managing general partner of San Francisco venture firm CMEA Capital, which hasn't lost any of its five managing directors.

The turnover partly reflects a brutal winnowing of the venture-capital industry, which invests in start-up companies with the aim of profiting later when those companies go public or are sold. For most of the past decade, venture-capital firms took in mountains of cash from investors, spawning a frenzy of start-ups from online advertising to clean technology.

Too few of those investments have led to big paydays during the past few years, hurt by the falloff in initial public offerings and acquisition volume. While venture-capital funds sank \$29.7 billion into start-ups in 2008, they produced just \$24.9 billion from IPOs and the sale of start-up firms last year, according to VentureSource, a research firm owned by News Corp., which also publishes The Wall Street Journal.

Now pension funds and endowments that invest in venture-capital funds have become more leery of the sector as they grapple with the fallout from last year's stock-market plunge. That is spurring many firms to take a hard look at their own portfolios and the economics of their partnerships.

As of the end of 2008, there were 7,497 venture-capital principals, down from 8,892 a year earlier. The number of active venture-capital firms fell 13% to 882 from 1,019 in 2007, according to the NVCA.

The actual number of exits might be even higher than the trade group's figures indicate. Venture-capital funds are typically 10-year investment vehicles. That means even if a venture capitalist no longer actively invests, he or she can remain on a firm's masthead because they have to wind up their investments in older funds.

Some firms say the shuffle is just part of the industry's natural evolution. Eric Ver Ploeg, a managing partner who led VantagePoint Venture Partners' investments in mobile communications, left in late 2008 to start his own venture-capital firm. VantagePoint has since hired two new partners. Bessemer, which has launched or funded more than 100 start-ups that became public companies, recently recruited some new vice presidents and associates.

Nick Sturiale, a venture capitalist at Jafco Ventures in Palo Alto, Calif., says shrinkage is healthy for the venture-capital industry. With so much money chasing too few good companies, some deals became valued at far more than they likely are worth. "We can't return to profitability until there's a reduction in supply" of venture-capital firms, he says.

Jeff Fagnan, an Atlas Venture partner, says the Boston-based firm now has nine full-time investment partners, down from more than 15 three years ago. The most recent departures happened earlier this year when Atlas closed a new \$283 million fund, which fell short of the firm's \$400 million fund-raising target.

Mr. Fagnan says investors encouraged Atlas to become smaller and to concentrate capital in the hands of fewer partners. Too many people can dilute the quality of deals, he notes. "It's much easier to maintain a high bar with a closer number of partners," Mr. Fagnan says. Atlas also closed its offices in Paris and Munich during the past year.

The exit of a venture capitalist can be painful for some start-ups, which are left in uncertain straits since their backer is gone. When venture-capitalist Wes Raffel left Advanced Technology Ventures several months ago, one of his investments, wireless-technology startup Apprion Inc., had to scramble, say people familiar with the matter.

Another partner was put in charge of the firm's investment, but the venture-capital firm was lukewarm about pumping more money into the Mountain View, Calif., company, according to a person familiar with the situation. As result, Apprion and its other venture investors were forced to look for other backers as they sought an additional round of capital.

The company has at least several months of funding left, and its other investors intend to keep it going, so Apprion isn't likely to sink.

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