# Venture-Capital Firms
# Say Fund Raising Slips

## Despite 17% Drop in Quarter,
## Annual Total Surpasses '04
## And Web Sector Stays Hot

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A tepid market for new stock offerings helped damp fund raising by venture-capital firms in the third quarter, with venture firms raising about 17% less than in the second period.

Venture-capital firms collected $5.4 billion during the third quarter, down 17% from the second quarter, when $6.5 billion was raised, according to a report released yesterday by research firm Thomson Venture Economics and the National Venture Capital Association trade group in Arlington, Va.

But overall funds raised by venture capitalists -- including money from pension funds, universities and endowments -- rose compared with last year's third quarter as the venture industry continues to bounce back from the technology-stock bust of a few years ago, the report said.

The nearly $17.4 billion raised by venture capitalists through Sept. 30 has surpassed the $16.99 billion raised in all of last year, according to the two groups. That has raised questions among some in the industry as to whether the investing climate is too hot in some sectors, and could be headed for another fall. Venture-capital firms invest in small companies with the hope of making money later through a sale of the company or an initial public offering of stock.

Consumer-focused Web companies, including many trying to imitate the IPO success of Web-search giant Google Inc., are hot again with venture capitalists. Many Web startups mingled with venture investors at an Internet conference in San Francisco this month, where speakers declared a second, more mature generation of Web companies, dubbed "Web 2.0"

In some cases "there's a lot of buzz around stuff that has nothing to do with revenue," said Mitchell Kertzman, a partner with San Francisco's Hummer Winblad Venture Partners. Mr. Kertzman's firm is focused on companies that provide software for businesses, and not Web services for consumers.

Other venture capitalists say the investing climate is far more restrained than it was five years ago, when firms raised $106.7 billion in the year 2000.

Morgenthaler Ventures of Menlo Park, Calif., closed a $450 million fund that is less than half the size of its last big fund, which closed in July 2001. "To an extent, the investment pace has slowed," says Gary Morgenthaler, a general partner with the company. That is largely because the IPO market "is really quite flat at the moment," he said, and the pace of mergers-and-acquisitions is "still short of perhaps a traditional peak.

Only 39 venture-backed companies have gone public in the U.S. through Sept. 30, compared with 66 in the same period last year, said Mark Heesen, president of the National Venture Capital Association.

He said many venture funds are turning away cash from limited partners, preferring to stay small. That means venture investors won't be able to afford investments at unreasonably high valuations. In looking at deals, "if it's too frothy, you're going to have to walk away," he said.