



CALIFORNIA

Venture Capital Rises in Region, Defying U.S. Drop

Southern California firms raised more than \$500 million in the third quarter, led by San Diego's biotech hub.

By Josh Friedman
Times Staff Writer

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Emerging companies in Southern California got a funding lift from venture capitalists in the third quarter despite a nationwide downswing for the investment sector, according to a report being released today.

Thirty-seven companies in the region raised \$502.2 million, compared with \$407.5 million in the second quarter, the survey by data trackers VentureOne and Ernst & Young shows. In the third quarter of 2003, regional companies raised \$482.1 million.

Nationwide, venture money was harder to land last quarter. A total of \$4.6 billion was raised by 467 companies, compared with \$5.4 billion in the second quarter and \$4.8 billion in the third quarter of 2003.

Despite that drop-off, the investment climate remains encouraging, said Don Williams, head of Ernst & Young's venture advisory group. Williams noted that with a total of \$15.4 billion invested nationwide through the first three quarters, the industry could easily top last year's total of \$18.7 billion.

"We're still on track for a good year, and the quality of investments is strong," Williams said. "Venture capitalists are finding companies with products and customers in place, versus intellectual property that might become a product one day."

Venture investors gamble by buying stakes in upstart or developing companies, hoping to cash in at a profit years later if those firms are acquired by larger rivals or go public through initial stock offerings. Their investments are seen as a potential boon to the economy, especially for sectors they favor such as technology and health sciences.

The biotechnology hub of San Diego got a big boost last quarter, as three of the 11 largest U.S. investments went to companies in that city that are working on treatments for neurological diseases and other disorders. **Avera Pharmaceuticals Inc.** raised \$48 million; **MediciNova Inc.**, \$44 million; and **Ceregene Inc.**, \$32 million.

Other Southern California companies that raised money in recent months included Santa Monica-based **CinemaNow Inc.**, which won \$11 million in a round led by Silicon Valley firm **Menlo Ventures**. CinemaNow has a library of more than 5,000 movies it can distribute on demand via Internet broadband services.

Santa Barbara company **Zinc Matrix Power Inc.** got a salute from the Army, whose venture arm, **OnPoint Technologies**, led a \$9-million round of financing. Zinc Matrix Power is developing alkaline battery technology it believes could double the life of power sources for laptop computers.

"We are excited about the potential applications of this technology within several areas of the Department of Defense," said John Trbovich, principal at Maitland, Fla.-based OnPoint.

In Southern California, Williams said, investors have been heartened to see "good exits" by several venture-backed companies in the third quarter and early in the fourth.

In August, M-Audio of Irwindale, which develops digital music systems, was bought by publicly traded **Avid Technology Inc.** for \$166 million in cash and stock.

Telecommunications software maker **CallWave Inc.** of Santa Barbara went public in late September at \$10 a share; its stock closed Friday at \$9.91 on Nasdaq.

And **Jamdat Mobile Inc.** of Los Angeles, which makes wireless games and ring tones, went public in early October at \$16 a share; the stock, which also trades on Nasdaq, closed Friday at \$31.57.

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Notable Southern California deals

San Diego's biotechnology sector led the way as Southern California companies raised \$502.2 million in the third quarter.

Company	Location	Amount raised (in millions)	Industry
Avera Pharmaceuticals	San Diego	\$48.0	Biotech
MediciNova	San Diego	\$44.0	Biotech
Ceregene	San Diego	\$32.0	Biotech
Ambit Biosciences	San Diego	\$21.0	Biotech
Avamar Technologies	Irvine	\$15.2	Software
Verari Systems	San Diego	\$13.3	Electronics
Aristos Logic	Foothill Ranch	\$12.0	Semiconductors
CinemaNow	Santa Monica	\$11.0	Video on demand
FutureTrade Technologies	Lake Forest	\$10.6	Consumer products
Applied Voice & Speech Technologies	Foothill Ranch	\$10.0	Software

Sources: Ernst & Young, VentureOne

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