Venture capital looks to be in a full-blown recovery but is it too much, too soon?

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Rip-roaring demand for tech IPOs has created lots of happy people in Silicon Valley. But it also has some tech CEOs feeling pressured to bring their companies to market-and some venture capitalists worrying that things are getting overheated.

After a decade marked by dismal returns and restive investors in the wake of the dot-com crash, the valley last year saw the most initial public offerings of stock since those dark days. Venture firms took notice, pouring more money into startups last quarter than at any time since the Great Recession.

What's more, the number of $100-million plus funding rounds last year doubled compared to 2010, and one much-buzzed-about report shows there are more than two dozen tech startups valued at more than $1 billion. There's even a new catchphrase for such startups, which include Dropbox, Uber and Snapchat: "unicorns," denoting both their rareness and their dazzling promise.

Still, some pundits question the conventional wisdom that it's worth investing in such unicorns at any price. And they wonder if venture firms desperate for a hit can maintain their discipline amid the frenzy-or if VCs will fund shoddy companies and investment bankers will rush them to Wall Street, as happened in the dot-com collapse.

"There's been a lot of pressure on the venture capital industry, and to bridge that gap, a lot of people have taken chances," said John Malloy, who put the first venture money into PayPal and scored one of last year's biggest venture wins when Google bought his portfolio company Waze for $1.1 billion.

But if the IPO market doesn't stay hot, Malloy said, investors in many of those highly valued startups will find it tough to recoup their money, while employees could find themselves with worthless stock options-again, much as happened in the dot-bomb.

That prospect so far doesn't seem to be dampening investor enthusiasm. Mark Cannice, who heads the University of San Francisco's Department of Entrepreneurship, has been tracking VC sentiment over the past decade, using a quarterly survey of dozens of venture investors. His latest report found that confidence is the highest it's been since before the 2007 recession began.

And, he said, the biggest reason is the robust demand for IPOs: More than 220 in the United States last year, the most since 2000.

"When they're feeling good, they invest more," Cannice said, likely explaining why two industry studies, one by DJX VentureSource and the other by the National Venture Capital Association, found VC investing on the upswing. The association's MoneyTree report, prepared with PricewaterhouseCooper's using data from Thomson Reuters, said the $8.4 billion venture firms invested last quarter was the most since the end of 2007.

The problem, Cannice noted, is the IPO market depends on the larger economy, not just on factors venture capitalists can control. That raises the specter of venture firms investing lavishly in anticipation of returns that may not pan out.

Indeed, despite its heavy optimism, his most recent VC confidence report was laced with caution. A number of tech investors quoted warned about soaring valuations for late-stage companies and the fickleness of the public markets.

Although Malloy, like others, shakes his head over some of the latest megadeals, he sees no broad signs that venture capitalists are losing their heads-yet. He said big hedge funds such as Coatue Management, which recently valued Snapchat at a reported $2 billion even though the company takes in no revenue, have begun spending freely after watching Facebook's share price rebound on Wall Street.

"Investors in that category, in a $1 billion-plus investment vehicle, believe there are only a few companies that make a difference," Malloy said. The danger is that smaller firms may follow suit and place bets they can't cover.

"If you're a $300 million to $500 million fund," Malloy said, "being reactive to the public market is the road to ruin."

Venture capital data analysis firm CB Insights likewise has reported that private equity firms and corporate venture capital divisions are largely behind the funding uptick. Last year, 45 tech startups nationwide landed rounds that topped $100 million, twice the number in 2010.

Another CB Insights report tallied 25 private companies - 18 of them in the Bay Area - reportedly valued at more than $1 billion by their venture investors.

However, the report added, over the past decade, only 45 venture-backed companies have notched billion-dollar IPOs or merger deals. In other words, some of those on the list of 25 won't live up to their investors' hopes.

PV Kannan, chief executive of Campbell software startup (24)7, said that historically, valuations for privately held companies were about 30 percent lower than those of public companies. "It almost seems now like that's reversed," frets Kannan, whose outfit helps corporations such as Avis and United Airlines run their customer service operations.

Over the past year, he said, investment bankers have come calling in hopes of tempting his company to go public. Kannan, who said (24)7 is generating enough cash to grow steadily, has declined, worried about the frothy stock market.

"When the market cools down, you crash," he explained. "I'd rather go (public) when the market is sane."

Tien Tzuo, CEO of Foster City-based Zuora, said he's been getting calls from investment bankers "every day." Like Kannan's company, Zuora helps corporate clients do business on the cloud; Wall Street is particularly keen on that business model because it creates a more predictable revenue stream than traditional software sales.

As an early employee of Salesforce.com, Tzuo has already taken the IPO rocket ride and is in no rush to do it again. If the vaunted IPO "window" closes, he added, "I'll just wait another year."

Wall Street's wobbly performance of late illustrates why veterans preach caution. The Dow Jones industrial average, Nasdaq Composite and S&P 500 index are all sharply down so far this year.

Cannice notes that when the stock market slows, it inevitably dampens valuations for private companies. Pointing yet again to how 1999's giddiness quickly turned to despair, he added: "It's not like it's a slow deflation. It's just gone."