Venture-cap investments rise in second quarter

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(AP) -- Venture capitalists invested more in U.S. startups in the second quarter than they did during the same period a year ago, suggesting that investors are ramping up their search for the next Facebook or Twitter.

In the April-June period, startup investments climbed 5 percent to $7.5 billion, up from $7.2 billion in the year-ago quarter, according to a study published Wednesday. That funding went to 966 startups - down 3 percent from the 998 startups that received funding in the second quarter of 2010, but up 19 percent from the 814 that were funded first three months of the year.

The study is conducted each quarter by the National Venture Capital Association and PricewaterhouseCoopers, and is based on data from Thomson Reuters.

Starting last quarter, the NVCA made two changes to the way data are collected in an attempt to more accurately reflect market trends. The study now includes financing rounds to startups that have previously received funds earmarked for an acquisition, although though it won't count the funding round that enabled the acquisition. And it also includes corporate investments in startups that have received venture funding in the past.

As usual, most of the funding for the quarter went to companies in the expansion and later stage of development. A total of $5.1 billion was divided between 502 companies, compared with $4.7 billion divided between 536 companies in a year earlier.

Though some companies have been able to go public or be acquired by others - like online professional networking service LinkedIn Corp., which went public in May - the economy has forced many venture capital firms to keep more mature companies in their portfolios for quite some time before profiting from them.

Funding to companies in the seed and early stage of development dipped slightly to $2.4 billion, which was divvied up among 464 companies. But while that total amount declined a bit year over year, funding to early stage companies alone managed to climb to its highest level since the first quarter of 2001.

And more companies - 310 - received their first round of financing than had since the second quarter of 2008. The total that went to these companies - $1.5 billion - was the highest since the third quarter of that same year. As is usually the case, most of this funding went to companies in the seed and early stage of development.

In an interview, NVCA president Mark Heesen said the increase in first-round financings shows the market for IPOs and acquisitions is improving enough for venture capitalists to find new companies to fund.

Still, the market has moved from what he considered a grade of "D" last year to "C" this year.

"Things are better, but it's not a report card you run home to mom and dad with," he said.

Software companies, which are generally among the most well-funded categories, received the highest amount of investments during the quarter - $1.5 billion - and biotechnology startups took second place with

$1.2 billion worth of investments.

The largest deal of the quarter was $165 million, which went to online retailer CSN Stores LLC. Members-only, flash-sale online retailer Gilt Groupe Inc. received the second-largest investment, $138 million, while electric vehicle maker Fisker Automotive Inc. received the third-largest amount, $115 million. Fisker Automotive also received the third-largest amount of funding in the first quarter.