

US venture funding falls 12 percent in 2Q to \$7B

July 20 2012, by BARBARA ORTUTAY

(AP) — Funding for startups fell 12 percent in the April-June period as U.S. venture capitalists poured less money into fewer deals than a year earlier. But the number of companies getting funded in the earliest stages of development reached the highest level in more than a decade — a hopeful sign for the broader economy and an indication that investors are willing to wait for returns.

A report due out Friday says startup investments slipped to \$7 billion in the second quarter, down from \$8 billion in the same period a year earlier. The companies getting funded were mainly in the software, Internet, industrial, and energy sectors. There were 898 deals completed during the quarter, down 15 percent from 1,057 a year earlier.

The MoneyTree study was conducted by PricewaterhouseCoopers and the National Venture Capital Association based on data from Thomson Reuters. The study tracked four stages of venture capital funding. Depending on how far along companies are in development, they received either "seed", "early", "expansion" or "later-stage" funding.

Compared with the first quarter, both the amount of VC money and the number of overall deals increased. The April-June quarter saw most early-stage deals completed since the first quarter of 2001, with \$2.1 billion going into 410 deals.

"That's really the bread and butter for VCs and hopefully a harbinger for good economic news for the country overall," said Mark Heesen,

president of the NVCA. "If we're investing in early stage, that means we have some time and money that we didn't have in the recent past."

Many early-stage companies don't make it. Those that do become big job creators, he added.

Still, there are concerns among venture capitalists. Investments in the life sciences are falling. In the second quarter, [venture capital](#) firms poured \$696.8 million into biotech startups, less than half of the \$1.44 billion they invested a year earlier. Heesen explained that the time it takes a drug to get to market in the U.S. is getting longer—often more than 10 years. That makes funding difficult, even for patient investors.

Among the study's other notable items:

— Internet companies received the second-highest level of investment in more than a decade, with \$1.8 billion going into 261 deals.

— Seed-stage companies received less than half of the funding that they did a year ago, with \$199.4 million going into 63 deals. That's down from \$422.8 million going into 130 deals.

— Three of top four deals were in the industrial and energy sectors. Electric car maker Fisker Automotive received \$147.6 million, Harvest Power, a provider of organic waste management services, got \$112 million and fuel cell technology [company](#) Bloom Energy, which develops small, natural-gas power generators for offices and factories, received \$100 million.

— Pinterest Inc., the popular image-sharing website, tied for third place with \$100 million in funding.

— Startups in the expansion stage received a total of \$2.62 billion going

into 232 deals, down from 272 deals and \$2.38 billion a year ago.

— There were 193 later-stage deals during the quarter, totaling \$2.09 billion. That's down from 274 deals and \$2.97 billion in the second quarter of 2011.

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