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VC Investments in U.S. Neared $30 Billion in '07

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Venture-capital investors continue to pour money into start-ups at a breakneck pace, despite fears about a broader U.S. economic slowdown.

Last year, venture investors sank $29.4 billion into U.S.-based companies, the most since 2001, according to new industry figures. Much of the investment went to "clean-energy" and biotechnology companies, firms that typically require more cash to get off the ground than software and Internet companies.

Biotech and medical-device deals took in $9.1 billion in venture cash last year, up nearly 20% from $7.6 billion in 2006, according to data to be released Saturday by PriceWaterhouseCoopers, the National Venture Capital Association and Thomson Financial. Clean-technology companies -- including firms making solar panels, ethanol and energy-efficient devices -- collected $2.2 billion, up 47% from $1.5 billion in 2006.

Kate Mitchell, a managing director at Scale Venture Partners in Foster City, Calif., said she doesn't think the level of investment is "out of control," but added that she and her partners are worried about the possible effects of a recession on the companies in which they've invested. If technology spending by corporations goes down, venture-backed start-ups may have trouble making sales and growing as quickly as they have in the past. Companies also will need to keep expenses and hiring in check, she says.

Another danger: The recent start-up investment frenzy has forced many VCs to overpay for stakes in start-ups, which could make it harder for them to cash out later, particularly if the economy turns south and damps acquisition activity by bigger firms. Venture investors generally make money only when the companies they back go public or are acquired.

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