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Cache & Packets: Looking to make some green by investing green

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By **Efrain Viscarolasaga**

Under the surface of traditional industries like software, telecommunications and biotech, the mainstream venture capital community has quietly been dipping its collective toe into an area loosely termed as environmental technology. The sector as a VC target is still in its infancy, but if the investors can overcome some of the initial hurdles, envirotech could be a lucrative opportunity.

You can't blame the VC community for being hesitant, however. After all, most firms are built from a deep expertise in one of the traditional technologies, and because the base mission of most firms is to provide its portfolio companies with experience and knowledge, in addition to capital, they are naturally wary of sectors that are new to them.

"If you look at the VC community, almost all of them come out of financial services, software or telecommunications areas," said James Geshwiler, managing director of CommonAngels, a group of angel investors in New England. "You don't have a lot of players because it is so new and no one knows anything about it."

Nonetheless, like firms that long ago entered the software and Internet industries without a long working history, some firms are making the leap.

"We've been tracking 'clean-tech' as part of our Advanced Innovation for Mature Industries practice," said Jeff Fagnan, a partner at Atlas Ventures, one of many firms looking at the sector.

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“I think there is a press right now on these kinds of technologies.”

Exactly what technologies fall under the envirotech umbrella is up for debate. Fuel cells, solar and photovoltaic products, filtration and pollution reduction technologies all can be categorized as envirotech in some way. But as new technologies come about, the definitions are getting increasingly blurred, and gray area isn't just about classifying a given technology in a particular sector — it's about economic viability.

Technologies with a sole purpose of mitigating pollution or reducing our dependence on fossil fuels work on the premise they are supplying a common good for society. A noble pursuit, but one that may not necessarily translate into an appropriate economic profile for venture funding.

When the common good is the only, or most significant, end product of a technology, profit generation, the requisite end goal of any venture-backed company, may take a back seat. In such cases, it is natural to see the government step in and help with funding, through its specialized agencies, such as the Department of Energy, or through small business programs, such as the Small Business Innovation Research (SBIR) program. This is a natural part of the socio-economic ecosystem, said Geshwiler, but doesn't necessarily mean the VC community is, or is not, obligated to invest in such technologies.

“Government investing doesn't work on the same terms as VCs,” he said. “The rate of return is not the same, nor is the demand or need for a stable end market. But just because a VC doesn't want to invest in a sector doesn't mean it is not worthy of investing. It just may not meet the equity profile of venture capital funding. Other means may be more appropriate.”

The companies that do meet the VC profile, however, could prove to be the next boon for the industry.

For its part, Fagnan reports Atlas Ventures has been looking at several clean-tech companies, and has already invested in the stealth-mode Lilliputian Systems Inc. of Cambridge, a developer of a new kind of fuel cell for electronics.

Other examples of recently funded envirotech companies in the area include GreenFuel Technologies Inc. of Cambridge, (funded by Access Industries Inc.), ISOPur Fluid Technologies Inc. of Rocky Hill Conn., (FA Technology Ventures) and Konarka Technologies Inc. of Lowell, (Lighthouse Capital Partners, others).

These kinds of companies — Konarka in particular, which has raised almost \$40 million in venture funding — suggest a trend that, if successful, will not only heap financial rewards on firms brave enough to charge into a new sector, but will also spur an industry in which the main by-product is the common good.

“I think you're going to see much more of it,” said Fagnan. “It's out there and starting slowly, maybe even in stealth mode. There may even more firms doing it but not telling anyone, because they don't

want to alert their competition to it.”

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