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## VENTURE CAPITAL ACTIVITY UPDATE

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**Clean Edge Quarterly Newsletter**

**Venture Capital Activity Update**

**Tom Burton and Steve Rafferty**

**July 1, 2010**

Clean tech venture capital financing continued its upward trend in the second quarter of 2010, with investments totaling over \$2 billion worldwide for the second consecutive quarter, according to recently released preliminary data from Deloitte LLP and The Cleantech Group LLC. After the global financial crisis drove investment in the space down in 2009—\$4.85 billion invested following a record \$7.6 billion in 2008—venture capital appears to be flowing to clean tech companies at pre-crisis levels.

As the calendar turns to July and the second half of 2010, venture capital investment data from the second quarter reveals important trends to watch in the clean tech industry. The first is that nearly a third of North American dollars were concentrated in three companies, reflecting a continuation of the trend that few companies are garnering a greater proportion of available venture capital. Geographically, the lion's share (67%) of North American investment was concentrated in California, followed well behind by Massachusetts at 8%.

And, there appears to be a resurgence of interest in the solar sector among investors. After investing a somewhat pedestrian \$311 million in solar in the first quarter this year, venture capitalists poured \$811 million into the sector in the second quarter. Noteworthy deals in the solar industry included BrightSource Energy's \$150 million Series D financing in May and Solyndra's \$175 million shortly before the quarter's end.

Yet while venture investment in solar is booming, the case of Solyndra is also reflective of the continuation of a less welcome trend to watch in the second half of 2010: the uncertain state of the clean tech IPO market. After filing for their initial public offering in December 2009, Solyndra pulled its plans to go public in June in favor of further venture investment. Of the few clean tech companies that have made S-1 filings this year, only two have followed through with their IPO plans, according to Thomas Weisel Partners. However, Tesla Motors' successful \$226 million initial public offering bucked the trend and we believe will be a harbinger for offering activity in the second half of the year.

Finally, energy efficiency proved to be the most popular sector for investment for the second consecutive quarter, with 31 funding rounds producing \$147 million for firms in the efficiency space. While the number of deals marked a slight decline from the first quarter's 39 funding rounds, energy efficiency remains an important sector to watch as investors seek less capital-intensive business models offering faster paths to profits. Funding for energy efficiency projects rose from \$253 million in 39 deals in 2006 to \$803 million in 93 deals in 2009. Expect this trend to continue into the second half of 2010 and beyond.

The first half of 2010 appears to have marked the return to greener pastures for clean tech companies seeking venture capital investment (at least in California), while the much anticipated IPO market for clean tech is promising but still unclear.