

Portrait of a Modern-day Bootstrapper

How pre-funded entrepreneurs survive and thrive in the new age of technology startups

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“Bootstrapping” is a term people outside the entrepreneurial community often hear but seldom experience. Even for those who understand the word's definition, its meaning can differ vastly from one person to the next.

The term itself originates, obscurely, from an 18th-century German story in which the main character extracts himself from a swamp using his bootstraps. The illustrative concept has survived the centuries as a phrase often used to praise heroes of capitalism, who “pull themselves up by their bootstraps” to become captains of industry.

For those who know anything about technology and entrepreneurship, the idea of bootstrapping often

conjures up a quixotic image of some of history's most successful startups at their humble beginnings: two guys or gals in a garage, surviving on ramen noodles, living the dream as they pioneer the future against all odds. In fact, that vision is not much different than the reality of today's bootstrapping entrepreneurs — founders who launch and operate companies without outside capital or venture funding.

Driven by incredible vision and extraordinary passion, modern-day IT bootstrappers are taking advantage of a host of factors that enable them to get their companies off the ground with minimal capital. Many can get to a proof of concept, proving themselves and their ideas before taking the time

to hit the funding trail. Others have struggled to find investors in today's challenging funding environment and, rather than surrendering and returning to their day jobs, they are pushing ahead to make their ideas a reality.

When it comes to bootstrapping, the advantages today's IT startups have over their predecessors are many. A new company 20 years ago may have spent several millions of dollars just getting to proof of concept. Now, thanks to outsourcing, Moore's Law, open source, cloud computing and viral marketing, the cost of starting an IT company has decreased significantly.

With very little upfront capital, today's startups can research, build, test, iterate and market their products before ever seeking outside funding. Consequently, today's entrepreneurs are able to take their cutting-edge ideas much further, without having to pause for fundraising. But the primary benefits of bootstrapping are that it helps founders to focus on a single, attainable goal, it gets them closer to customers, it puts them in solid control of their company's future, typically with more equity in hand.

“One of the advantages of funding bootstrapped companies that have survived for many years without outside capital is that the entrepreneurs are totally committed to the business,” says Ho Nam, general partner at Altos Ventures in Menlo Park, Calif. As a consequence he tends not to be as involved in running previously bootstrapped companies once he funds them. “They are owners of the business. In many venture-backed companies, CEOs act more like employees working for VCs (the owners). It is subtle but the difference in mentality makes a huge difference in the way companies operate.”

In fact, Nam says, the tendency for a founder to depart a company once it has been funded is on the decline, largely

because bootstrapping founders are extremely disciplined and prove themselves to be integral to running the business. As bootstrapping becomes more commonplace, founders are growing personally and professionally from being simply the technological and creative brains behind a new product into the business-savvy leaders of successful new companies.

Yet the realities of running a business still present challenges for entrepreneurs who don't have a great deal of cash on hand, and they address these challenges in different ways. In this article, we look at the traits and habits entrepreneurs in bootstrap mode often have in common, and we study the specific challenges of IT bootstrappers, learning how they keep the dream alive — while keeping *themselves* alive in the process.

THE UNIVERSAL PROPERTIES OF A BOOTSTRAPPER

IT bootstrappers are certainly diverse — they run the gamut in tricks, techniques, attitudes and approaches. But across the board, bootstrapping entrepreneurs tend to demonstrate the same commitment, creativity and other characteristics necessary to keep them afloat.

THEY HAVE PASSION

Not only do bootstrapping entrepreneurs have a great idea; they have a deep passion for the idea that can drive them far past the point where the average person would give up and flee to the safety of a paying job. Passion often is the main ingredient for a bootstrapped startup's survival. It also happens to be a key trait that investors search for when companies begin fundraising.

“When I first sit down with a company that's seeking seed funding, I ask, ‘OK, what's your story?’” says Jeff Clavier, founder and managing partner of SoftTech VC,

a seed-stage investment firm in Palo Alto, Calif. “What are they doing, how did they get to it, and why are they passionate about this idea? I like it when founders have a deep, personal connection or experience that leads them to start this company. It tells me whether the people working nights and weekends on this project will ultimately decide to leave or stay and build the company they dream of.”

THEY ARE RESOURCEFUL

There are hundreds, even thousands, of existing resources to help startup entrepreneurs, and just as many people who can lend a hand with information or expertise. The trick is finding them exactly when you need them. Successful IT bootstrappers become highly skilled at navigating their networks and learning where to find resources and leverage so they can get to key milestones.

“Necessity is the mother of invention,” says David Adams, co-founder of Rallypoint, a software company focusing on the HDTV market, and himself a former venture capitalist. “Entrepreneurs will come across times when they need money and don’t know where to turn. It’s always helpful to have a repository of information and people that can help you.”

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THEY ARE WILLING TO TALK ABOUT THEIR IDEAS

Many founders and inventors are reluctant to share their ideas with others until they are ready to pitch VCs, but bootstrappers are unanimous in their openness to share, finding it necessary to shed light on their ideas. They actively share with people who can provide feedback, recommendations, resources and help, understanding that the value of what they get far outweighs the risk of airing their precious idea. “If your idea can be copied by listening to you for a few minutes, it deserves to die anyway,” says Clavier.

“Oftentimes entrepreneurs get caught up in their own thoughts, so being able to bounce ideas off of good sounding boards is critical in the early days of a startup” says Trevor Cornwell, two-time entrepreneur and founder and CEO of Embarkons in Palo Alto, Calif.

THEY SURROUND THEMSELVES WITH GREAT PEOPLE

Many successful entrepreneurs have been there before — and founders of new startups are wise to seek the sage advice and recommendations of those who have blazed the trail before them.

“One critical piece of advice I would offer entrepreneurs is don’t try and reinvent the wheel,” says Clavier. “When 20 other companies have faced it, try to understand what other people have done and analyze their mistakes.” He recommends building advisory boards that include successful entrepreneurs who will be involved in your venture and whose wisdom you can benefit from to avoid making radical mistakes.

“There is a class of entrepreneurs that have figured out things on their own and are getting help from their

respective communities,” he says. “Others will find it helpful having the support of organizations like Y Combinator or TechStars which take promising entrepreneurs and turn them into something fundable.”

THEY APPRECIATE THE VALUE OF NETWORKING

Pre-funded bootstrapped entrepreneurs congregate at conferences, entrepreneurial events, cocktail hours — anywhere there they can meet like-minded individuals. And they’re willing to give as good as they get.

“The Valley is very small,” says Sol Lipman, CEO of 12seconds.tv in Santa Cruz, Calif., echoing a sentiment shared across thriving tech communities nationwide. “Everybody knows everybody to some extent. It’s how you work with those relationships that counts. I’m happy when I make an introduction: it makes people happy, and people like to connect with other people.”

Part of networking is relationship-building — and some successful bootstrappers have found value in trading services and cross-promoting with other companies. “We bartered for a lot of things in the early days” says Richard White, co-founder and CEO of UserVoice in San Francisco. “We would put logos of our vendors up on our Web site and promoted them in return for discounted, or free,

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THEY ARE WILLING TO MAKE GREAT SACRIFICES

Bootstrappers are almost perpetually understaffed, so they are setting themselves up for months and potentially years of working long nights and weekends, oftentimes with little to no pay. Above and beyond the long hours, bootstrappers talk about the many other personal sacrifices they make — from their houses and cars to their relationships with partners, friends and family.

“I was actually homeless for two months last year,” says White, who stored all of his belongings in a car and couch-surfed in the early days of UserVoice.

For many of them, the promise of success keeps them going through in spite of those difficulties. Entrepreneurs say that their personal sacrifice makes them stronger and more disciplined as they build their companies, helping them stay focused as they grow. To remain upbeat and motivated, bootstrappers say they try to celebrate each small win as they progress.

BOOTSTRAPPING THE BALANCE SHEET

Passion and hard work can take entrepreneurs quite a long way — maybe even further than most would expect. However, there comes a point where bootstrapping entrepreneurs are forced to confront the practicalities of running a business. Material goods and services that an established business with cash flow may take for granted are harder to attain for bootstrappers — and that’s where creativity and resourcefulness come in to play. The following are ideas and approaches from a handful of successful bootstrappers to help fellow startups.

WORKFORCE

- **Rally people around your idea.** The biggest expense in a startup is human capital, and you have to pay the people who work for you — sometimes. “We’ve gathered a group of people together who wanted to see this thing built,” says Sol Lipman. “These are people who think of doing it for more than money or glory.” When you are passionate about an idea and you are able to build a community that is devoted to seeing the idea take off and willing to donate time, often you can get a great deal of work done early on for little money upfront. And people that are passionate about your idea are typically going to outperform people who are just passionate about a paycheck.
- **Outsource strategically.** Overseas outsourcing can be an inexpensive way to build your software — but there are challenges, and it is important to understand those challenges upfront and to find a company you trust. “We had an outsourcing partner in India that took our technology, repackaged it and put it on the market,” says David Adams. “Now we work with an engineering company in Vietnam. We know our engineers personally, we fly out there, and we consider them part of our team.”
- **Use contractors.** Bootstrapped companies often have only one or two true employees — the rest are contractors, who the founders bring in as needed. By using contractors, companies don’t have to worry about making payroll every week. They will have better control over cash flow because they can turn contractors on and off as needed, or hire them for very specific short-term projects.
- **Use services to find talent.** Online communities such as Elance and oDesk can help you find the right fit for your project at the right price on short notice. You can post a job and receive multiple bids from qualified providers within hours of posting an opportunity, and both sites allow companies to hire contractors and pay via fixed bid or by the hour. “These sites give employers confidence that their remote workers are actually working because they can take

screen shots of the workers’ screens every few minutes and post them for review. As an employer, the screen shots tell you whether or you’re your people are working and exactly what they are working on and that is key in managing contractors,” says Mike Scanlin, former Partner at Battery Ventures and CEO of a stealth mode startup.

- **When you do hire, hire the best value.** If you decide to bring on a full-time employee, invest your money wisely. “Don’t hire in the middle,” says Richard White. “Hire a proven rock star who has ability, or hire a newbie with something to prove who’s undervalued.”
- **Get people who will work for free.** Besides finding people who are passionate for your idea, try using college interns, or ask people to “try out” for positions to prove their ability, entrepreneurs say.

PROFESSIONAL SERVICES

- **Do it yourself until you no longer can.** Learn enough about what needs to be done so you can do much of the upfront work yourself, then hand the project off to the professional when absolutely necessary. “We don’t use a lawyer until right before we’re ready to seal the deal,” says David Adams. “We’ve gotten good at negotiating all the little details ourselves, and we can read through most documents ourselves. But in the end we need somebody who really understands the law and has to look at everything.”
- **Find professional service companies who love working with startups.** Especially in geographic regions where startup communities thrive, bootstrappers say it’s easy to find lawyers and other professional service companies like SVB who enjoy working with startups and may be willing to work around traditional fee structures — deferring fees for a time or rolling up their sleeves to help.
- **Be careful about paying in equity.** Bootstrapping entrepreneurs say they tend to be very careful about wielding stock as payment too early in the game. Try to negotiate lower fees or defer payment as much as you can, advises Richard White, or before you know it you’ll have given away too much of your company.

- **Barter for as much as possible.** Finding creative ways to trade services may not only save you money, it can help you build closer ties with the people you work with. “Not paying for services makes the vendor lack commitment to your project and quality suffers,” says White. “So you have to find a way give something back, and avoid using equity if you can.”

OFFICE SPACE

- **Remote-office for as long as you can.** With all the collaboration tools available today, your team can get away with living and working in separate places — until you can’t anymore. “You can go without an office for awhile, but in the end it’s not the best thing for the team’s morale,” says Richard White.
- **Find creative places to have meetings.** When you need to meet with the client, try meeting at the client’s office, a hotel or a coffee shop — anywhere but at your home office. “I always tell clients that it would be much better to meet at the local Best Buy so they can see our product in action and on the shelf,” says David Adams. “It helps with the sales process.”
- **Get a room.** When it is time to move from remote offices to office space, consider a temporary work-live situation. “Think about how cheaply you can live,” White says. “At one point we had four adults, two kids and a dog in one small Santa Cruz house.”
- **Find donated space.** Tap into your community of supporters to see if there is a way to find donated office space until you can afford your own.
- **Find subsidized space.** Incubators — such as The Enterprise Network in Santa Clara, Calif., the San Jose BioCenter and the Software Business Cluster in San Jose, Dogpatch labs in San Francisco and Boston and Emerging Technology Centers in Baltimore — provide subsidized space in addition to much-needed mentoring and support. For a more comprehensive list, visit www.nbia.org.

PRODUCT DEVELOPMENT

- **Use open source.** Open source code opens the door for anyone with a great idea and development expertise to build a technology product well before they secure VC funding. “With open source, it’s unbelievably cheap to develop and test products,” says Jeff Clavier. “You can fire up a software product for just a few bucks.”
- **Host offsite.** Compared to even just a few years ago, it now is much more cost-effective to build things in the cloud and use outsourced servers rather than hosting in-house. “I would say 90 percent of companies these days use outside resources. If they have their own cages, I ask what the heck they’re thinking,” says Clavier. “The cost of software is down to zero, and operating environments are down to a few bucks.”
- **Be savvy about using online tools.** A number of online tools and sites allow developers to test and scale their products, troubleshoot and QA, conduct market research, and gain customer feedback — many for free or minimal costs. Other sites enable entrepreneurs to outsource services such as language translation, IT and design to the lowest bidder.
- **Put feedback loops in place.** Bootstrapping startups usually don’t have the cash to conduct extensive market research and test products formally. Using online forums, social media, Web-based market research services, and other free or inexpensive tools lets you gather feedback and test products with users as you develop and iterate, keeping your initial development costs to a minimum. (See sidebar, Bootstrapper’s Toolbox, on page 10).

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MARKETING AND ADVERTISING

- **Use social media liberally.** “Marketing and advertising the dot-com way meant dropping bundles of cash on an ad in *Red Herring* or for a spot during the Super Bowl. Nowadays, it means getting smart about social media and developing a strategy upfront and before they go to market,” says Jeff Clavier. Bootstrappers have discovered that tools such as Twitter and the blogosphere can be instrumental in building a community and strong word-of-mouth. And they cost nothing but an investment of time to build up your social media presence.
- **Find hungry talent.** Similar to product development, online freelancer “bid” sites help you find excellent designers, copywriters, marketing consultants and other talent who are eager to work for you and will compete with low fees. “I recently put up a design project on CrowdSpring for \$500 and got 161 submissions,” says Clavier, who adds that the people who respond are often talented and professional and are eager for work.
- **Be judicious about where you spend your money.** In the early days of your company, only spend money on marketing tactics you know will result in direct results. “I just flew to Orlando on a holiday weekend for a conference, which was expensive — but I was able to train 250 store salespeople on my product, and I got a lot out of that,” says David Adams. “I always have to look at it as if this is my last dollar, and ask myself: do I really want to spend it on this?”

THE BOOTSTRAPPER’S DILEMMA

Bootstrappers have ingenuity, persistence and passion in common. But they also have many obstacles to face and individual problems to solve. Pre-funded entrepreneurs shared with us some of the ways they address the challenges they face in building their businesses.

MAKING YOURSELF IRRESISTIBLE

Securing a business partner, especially one with the brand name and economies of scale to help a product take off, can

be a major win for a startup — and determined entrepreneurs will do everything they can to make partnership work and deliver what they promise. Startups, however, are often in a position of having to make themselves appear larger than they actually are. Large corporations are often risk-averse and are typically reluctant to do business with a partner they do not think will survive. The key to winning this shell game is to create a product the partner cannot live without.

“A ‘nice to have’ doesn’t work,” says Ho Nam of Altos Ventures. “If a customer wants to do financial due diligence on you, it will be very difficult to overcome concerns. With a ‘must have’ product, the amount of funding you have is not important. They need your product. As a bootstrapper, you need to develop credibility with the client and it doesn’t come from a fat balance sheet. You have to solve a critical problem. You will get their attention.”

This may sound easier said than done, but there is a whole movement around Steve Blank’s book *The Four Steps to Epiphany* and Eric Reis’s model of the “Lean Startup” where entrepreneurs are encouraged to focus on customer development and testing their product early on in the product development cycle to validate key assumptions about what they are building. “We live in a capital-efficient world and we build companies based on what they can achieve in milestones” says Clavier. “Entrepreneurs today can test key assumptions very cheaply so they don’t build products that no one wants to use.”

HIRING A COMMUNITY

When an entrepreneur is deeply passionate about an idea, that passion can spread — and the modern-day bootstrapper can use that to his or her advantage when it comes to attracting talent.

“The old way of thinking about startups is that you go to Stanford business school, have an idea, build a demo, and then go raise enough money to move forward,” says Sol Lipman of 12seconds.tv. Certainly, it is much easier for an entrepreneur to attract top talent when you have significant funding. But as Lipman points out, “People get too discouraged when they go off without getting funding. I think that gives the VC community more credit than they deserve. If you have passion and ingenuity, you can take your idea far without raising money. I think it’s time for entrepreneurs to rethink how we do this. Why don’t we just do it, and get a bunch of people together who are passionate about the idea to help us?”

Lipman, who in his younger years ran a summer camp, compares bootstrapping to that experience. “You have to inspire the camp counselors to protect the kids even though you’re not paying them much money. You have to create magic where it doesn’t exist,” he says. “Startups are a lot like summer camp. It’s about participating and being there — the emotions and the journey. Every entrepreneur who was in it for the money, never made money. So you have to build a community of people who are excited to work on something together.”

GETTING TO KNOW YOUR CUSTOMERS

Generating revenue as quickly as possible is one of the keys to bootstrapping a company, and customers are consequently the ticket. Entrepreneurs must be extraordinarily in tune with their customers’ needs, and at the same time build enough credibility that customers are willing to pay for what they offer.

“I love to tell entrepreneurs how I bootstrapped my software company in the ’80s,” says Frank Peters, chairman emeritus at Tech Coast Angels in Southern California and

“I see a lot of failed startups. Sometimes I feel they didn’t listen to the customer the way I had to. (W)hen you have venture capital sometimes entrepreneurs feel they are empowered to execute their vision, often at the cost of not listening to their customers.”

— Frank Peters, Tech Coast Angels

founder of the popular podcast “The Frank Peters Show.” “My customers loved my enterprise software, so I made them pay for it upfront. These were Wall Street firms and I had the hula-hoop product, so they agreed to my terms. I never raised any third-party funds, bootstrapping it all the way.”

Knowing customers is essential. “Today as an angel investor, I see a lot of failed startups,” Peters says. “Sometimes I feel they didn’t listen to the customer the way I had to. If I didn’t listen I would starve, but when you have venture capital sometimes entrepreneurs feel they are empowered to execute their vision, often at the cost of not listening to their customers.”

KEEPING YOUR FINGER ON THE PULSE OF THE MARKET

One area startups tend to misjudge is how markets develop and customers adopt.

“It can take a lot longer for markets to come together than most entrepreneurs realize,” says Ho Nam. “When a market is ready, you will see it in terms of orders coming in. If a company isn’t able to keep up with demand, the company should raise capital to keep up. But you should hear that large sucking sound before ramping up aggressively.” The

savvy entrepreneur who has done the groundwork to understand what product the customer wants and needs, and who is prepared to deliver and service that product, can move quickly to take advantage of shifting market demands. By delivering the right product at the right time and at the price point, with the requisite service model, an entrepreneur can position their company to dominate the market.

Often, entrepreneurs will worry that if a competitor raises funds, they need to raise funds as well to stay in the game. Nam recommends that entrepreneurs keep their eyes on the ball. “Instead of worrying about another company raising \$30 million in funding and beating you to the punch, keep your head down and focus on executing,” he says. “Many companies end up spending too quickly ahead of the market and either go out of business or have to be recapped. Companies that get a lot of funding early on do not necessarily win. Google and Facebook were both late to their markets. Google was nothing when many other search engines had huge funding and resources. Friendster had more funding from big VCs when Facebook was nothing. It’s not about who raises more, faster. It is about figuring out a model that works.”

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— Ho Nam, Altos Ventures

BOOTSTRAPPING: THE NEW ENTREPRENEURIAL MODEL

The landscape for technology entrepreneurs has changed dramatically in a relatively short time — and today’s startup founders are taking control of their destinies and are building smart products and strong companies on shoestring budgets.

In many respects, bootstrapping is like a game of chess — entrepreneurs are forced to think carefully about each dollar they spend, each resource they bring on and each initiative they focus on. At a time when venture funding is more difficult to obtain, bootstrapped IT startups are establishing distinct advantages by demonstrating their passion in real time; staying focused on their ideas; gathering the resources, advice and expertise needed to avoid mistakes; and building an enthusiastic community of partners and customers who give life to their ideas. In today’s environment, bootstrapping is no longer the Plan B for companies that fail to secure early-stage funding. Instead, it is a precursor to funding — and for many entrepreneurs it is becoming a preferred path for building strong and successful technology startups.

BOOTSTRAPPER'S TOOLBOX

The following is a list of valuable resources utilized by successful bootstrappers — letting start-ups do what they do without the overhead costs.

Freelance Services (Design, Marketing, IT, Translation, Copywriting)

oDesk (www.odesk.com)
 Elance (www.elance.com)
 CrowdSpring (www.crowdspring.com)
 99 Designs (www.99designs.com)

Market Research and User Testing

UserVoice (www.uservoice.com)
 SurveyMonkey (www.surveymonkey.com)
 Loop11 (www.loop11.com)
 Craigslist (www.craigslist.com)
 Social Media Groups (Yahoo!, Google, LinkedIn, Facebook)
 Independent bloggers

Communications

Skype (www.skype.com)
 WebEx (www.webex.com)
 Microsoft Live Meeting (www.livemeeting.com)

Development and Testing

Microsoft BizSpark (www.microsoft.com/BizSpark)
 Amazon (www.amazon.com)
 Engine Yard (www.engineyard.com)
 U Test (www.utest.com)
 Open Source Libraries (Sourceforge.net contains a directory of open source libraries)
 Balsamiq Studios (www.balsamiq.com)
 UserTesting (www.usertesting.com)

Marketing, PR and Awareness

Twitter (www.twitter.com)
 Facebook (www.facebook.com)

LinkedIn (www.linkedin.com)
 Monetization (www.monetization.com)
 SEO Companies (see SEOMOZ.org for a list)
 12 Seconds.tv (www.12seconds.tv)
 MyPRGenie (www.myprgenie.com)
 PR Newswire (www.prnewswire.com)

HR

Salesconx (www.salesconx.com)
 Jobnob (www.jobnob.com)

Other Resources in Addition to SVB Accelerator

(www.svb.com/services/svb-accelerator.asp)
 Get Satisfaction (www.getsatisfaction.com)
 PBworks (www.pbworks.com)
 Outright (www.outright.com)
 Mixpanel (www.mixpanel.com)
 PlanHQ (www.planhq.com)
 37signals (www.37signals.com)
 The Lean Startup (Eric Ries)
 (www.startuplessonslearned.com)
 Jason Calacanis' bootstrapping blog
 (www.calacanis.com)
 Balsamiq's bootstrapping blog
 (www.balsamiq.com/blog)

EDITOR'S NOTE

We would like to extend our sincere thanks to the following individuals who contributed to this article. Without their insight the article would not have been possible: David Adams (Rallypoint), Jeff Clavier (SoftTech VC), Trevor Cromwell (Embarkons), Ryan Donahue (BookFresh), Sol Lipman (12seconds.tv), Ho Nam (Altos Ventures), Frank Peters (Tech Coast Angels) and Richard White (UserVoice).

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