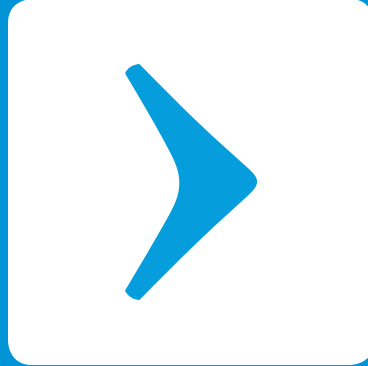
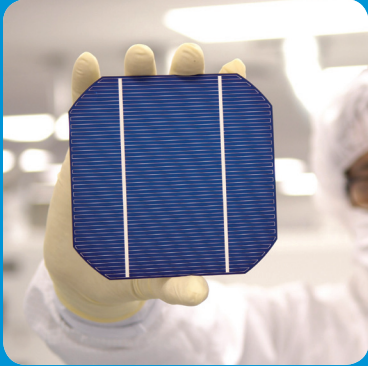


Silicon Valley Bank >

A Member of SVB Financial Group



Startup Outlook 2011

PART 1: OVERVIEW

- 2 • Executive Summary
- 3 • Key Findings
- 5 • Startup Survey Respondents

PART 2: DETAILED FINDINGS

- 8 • Business Outlook: Optimistic
- 13 • Looking Towards The Future: Opportunities and Challenges
- 21 • Motivating Innovation at Home and Capitalizing on Global Opportunities
- 26 • How The Federal Government Can Support Growth
- 32 • Market Insights: Industry Sectors



Ken Wilcox
Chief Executive Officer
SVB FINANCIAL GROUP
SILICON VALLEY BANK



Carl Guardino
President and CEO
SILICON VALLEY LEADERSHIP GROUP

Message from Silicon Valley Bank At Silicon Valley Bank, we get to work with high growth technology companies every day. We see first hand the kinds of things they are doing — finding new ways to generate energy, cure diseases, communicate and entertain, to name just a few. We see how these companies are leading our country out of the financial meltdown, paving the way for robust growth.

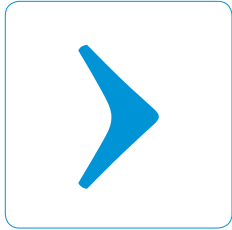
Yet we also see the intense focus it takes to build a successful startup, which makes it very difficult for entrepreneurs to be heard more broadly throughout our society. They are the bellwethers of our economic future. They know firsthand what’s working, and what’s not. They need to be heard.

We launched our “Startup Outlook” survey a year ago, to give a voice to the entrepreneurs who are leading the companies of tomorrow. We hope it helps educate readers about the opportunities and the challenges facing startups. And we hope it helps people sense the optimism that we feel when we hear entrepreneurs talk about the future.

In the pages that follow, you will see lots of good news. You’ll see that, for the 375 startup companies that participated in this survey, last year went well, and this year looks even better. You’ll see that startups report there are opportunities in their existing markets, in new markets, and through international expansion. You’ll see that eight in 10 plan to hire in the coming year, and by a very strong margin plan to hire people here, in the United States. And you’ll see the many reasons they believe this country remains a great place to start and build a business.

You’ll also see the challenges they face. You’ll see that access to equity financing remains an issue — which doesn’t come as a surprise, given recent trends in overall venture capital investing, but is a critical problem to address. You’ll also see that the regulatory/political environment is having a significant, negative effect on companies, creating uncertainty and discouraging risk taking.

We believe in innovation. We hope SVB’s 2011 Startup Outlook Survey and its companion, the Silicon Valley Leadership Group’s 2011 Business Climate Survey, will give you confidence in the crucial role innovation can play in our future. We hope it will also help you better understand the innovation sector, so that together we can make that future as robust as is possible.



PART 1: OVERVIEW

Executive Summary

America loves startups... and for good reason.

Entrepreneurs represent the promise of the future. They embody our creativity and our optimism; our ability to exploit opportunities and our capacity to overcome challenges. And they form the foundation for our economic future.

High growth small business startups are the principal driver of net new job creation. They outperform the broader economy, whether measured in terms of job growth or revenue growth. They are responsible for creating entire new industries — from IT and semiconductors, to biotechnology, to online retailing, social media and cloud computing. They are an important source of growth for more mature businesses, and the innovative technologies they develop contribute to U.S. productivity growth and global economic competitiveness. They improve our quality of life, by expanding access to information, providing higher quality goods and services, improving health care quality and access, and fostering a more sustainable environment and U.S. energy independence.

Yet while policymakers want to help startups succeed, our policymaking process isn't designed to give startups a real voice. That's why we launched the Startup Outlook survey.

In the following pages, we capture the views of 375 executives of early stage companies from the software/Internet, hardware, life sciences and clean technology industries. We hear how their businesses are doing, and how optimistic they are about the future. We try to understand their opportunities ... and their challenges. We explore the impact that laws and regulations are having on their businesses, and what the government could do to help them grow. And we ask them why they find it appealing to build their businesses in the United States, and what could entice them to move parts of their business abroad.

We augment these views with our own perspectives, based on the 30 years we have spent working with technology startups.

The pages that follow paint a clear picture of the enormous promise the innovation sector holds for our country. It shows how high growth technology companies are leading us out of the recession — meeting or beating their revenue targets for 2010, experiencing a continuing improvement in business conditions, and looking to hire new employees.

Perhaps even more importantly, the executives we surveyed paint a clear and optimistic picture of the future we can have. They report that the United States' focus on innovation and our entrepreneurial mindset, our people and our culture are some of the primary reasons this country is appealing for business. Interestingly, this echoes a finding from the companion

survey of later-stage technology companies conducted by the Silicon Valley Leadership Group. In contrast, they said the primary allure of non-U.S. countries is the cost of doing business.

In business, companies play to their strengths. For the United States to retain its leadership in innovation, we need to do the same. We need to nurture an environment that unleashes people's creative energy. We need to clear away the impediments that are getting in startups' way. And we need to be confident about our ability to compete, and pursue rather than shy away from the opportunities presented by a global marketplace.

At SVB, our mission is to help entrepreneurs succeed. We hope this report helps policymakers understand the views of the individuals who are leading the companies of tomorrow. We hope it helps all of us see more clearly the steps we can take to help entrepreneurs succeed.

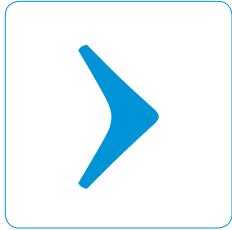
Key Findings

The near-term business outlook for startups is optimistic.

- Nearly one in four companies (23 percent) exceeded their 2010 revenue targets, up significantly from 2009 (15 percent).
- Two in three executives say that business conditions in 2010 are better than they were last year, and three in four expect they will get even better in the coming 12 months.
- The vast majority of surveyed companies (83 percent) plan to hire in the coming year, up from 73 percent a year ago.

The United States remains an attractive place to start and build high growth companies.

- More than three in four respondents (77 percent) say our focus on innovation and our entrepreneurial mindset make the U.S. appealing for business. More than half cite four other factors: the United States' proximity to target customers and/or their supply chain, the quality of U.S. employees, our culture, and access to capital in the United States. Four in 10 cite another three factors: our work ethic, the quality of higher education in this country, and our business/legal environment. In sum, 40 percent or more of respondents list eight separate factors that make the United States appealing.
- In contrast, among companies considering operations outside the United States, only one factor was cited by 40 percent or more of respondents as making non-U.S. countries appealing: the cost of doing business.



Key Findings (con't)

While we clearly have an opportunity to play to our strengths, there are some disturbing signs on the horizon.

- Companies in more capital intensive, highly regulated industries — most notably life sciences — are the most cautious in their outlook. They are significantly more likely to report challenges to their businesses generally, and challenges due to regulatory/political issues specifically.
- The top challenge across all respondents (39 percent) is access to equity financing. Not surprisingly, this is cited by roughly twice as many respondents in the capital intensive life science and cleantech sectors as in the less capital intensive software/Internet sector.
- While policymakers want to promote an innovation agenda, in fact the regulatory/political environment is a major challenge for startups. Across all companies, it ranks as their third greatest challenge. In the highly regulated life sciences sector, 64 percent say it is a challenge.
- Overall, life science executives rate regulatory/political issues as their number one challenge. They cite it as a bigger problem than access to equity financing, scaling their operations for growth, competition, or access to credit.
- More than eight in 10 life science companies say that the government could help their company's growth by improving the FDA approval process.
- The direct effect of regulations is not the only regulatory/political problem getting in the way of startups' growth. In fact, it isn't even their biggest concern. The top two concerns are the uncertainty created by our regulatory environment and the overall negative impact this environment is having on risk taking.

Startups are looking for a fair shot, not a handout.

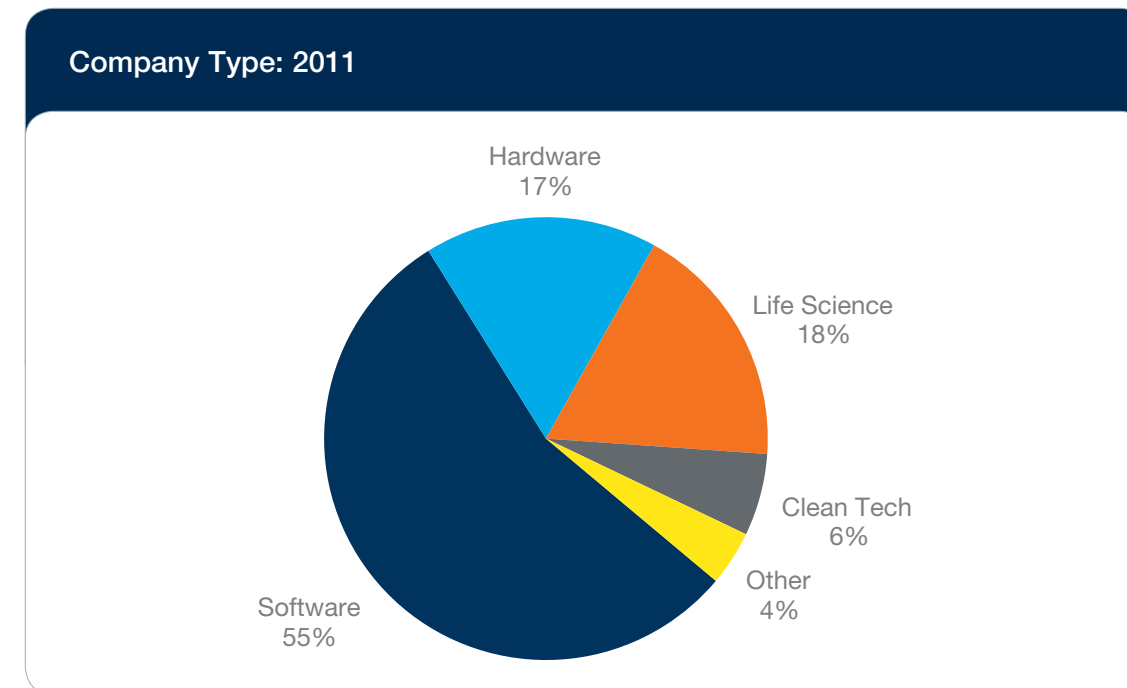
- When we ask what investments and fiscal measures the government could take to help their companies, respondents point to investments in ideas (through R&D funding and R&D tax credits and grants), and investments in technology infrastructure. They also cite broad-based tax reform and deficit reduction.
- These startups do not ask for government-sponsored equity financing, government-assisted debt financing or government purchasing and other forms of demand creation.
- The responses vary meaningfully by sector, and provide further insights into the unique opportunities and challenges across the technology spectrum, as further discussed below.

Startup Survey Respondents

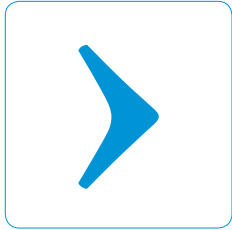
The independent, third-party market research firm, Koski Research, conducted an online survey on behalf of Silicon Valley Bank from February 8-18, 2011.

We received survey responses from 375 executives (80 percent at the C-level) of U.S.-based, early-stage companies in four high technology sectors:

- Software/Internet: 206 companies
- Hardware: 63 companies
- Life sciences: 83 companies
- Cleantech: 23 companies



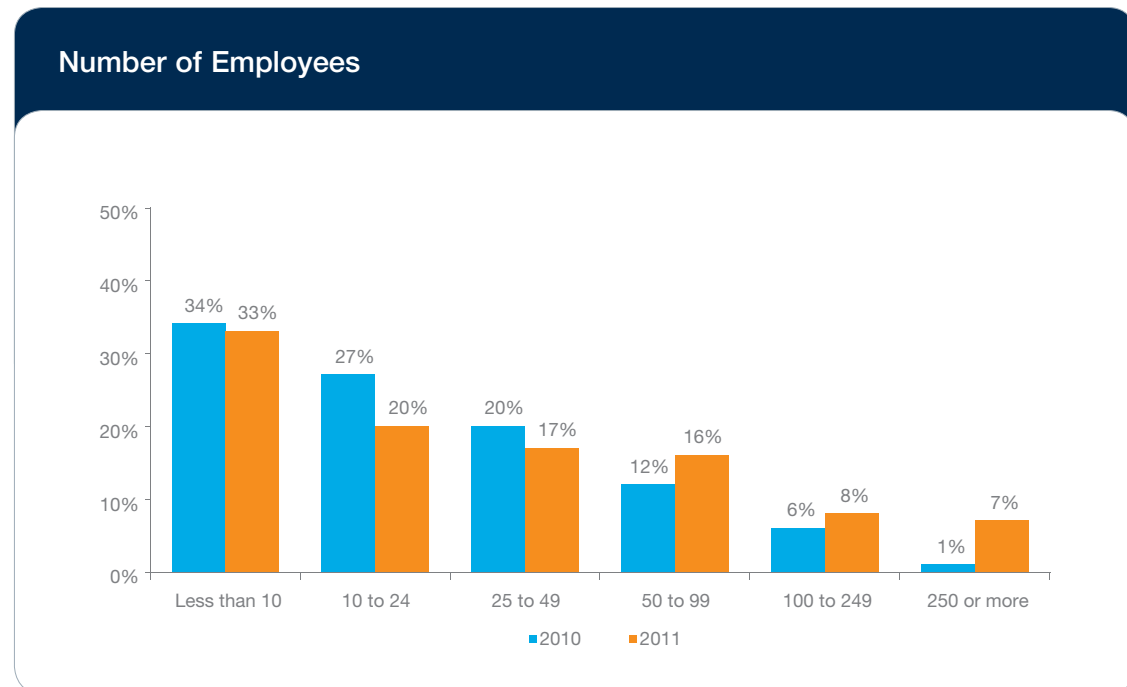
Note: Due to the small sample size for cleantech companies, survey responses from these executives are directional and not compared statistically to other groups.



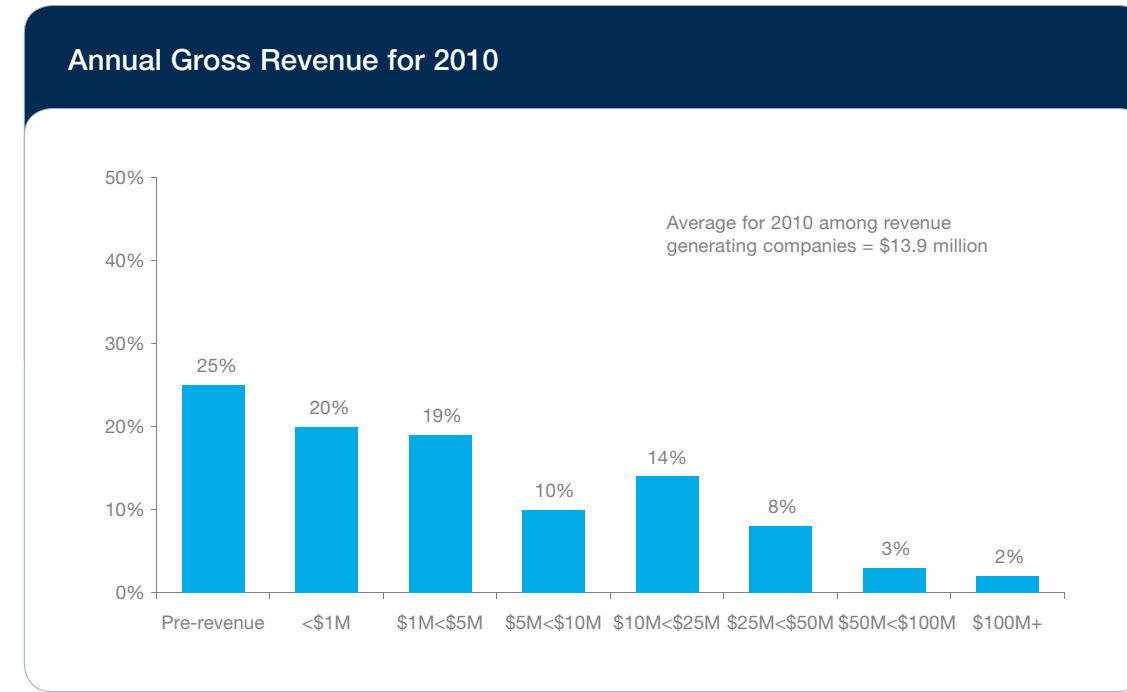
Startup Survey Respondents (con't.)

The relatively heavy representation of software clients is consistent with broader trends in the technology sector. For example, over the last six months, 64 percent of Silicon Valley Bank's new clients were software clients. Additionally, according to data from the National Venture Capital Association/PWC MoneyTree, in 2010 the software sector recaptured its status as the largest venture investment sector, with \$4 billion invested in 835 deals, a 21 percent rise over 2010.

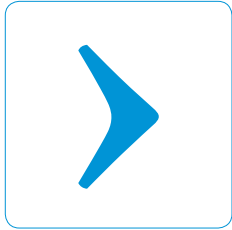
Company sizes range from fewer than 10 employees to more than 250 employees. Thirty-three percent of respondents have fewer than 10 employees, and 85 percent have fewer than 100 employees. The average size of the responding companies is 55 employees.



Twenty-five percent of respondents are pre-revenue, 74 percent had 2010 annual gross revenues of less than \$10 million, and 95 percent had 2010 annual gross revenues of less than \$50 million. The average 2010 revenues among revenue-generating companies was \$13.9 million.



We compare results of this year's survey to our Startup Outlook 2010 when appropriate.



PART 2: DETAILED FINDINGS

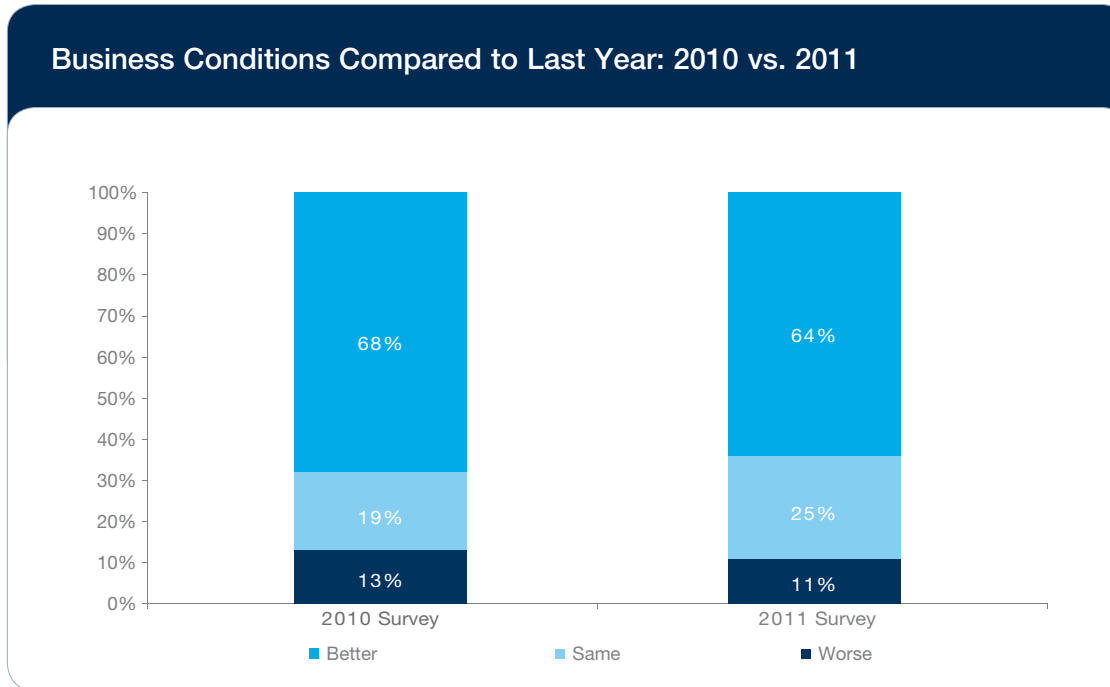
Business Outlook: Optimistic

Highlights:

- Close to one-quarter of executives (23 percent) report they exceeded their revenue targets during the previous year, up significantly from 2010 (15 percent).
- Two-thirds of executives (64 percent) say that business conditions are better than they were last year, and three-fourths (78 percent) say conditions will be better in the next 12 months.
- Eighty-three percent plan to hire in the next 12 months (up from 73 percent last year). Most plan to hire where their company is located.
- Life science respondents are less optimistic than their peers — likely a result of the regulatory environment's negative impact on certainty, cost and risk-taking.

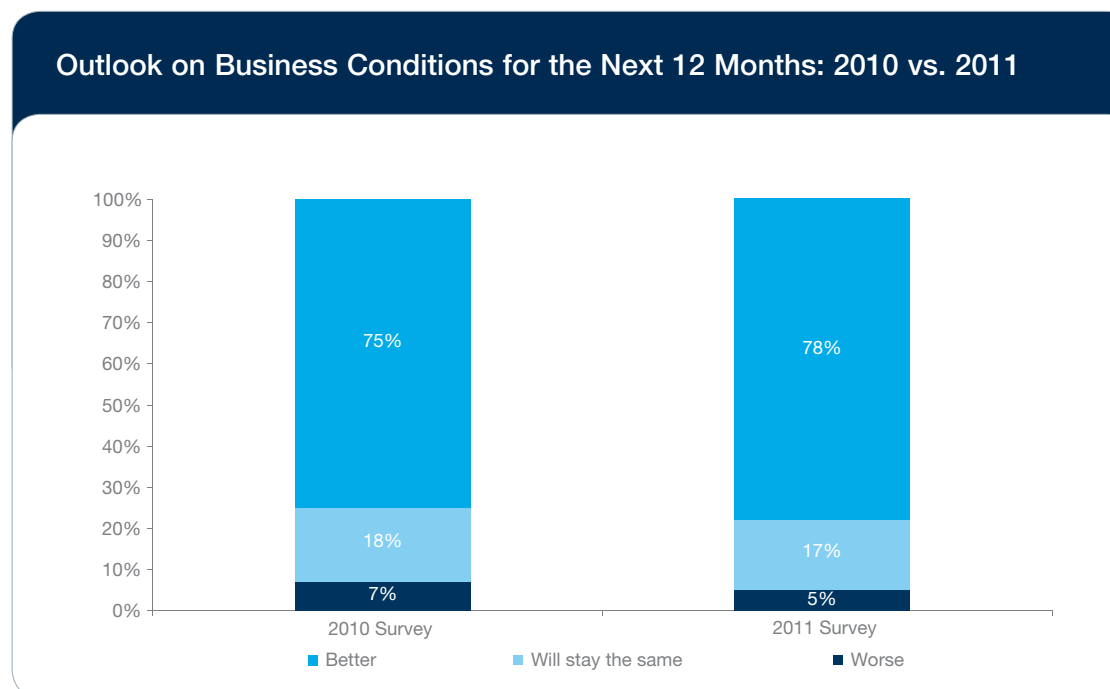
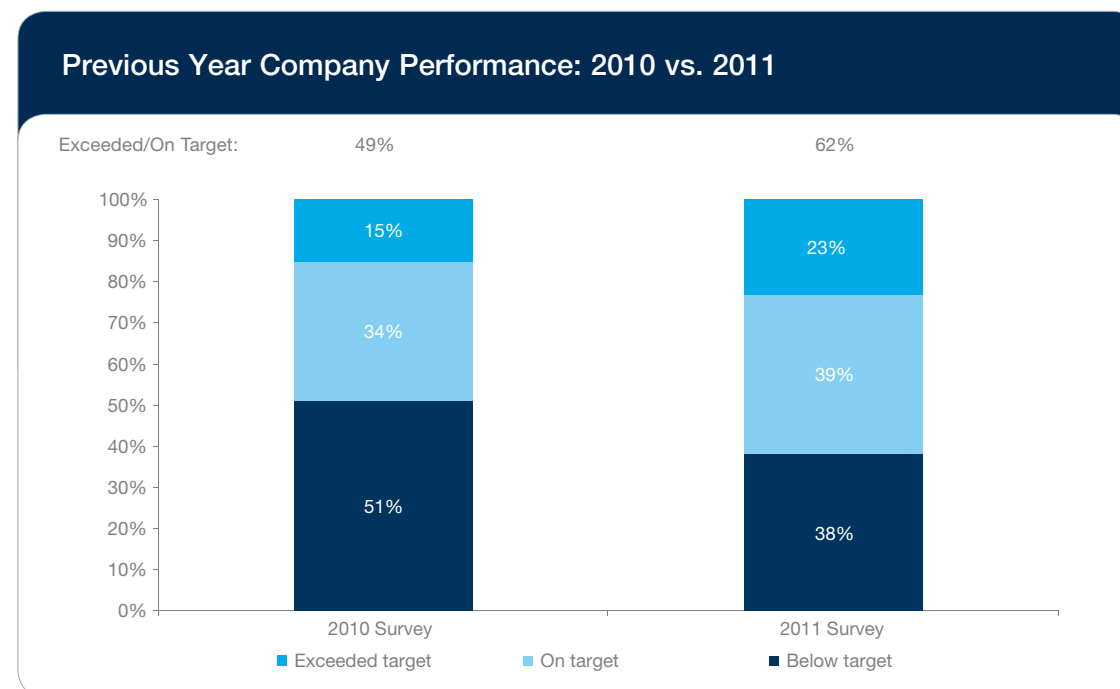
Overall, respondents paint a positive picture about their business performance during 2010 and their prospects going forward. Their responses reinforce the view that the United States economy is indeed recovering, in a real way — not just statistically.

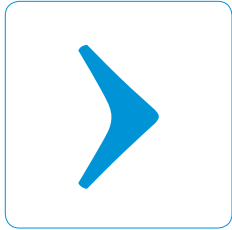
A majority of executives (roughly two-thirds) report that they either met or exceeded 2010 revenue targets, while roughly one in four indicate they exceeded 2010 revenue targets — both up significantly from last year's survey. Respondents also say that business conditions today are better than they were last year.



Looking forward, respondents express optimism about the prospects for continued improvement, with much more robust predictions for hiring than in 2010. Intentions to hire locally are particularly high among the Silicon Valley-based businesses: 88 percent will hire new employees in Silicon Valley, compared to 79 percent of firms outside the Valley that will hire locally.

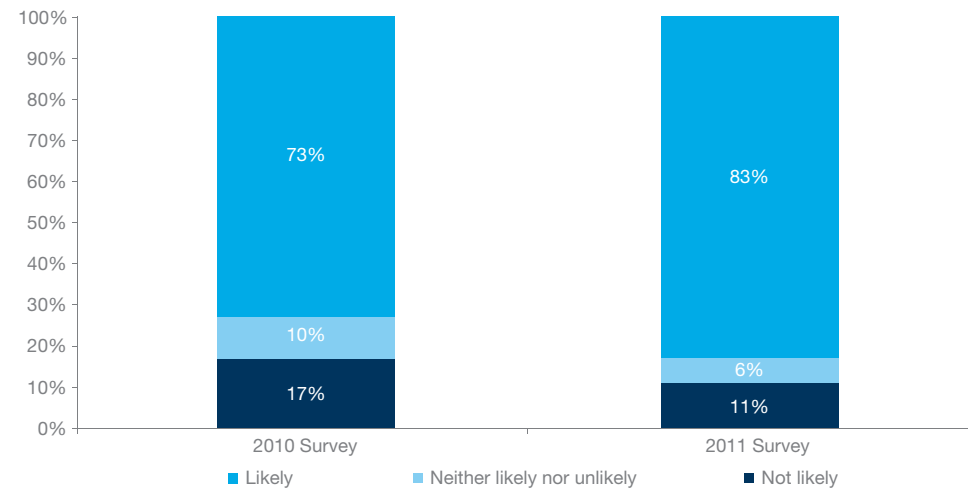
Software companies show the strongest intentions of bringing new employees on board, and are more optimistic about their hiring plans than they were a year ago. Eighty-nine percent of software companies, compared to 83 percent overall, plan to hire, up from 77 percent in the 2010 survey.





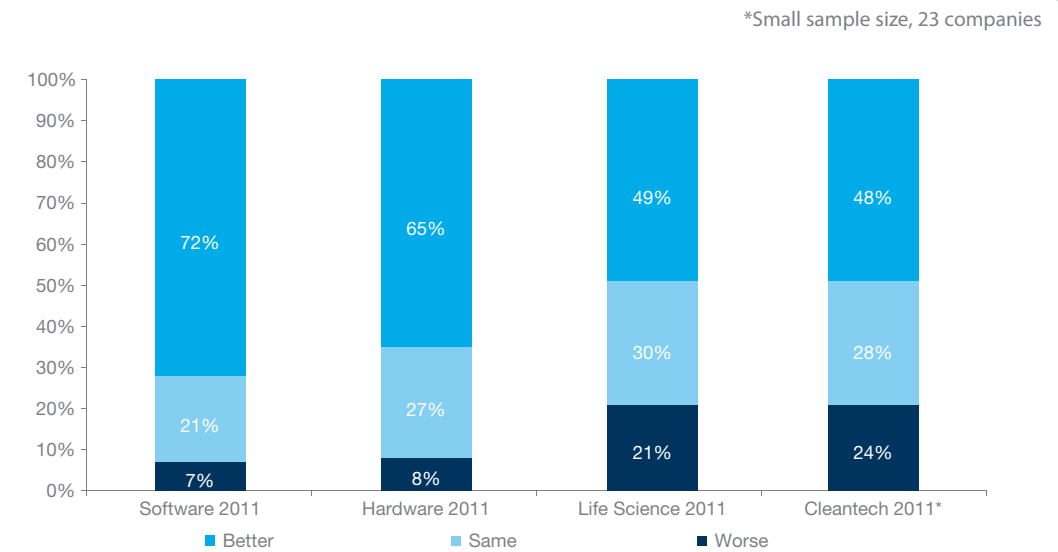
Business Outlook: Optimistic (cont.)

Likelihood of Hiring New Employees in Next 12 Months: 2010 vs. 2011



Business confidence and performance vary significantly by sector, however. Life science and cleantech companies performed less well against their 2010 targets and are meaningfully less likely to describe business conditions as better than last year. Life science and cleantech companies are also more pessimistic about the year to come. As discussed later in this report, most life science companies say their most critical obstacle to success is the regulatory/political environment.

Business Conditions Compared to Last Year: By Industry

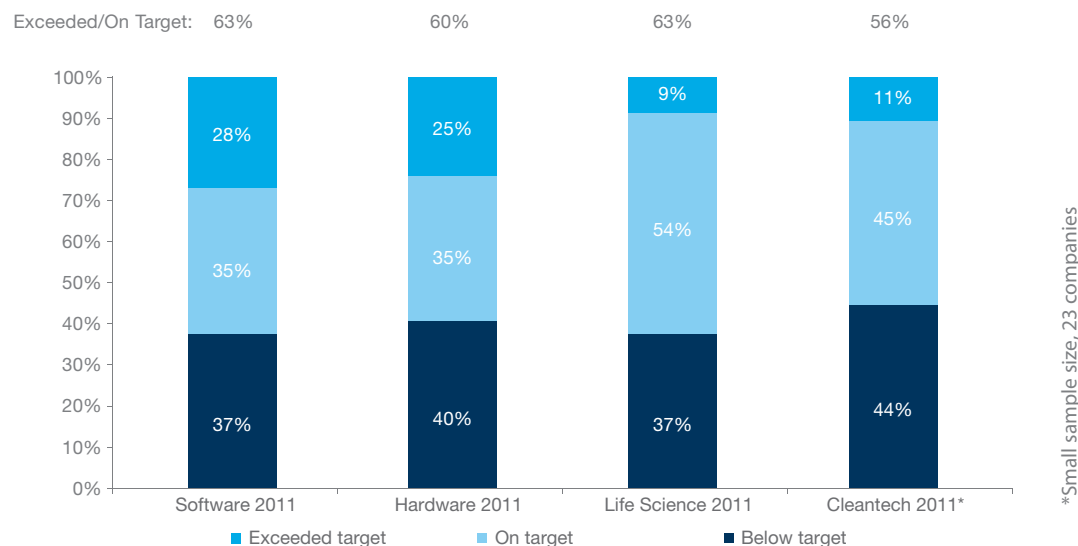


Technology companies are optimistic:

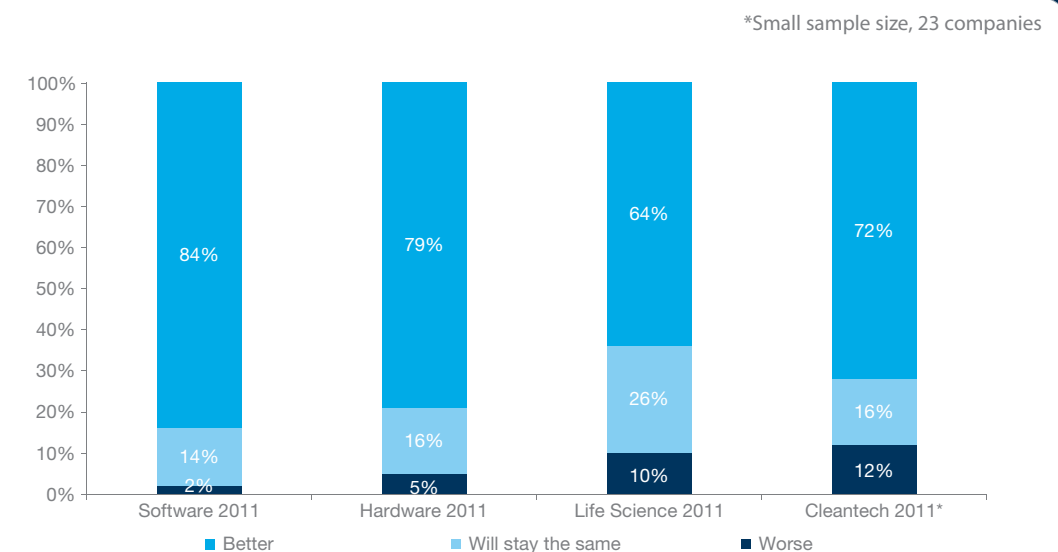
“Steady as she goes. Focusing on our customer base and targeted new account opportunities, while keeping a firm grip on SG&A.”

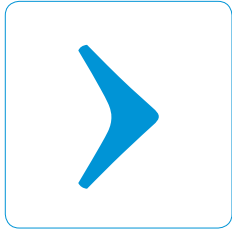
“We have seen significant growth in 2010 for our company and the outlook for 2011 is still very positive.”

Previous Year Company Performance: By Industry

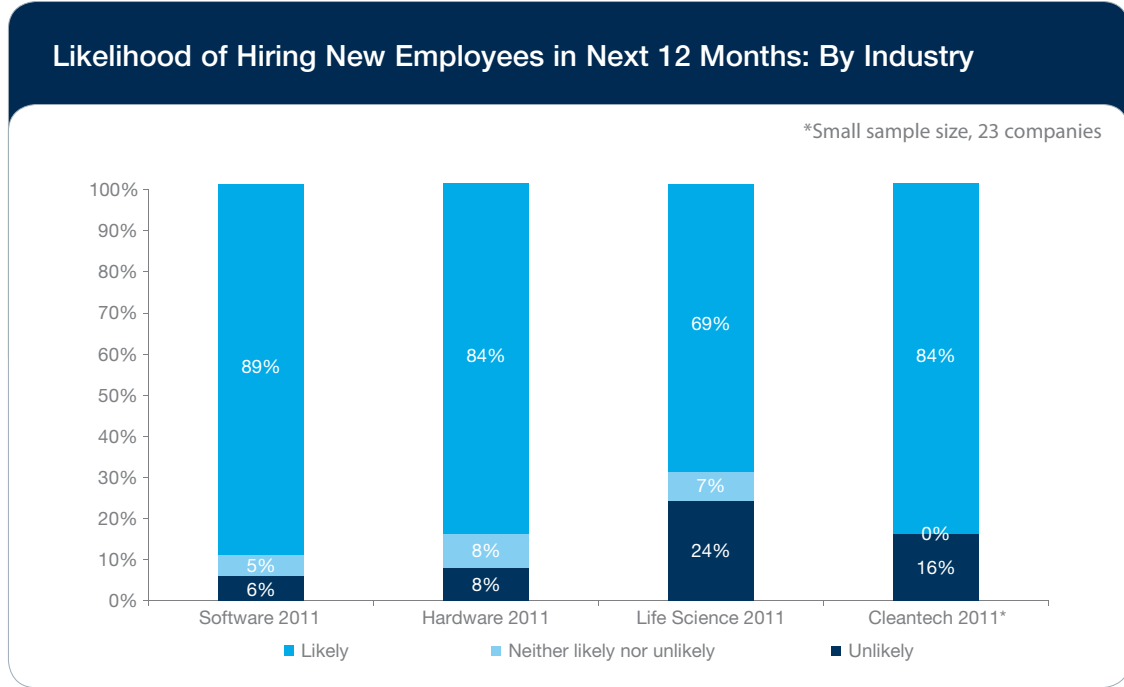


Outlook on Business Conditions for the Next 12 Months: By Industry





Business Outlook: Optimistic (con't)



Life science companies are worried about the effect of regulation:

“The government, particularly the FDA, is killing non-revenue generating companies. Their process is discouraging venture money and their lack of incentives — as opposed to significant incentives from other companies — are driving technology away to India and China.”

The concerns of life science executives in the Startup Survey echo investment trends in the venture sector. During 2010, biotech investing increased only modestly (3 percent in dollars; 8 percent in number of deals), while investments in medical device companies fell 9 percent in dollars and were flat in terms of the number of deals. Looking forward, 65 percent of venture capital investors predict that total 2011 dollar investments in medical devices will be flat or down from 2010, and 67 percent of venture investors predict that 2011 investments in biopharma will be flat or down in 2011. This is markedly different than for sectors such as consumer Internet and software/cloud computing, where the vast majority of venture investors (82 and 80 percent, respectively) see investment dollars increasing in 2011.

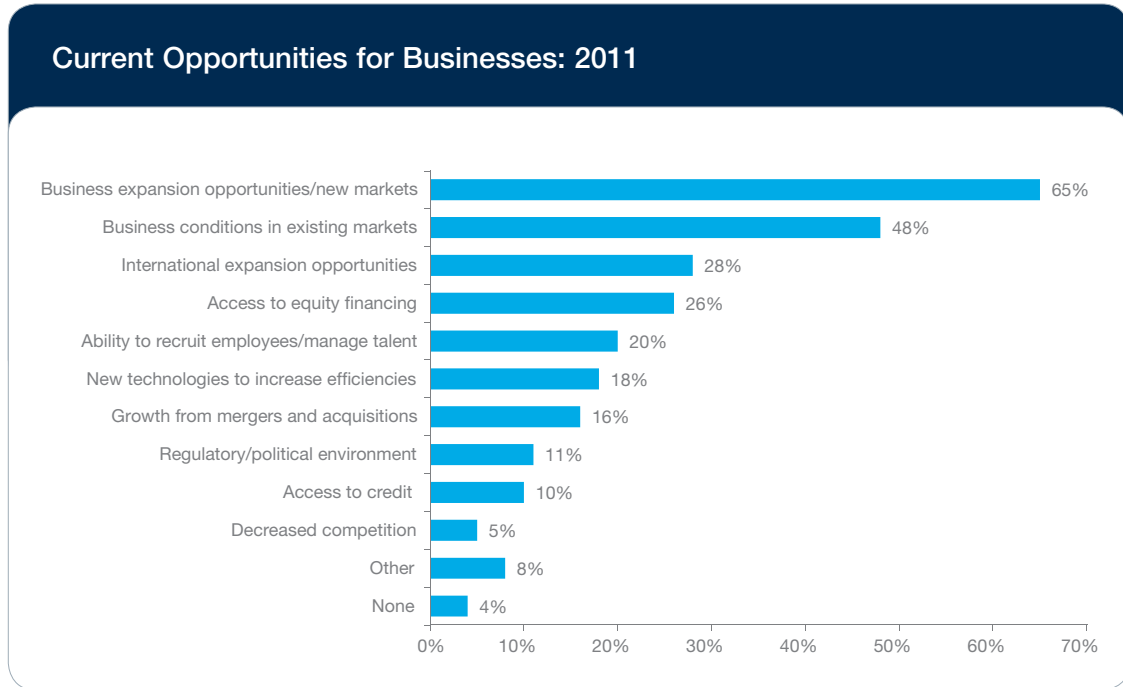
Looking Towards the Future: Opportunities and Challenges

Highlights:

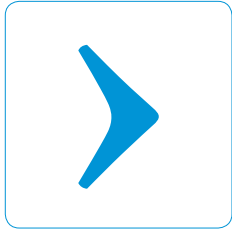
- 65 percent of respondents say business expansion and new markets are a top priority for them in 2011.
- Companies are focused on growth in the United States.
- The number one challenge cited across all respondents is access to capital.
- Regulatory uncertainty and the negative effect the regulatory environment is having on risk taking are taking a toll on business confidence.

Opportunities

Two-thirds of business executives see growth opportunities through expansion and entry into new markets, while nearly half see opportunities to grow in their existing markets.



Across sectors, some interesting patterns are visible. Hardware and software companies are significantly more likely than life science companies to see expansion opportunities in new and existing markets. In contrast, life science and software companies are far more likely than hardware and cleantech companies to anticipate growth opportunities through mergers and acquisitions.



Opportunities (cont.)

More than half of all cleantech respondents see access to equity financing as an opportunity — despite the fact that, as discussed below, respondents generally view access to equity financing as a challenge. Similarly, while the regulatory environment is widely regarded as a challenge (see discussion at right), roughly one in five life science and cleantech respondents identify it as an opportunity.

Current Opportunities for Businesses: By Industry Sector

	Software	Hardware	Life Science	Cleantech*
Business expansion opportunities/new markets	69%	76%	52%	52%
Business conditions in existing markets	53%	48%	42%	24%
International expansion opportunities	30%	27%	27%	24%
Access to equity financing	23%	19%	31%	56%
Ability to recruit employees/manage talent	21%	19%	20%	12%
New technologies to increase efficiencies	24%	13%	10%	8%
Growth from mergers and acquisitions	18%	5%	23%	4%
Regulatory/political environment	9%	6%	17%	20%
Access to credit	9%	16%	5%	20%
Decreased competition	5%	2%	8%	4%
Other	3%	13%	11%	20%
None	1%	3%	8%	8%

*Small sample size, 23 companies

Challenges

Current Challenges for Businesses: 2011



Challenges: Access to Equity

In terms of challenges, access to equity financing, scaling operations for growth, and the regulatory/political environment topped the list.

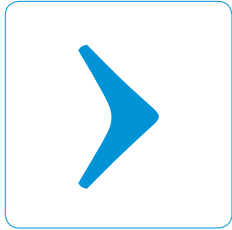
The number one challenge facing startups, according to executives in this survey, is access to equity capital. Despite their general optimism about business prospects for the year and a rosier outlook for the economy overall, 39 percent of respondents say that difficulty in obtaining equity financing remains a key impediment to their business success.

In any environment, funding for startups is — and needs to be — carefully calibrated. When too much equity is available, as was true in the late 1990s, too many companies get funded, too many competitors are created, and a self-destructive bubble results.

Yet it is equally important not to starve startups ... something we are at risk of doing in the current environment. During the recession, venture capital fundraising and investment levels dropped off significantly. In addition, over the past decade capital has increasingly flowed to startups outside the United States.

We are starting to move beyond the artificially low venture capital fundraising and investment levels of the past few years. But the dollars flowing into U.S. startups remain at levels that are still low by historical standards. During 2010, venture capitalists invested \$21.8 billion in 3,277 deals, according to the PricewaterhouseCoopers MoneyTree report. While this is a significant improvement over the past few years, it is well below the roughly \$30 billion venture funds were investing annually through most of the past decade — and, if our survey respondents are correct, below the amount startup companies need to fund their growth.

The mix of responses across sectors also provides cause for concern. Cleantech companies are the most concerned about access to equity capital (68 percent), followed by life science companies (58 percent). Not surprisingly, software companies — which tend to require less capital because they are able to generate revenues and profits relatively earlier in their life cycle and received the most venture funding in 2010 of any investment sector — are the least concerned about equity funding (29 percent).



Challenges: Access to Equity (cont.)

Current Challenges for Businesses: By Industry

	Software	Hardware	Life Science	Cleantech*
Access to equity financing	29%	38%	58%	68%
Scaling operations for growth	38%	37%	24%	48%
Regulatory/political environment	21%	21%	64%	32%
Business conditions in existing markets	28%	29%	30%	32%
Difficulty recruiting employees/managing talent	31%	29%	10%	20%
Access to credit	23%	32%	20%	24%
Competition from U.S.-based companies	28%	16%	12%	12%
Business expansion opportunities/new markets	19%	25%	5%	12%
Competition from non-U.S.-based companies	13%	17%	10%	4%
Lack of suitable merger/acquisition opportunities	8%	8%	20%	8%
Other	4%	2%	8%	8%
None	2%	0%	0%	0%

*Small sample size, 23 companies

From a national policy perspective, it is important that adequate capital flows to companies across the innovation spectrum — including both relatively unregulated, more capital efficient sectors such as software, software-as-a-service and cloud computing, as well as more highly regulated, capital intensive sectors such as life sciences and cleantech. Without innovation in life sciences and clean energy, we will not be able to meet our economy’s fundamental needs for cost-effective, broad-based health care, energy independence and long term, cost effective energy solutions. Moreover, if we fail to innovate in energy and life sciences, we risk becoming less competitive globally given the size and importance of these sectors in the broader global economy.

Challenges: The Regulatory/Political Environment

Respondents report that their third greatest challenge is the U.S. regulatory/political environment. Thirty-one percent of companies cite this as a concern. Interestingly, despite the recent downturn (which presumably depressed business conditions) and the emergence of a recovery (which presumably is leading to increased competition), the regulatory/political environment outranks both business conditions and competition as a challenge for startups.

Not surprisingly, regulatory issues are a much larger issue — and the primary challenge — or life science companies. Sixty-four percent of life science respondents cite regulatory/political

issues as a challenge — somewhat more than cite access to equity financing, more than twice as many as cite business conditions, and more than five times as many as cite competition.

Respondents from life science companies are clear about the severity of the problem and its potential implications:

“FDA is by its very design killing innovation and entrepreneurship. Its very charter utterly excludes the notion of fostering development, opting instead for a one-way ratchet that can only lead to longer, more costly development cycles with no improvement in real safety for efficacy.”

“Total lack of accountability or sense of urgency at FDA is the single biggest barrier to innovation and job growth in the med-tech/pharma area. Also biggest barrier to access to innovative therapies.”

“Our outlook is solely dependent on the FDA. We are doing well in Europe, but the processes for the U.S. FDA simply is broken and harming innovation.”

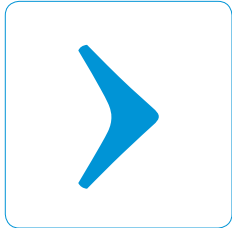
“I am 40 years in this business, and see an FDA approval pathway that will destroy our business, for no reason. I see futile attempts on our company’s part to obtain Chinese monetary support, while we give away our technology.”

“As an early stage medical device company, the two greatest detriments to our company’s future success are the inconsistent, non innovation friendly, and unpredictable nature of FDA approval process and the newly approved healthcare legislation particularly the medical device tax burden which is in it.”

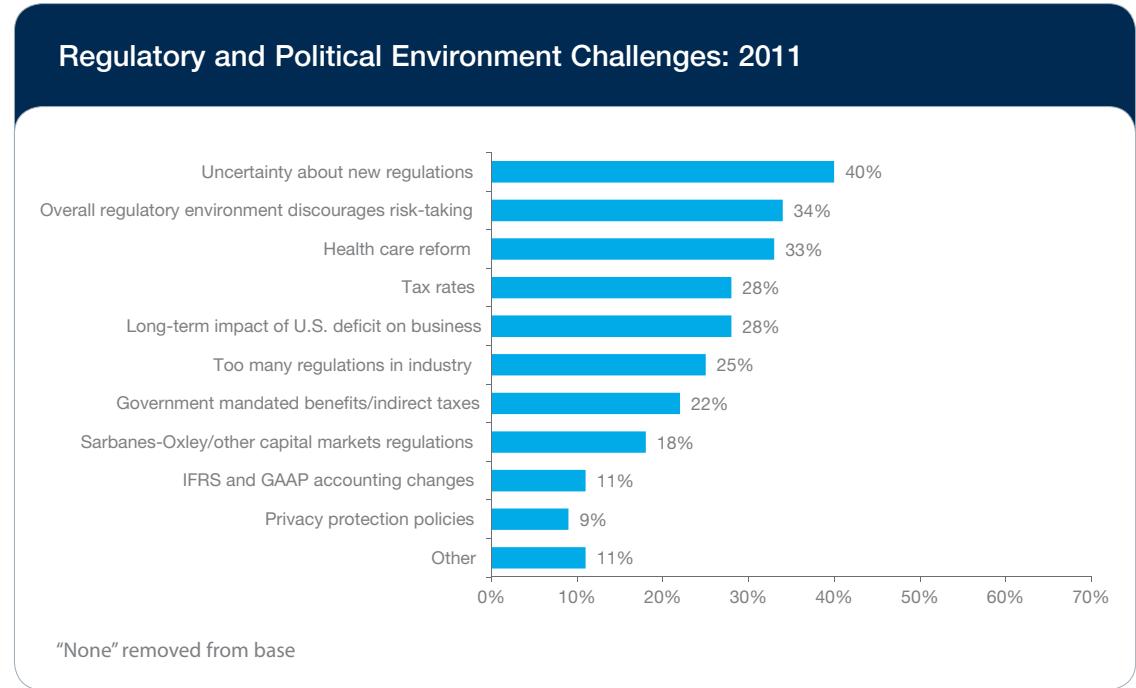
The emergence of regulatory and political issues as startups’ third largest challenge reflects the role the federal government plays in promoting — or discouraging — a business environment in which early-stage companies can thrive. In startups’ view, several things are getting in the way.

Respondents’ biggest concerns are uncertainty about new regulations, the impact the overall regulatory environment has on risk taking, and health care reform.

As a nation, the financial downturn left in its wake an overall mood that is hostile to risk taking. In this environment, increased regulation — sometimes through massive legislation — is seen as a solution. Yet while regulation is needed in some cases, over-regulation can discourage risk taking and deprive startups of the clarity they need to plan, and build, their businesses.



Challenges: The Regulatory/Political Environment (con't.)



Based on other industry information, overall compliance demands are cited as a concern by about one company in four. One might think that large corporations are impacted the most by compliance demands, but a recent analysis by the Small Business Administration indicates the opposite is true. In its study "The Impact of Regulatory Costs on Small Firms," the SBA found that on a per-employee basis it costs small firms \$2,830 more than larger firms (a 36 percent difference) to comply with government regulations.

As one client explains:

"Probably my biggest concern (after equity financing) vis-a-vis operating as a start-up in the U.S. is the stifling regulatory/tax environment here. The sheer number of regulations and tax issues that have to be dealt with are staggering and the corporate (and related taxes) are highly punitive relative to other developed countries. The current regulatory/tax environment is highly advantageous to large firms that can spread out those (mostly fixed) costs over greater volume at the expense of smaller firms and start-ups. As a result, the option to move off-shore is always under constant consideration by the management team as the company evolves."

In terms of the impact regulatory/political issues have on particular segments, life science companies rise to the top. Three out of four life science companies say the FDA approval

process presents a critical regulatory challenge, and more than 80 percent of life science companies indicate that the FDA approval process should be an improvement priority for government.

Not surprisingly, respondents in the cleantech sector (the next most highly regulated sector) also voice concerns, with 62 percent of the respondents expressing qualms about regulatory uncertainty and 48 percent saying that the overall regulatory environment discourages risk taking.

Software and hardware companies emphasize particular regulatory challenges less strongly. Their key areas of concern tend to be fiscal, with tax rates and the deficit appearing relatively frequently.

Regulatory and Political Environment Challenges: By Industry

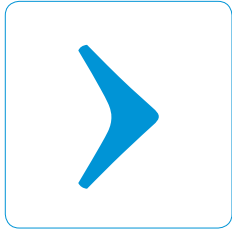
	Software	Hardware	Life Science	Cleantech*
FDA approval process [^]	N/A	N/A	78%	N/A
Uncertainty about new regulations	35%	29%	49%	62%
Overall regulatory environment discourages risk-taking	27%	31%	45%	48%
Health care reform	29%	31%	46%	19%
Tax rates	29%	42%	16%	24%
Long-term impact of U.S. deficit on business	32%	42%	14%	19%
Too many regulations in industry	22%	29%	29%	29%
Government mandated benefits/indirect taxes	25%	29%	11%	14%
Sarbanes-Oxley/other capital markets regulations	16%	27%	13%	29%
IFRS and GAAP accounting changes	12%	27%	3%	0%
Privacy protection policies	14%	8%	3%	0%
Other	9%	13%	10%	19%

*Small sample size, 23 companies
[^]FDA approval process[^] shown only to Life Science companies.
 "None" removed from base

Challenges: Recruiting Employees and Managing Talent

Even in the face of still painfully high unemployment numbers, more than one-fourth of survey participants report that hiring is one of their biggest challenges.

This is a good news/bad news story. The good news is that, as noted above, more than four in five executives (83 percent) say they are likely to hire in the next 12 months, a significant increase over last year's results (73 percent).

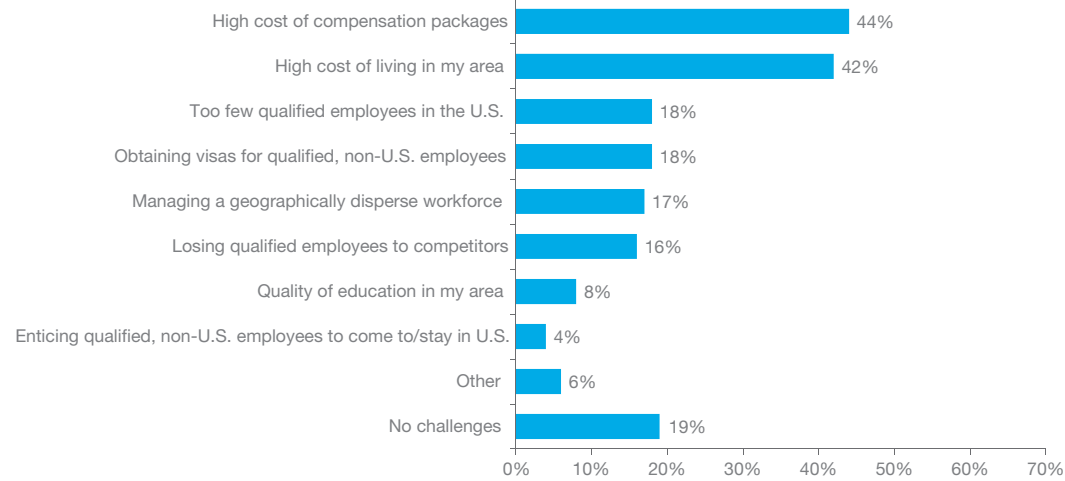


Challenges: Recruiting Employees and Managing Talent (con't.)

The bad news is that, even in the current economic climate, hiring isn't as easy as one might think. Hardware and software companies are particularly likely to highlight the challenges of recruiting and managing talent and competition.

When we delve into the recruiting and management challenges companies are facing, they highlight cost issues — in particular, the high cost of compensation packages and the high cost of living. The high cost of living is a significantly greater challenge for companies in Silicon Valley, where salaries for technology workers and housing prices are among the nation's highest. (56 percent of Silicon Valley respondents cite the high cost of living as a challenge, compared to 29 percent of companies outside Silicon Valley).

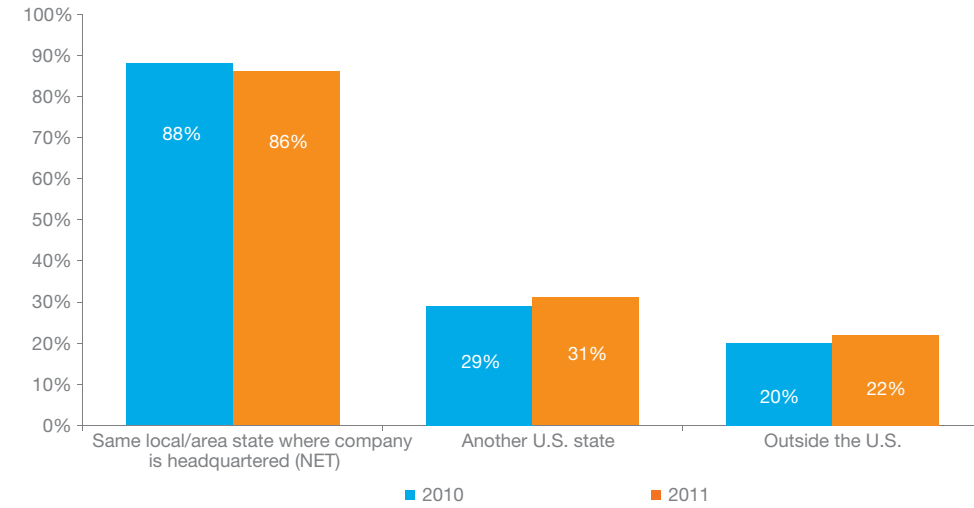
Recruitment and Management Challenges in U.S.



Software companies are much more likely than their life science colleagues to cite the high cost of compensation packages (49 percent versus 35 percent) and the lack of qualified U.S. employees (21 percent versus 10 percent). Hardware companies, in contrast, appear to be more significantly challenged by the inability to obtain visas for qualified, non-U.S. employees than life science companies (24 percent versus 11 percent).

Despite continuing concerns about the future of U.S. manufacturing and globalization more broadly, it is worth noting that the majority of companies we surveyed say they are likely to hire in the same local area where their company is headquartered. Silicon Valley companies in particular are significantly more likely (88 percent) than those outside of Silicon Valley (79 percent) to hire locally.

Location Likely to Hire: 2010 vs. 2011



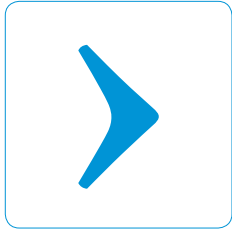
Motivating Innovation at Home... and Capitalizing on Global Opportunities

Highlights:

- More than three in four executives say the United States' focus on innovation makes it appealing for business.
- One in two executives say the cost of doing business is the reason non-U.S. countries are appealing.
- More than one-third of respondents say their current geographic location is a great area for growing companies, and most companies plan to hire in the area where their company is located.
- International expansion is the third highest ranked opportunity for growth ... though it's a distant third. Companies are most likely to turn to non-U.S. markets to increase their sales operations.

"... the United States has been, and continues to be, deeply rooted in American innovation. This country was founded by pioneers who developed new ways to cope with an unfamiliar environment, who cured disease and connected a country, and who led the world into the age of flight. American innovators discovered the power of information technology and digital communication that brought unprecedented commerce, economic growth, (and) prosperity ... Our economic security continues to be steeped in the ability to compete in an innovation economy."

David Kappos, *Undersecretary of Commerce and Director of the USPTO*



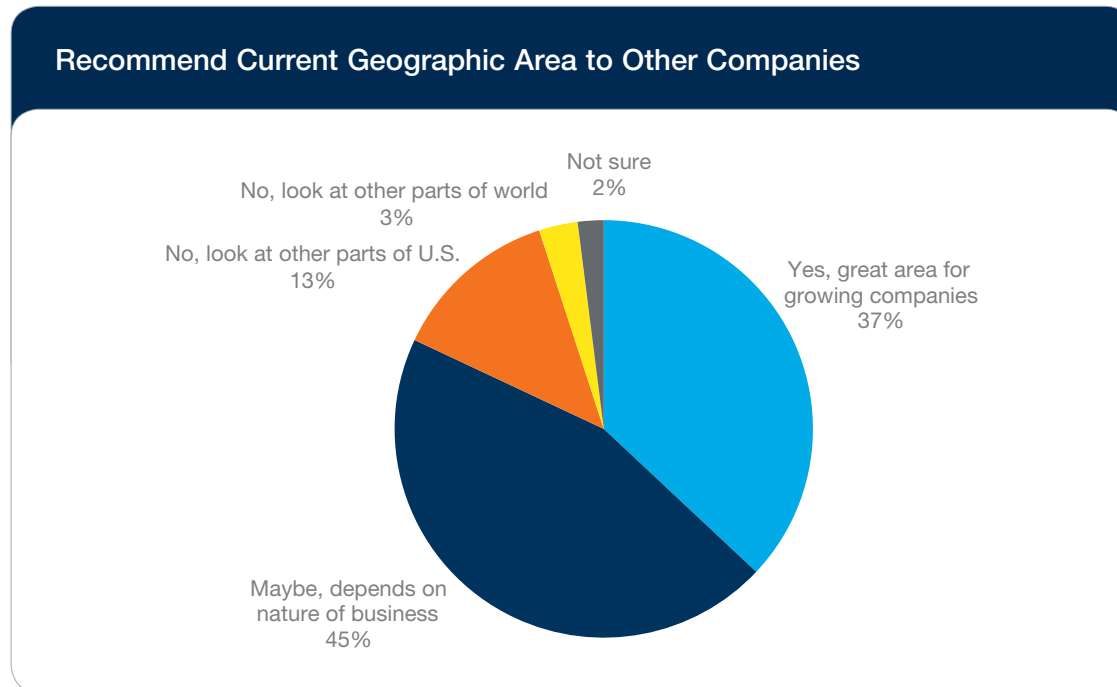
Motivating Innovation at Home... and Capitalizing on Global Opportunities (con't.)

SVB stands with other experts in believing that innovation is the U.S. economy's greatest strength and its best opportunity for long term growth. If we unleash our entrepreneurial spirit, we can build thriving businesses, strong communities and an economy that serves as a foundation upon which citizens can build their own American dream.

But, in many respects, how successful we are as a country in maintaining our leadership in the innovation economy will be the result of decisions made by individual entrepreneurs about where to start and grow their companies. As a result, we added questions to this year's survey understand better what factors drive entrepreneurs in making these decisions.

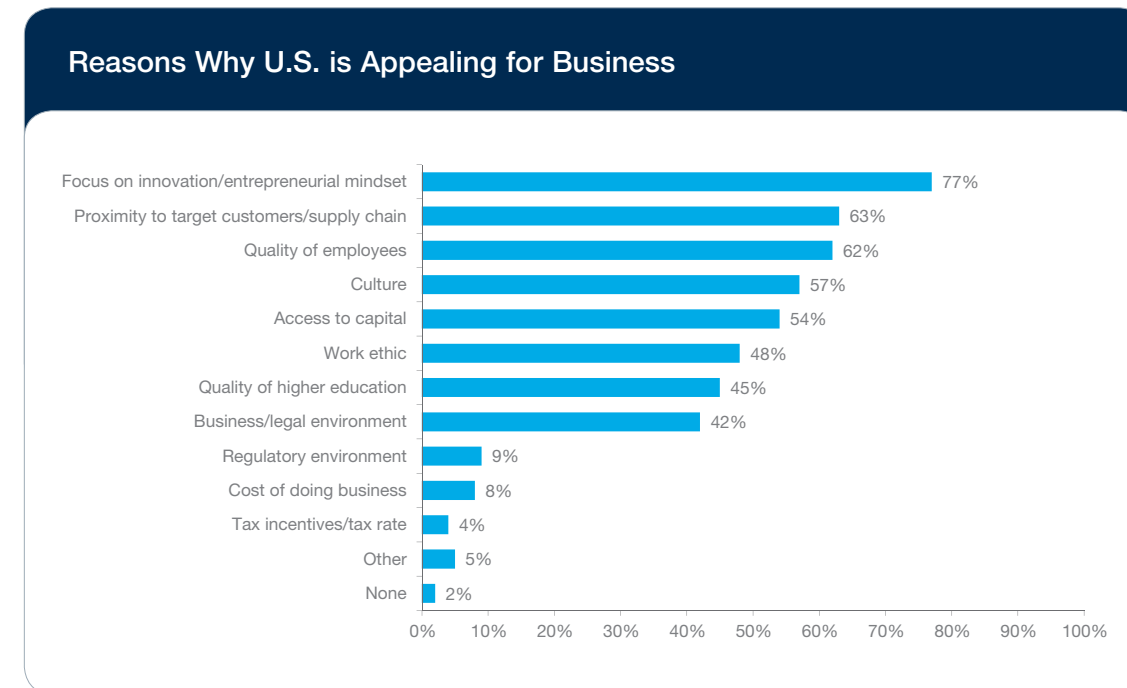
The results reinforce our optimism about the future of U.S. innovation. In brief: we have enormous and powerful natural strengths. We just need to make sure we don't stifle them.

Across the country, more than one-third of respondents (37 percent) would recommend their geographic area to other companies looking to establish a business, while close to half (45 percent) say it depends on the nature of the business. Only 13 percent would recommend their peers look elsewhere in the United States, and only 3 percent would recommend their peers look outside the United States. On this question, we see no difference between companies headquartered in Silicon Valley and those headquartered elsewhere in the country.



Even more importantly, startup executives paint a compelling picture of what makes the United States attractive. More than 75 percent of the executives who responded to the 2011 Startup Outlook survey say that that this country's focus on innovation is a reason why doing business here is appealing. Sixty-three percent point to our economy, stating that the United States is attractive because it keeps them close to their target customer base and their supply chain. Between 45 and 62 percent note four more factors associated with our people and our culture: the quality of U.S. employees, our culture, our work ethic and the quality of our higher education. And between 42 and 54 percent point to aspects associated with our business and entrepreneurial environment, including access to capital and the business/legal environment.

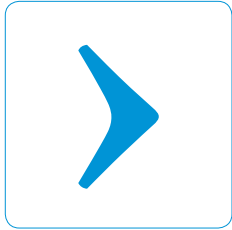
These are powerful strengths because they are hard to replicate.



On these questions, we do not see differences across the software, hardware, life science and cleantech sectors. Interestingly, despite different patterns in the globalization of innovation in these areas and dramatic differences in the sectors' maturity and the depth of their historical ties to the United States, all see the relative strengths of the United States in similar terms.

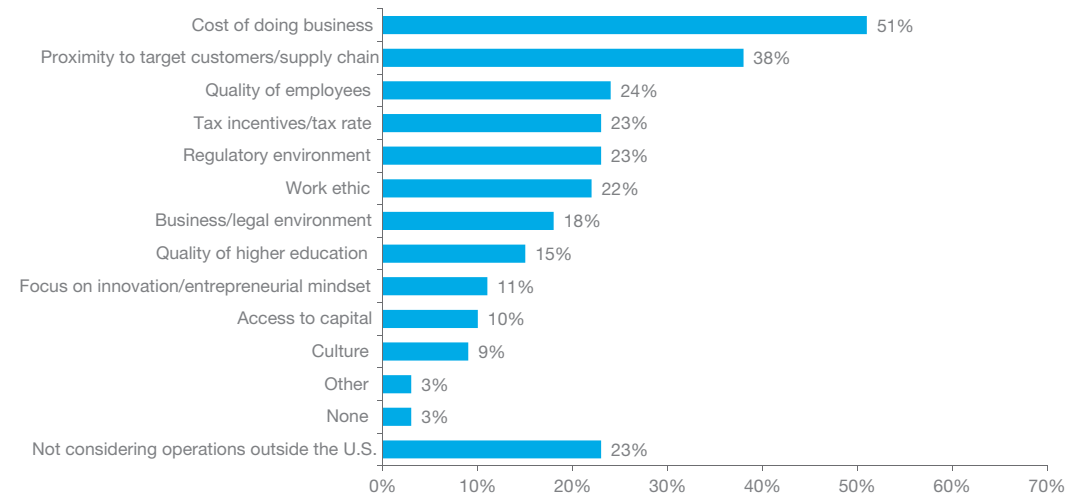
In contrast, when we ask what makes foreign countries attractive, respondents by a wide margin point to a single factor: the cost of doing business.

On this question, differences by sector do emerge. Hardware companies are significantly more likely than software and life science companies to note the cost of doing business as a significant factor (65 percent versus 49 percent and 46 percent, respectively). In addition, hardware companies are more likely to note proximity to target customers and their supply chain than their peers in the life science sector (51 percent versus 28 percent). Not surprisingly,



Motivating Innovation at Home... and Capitalizing on Global Opportunities (con't.)

Reasons Why Non-U.S. Countries are Appealing



given the discussion earlier in this report, life science companies are much more likely than hardware and software companies to cite the regulatory environment as an attraction of foreign markets (43 percent, versus 19 percent and 15 percent). An interestingly — and potentially disturbing — response comes from software companies, who are significantly more likely than hardware companies to point to “focus on innovation” (15 percent versus 3 percent) and “culture” (12 percent versus 3 percent) as an attraction of foreign markets.

While we believe the United States is and can remain a vital innovation center, we also believe that the desire to innovate is a basic human desire. Consequently, we see innovation as a global phenomenon, and we are not surprised to see vibrant innovation economies developing in countries such as China, India, Israel and across Europe. In fact, we think this is a good thing.

Global economies provide businesses with new markets for their products and services. Entrepreneurs in foreign markets add to the research and development capabilities of U.S. technology companies. Foreign manufacturing helps U.S. companies stay close to customers and competitive with rival firms. And competition challenges all of us to be more creative, promoting an upward spiral among innovative firms.

“For every entrepreneur who walks in the door, we want to be sure they’re thinking globally. Venture capital is no longer a U.S.-centric industry. Entrepreneurs should consider not only their products but how to localize their sales efforts.”

Maha Ibrahim, *General Partner, Canaan Partners*

To give a sense for the benefits that global markets offer to U.S. technology companies, we were honored in March 2011 to be named “Lender of the Year” by the Export-Import Bank of the United States (Ex-Im). Our work with Ex-Im and clients doing business in non-U.S. markets has direct, positive effects here at home. In 2010, our Ex-Im loan commitments helped 75 small business clients generate more than \$1.4 billion in U.S. export sales to 30 different countries and to support nearly 6,400 new and existing U.S. jobs.

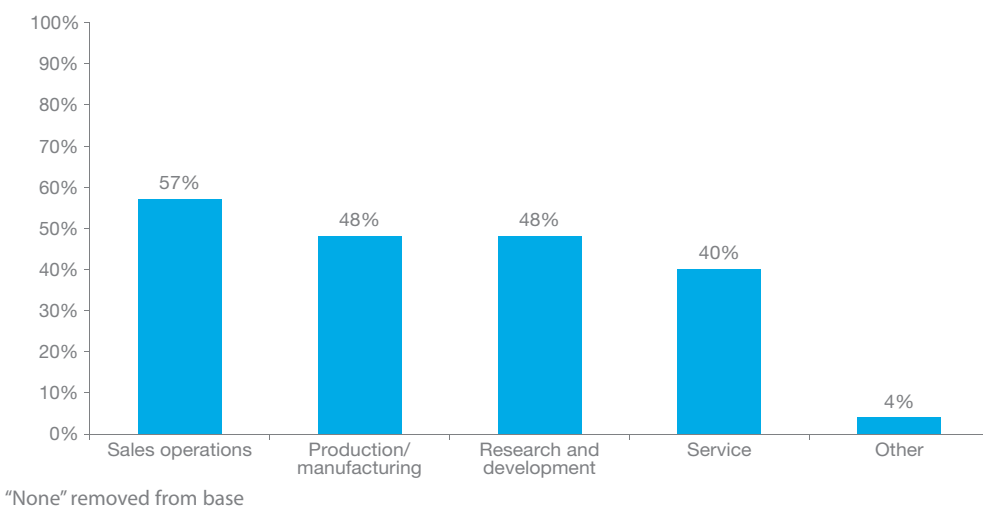
Particularly for high growth businesses, the trick is thus to capitalize upon the strengths of the U.S. market and to embrace global opportunities to enhance their growth. To better understand what is driving very early stage companies as they think through the opportunities and challenges of expanding internationally, we asked them whether — and if so, how — they are turning to non-U.S. markets.

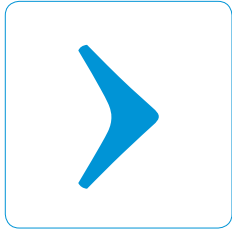
Overall, respondents rank international expansion third out of 10 as a growth opportunity. That said, it is a relatively distant third place, with only 29 percent of executives identifying it as an opportunity. (See chart, page 13)

However, while respondents do not cite it as a key growth driver, more than two-thirds of the early-stage companies included in the survey (71 percent) are already operating beyond the United States.

Of the respondents whose businesses are helped by international operations, 57 percent say they conduct sales operations outside the United States; 48 percent report using non-U.S. locations for production or manufacturing; the same number (48 percent) say they turn to non-U.S. locations for research and development; and 40 percent state they conduct service operations abroad.

Areas of Help From Non-U.S. Markets





How the Federal Government Can Support Growth

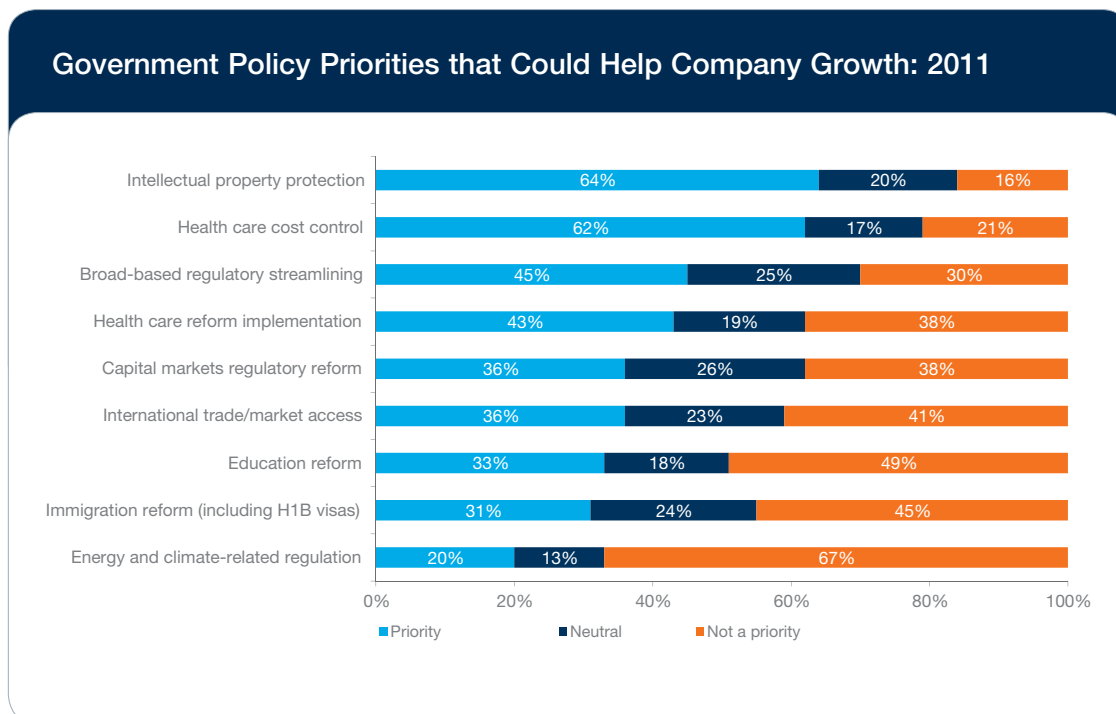
Highlights:

- Eight in 10 life science executives say that the FDA approval process should be a priority.
- Intellectual property protection and health care cost control are the two highest policy priorities.
- R&D funding, R&D tax credits/grants and investments in technology infrastructure are the top fiscal priorities.

If our goal as a country is to create the most vibrant innovation sector we can, what do the leaders of early stage innovation think we should do? To answer this question, we asked the respondents to identify the policy and fiscal priorities they believe would help their companies grow.

Policy Priorities

In the realm of policy issues, more than half of those surveyed identify two priorities: intellectual property protection (64 percent) and health care cost control (62 percent). Roughly half (45 percent) called for broad-based regulatory streamlining, and a slightly smaller number (43 percent) listed health care reform implementation.



The focus on policy among this year's survey respondents is higher than one year ago — though it is not clear why. It is possible that government policy and regulation are affecting startups more than in the past. It is also possible that executives see the impact more clearly. Or perhaps the increased focus on policy reflects something else, such as the fact that as the economy recovers executives can look more broadly at the issues they confront and focus more on growth rather than survival.

Key year-over-year changes in policy priorities include the following:

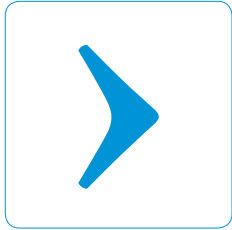
- 64 percent of respondents say that intellectual property protection is important to the growth of their businesses, up from 47 percent in 2010.
- 36 percent say that policies supporting international trade/market access would be helpful, while only 28 percent thought so in 2010.
- 31 percent say immigration reform would help their companies grow, compared to 23 percent in 2010.

In terms of sectors, immigration reform is a higher priority for software and hardware companies than for life science companies — not a surprising result, given that (as discussed earlier in this report) hardware and software companies are particularly likely to cite recruiting and managing talent as a key growth challenge.

Government Policy Priorities that Could Help Company Growth: By Industry

	Software	Hardware	Life Science	Cleantech*
FDA approval process [^]	N/A	N/A	83%	N/A
Intellectual property protection	61%	63%	68%	80%
Federal renewable energy standards**	N/A	N/A	N/A	68%
Improve R&D commercialization**	N/A	N/A	N/A	68%
Health care cost control	71%	58%	50%	46%
Broad based regulatory streamlining	43%	32%	57%	52%
Health care reform implementation	42%	34%	53%	33%
Capital markets regulatory reform	34%	38%	33%	58%
International trade/market access	37%	42%	26%	44%
Education reform	40%	32%	21%	29%
Immigration reform (including H1B visas)	39%	31%	15%	29%
Energy and climate-related regulation	16%	18%	12%	79%

*Small sample size, 23 companies
[^]Shown only to Life Science companies
^{**}Shown only to Cleantech companies
 ("None—No challenges" removed from base)



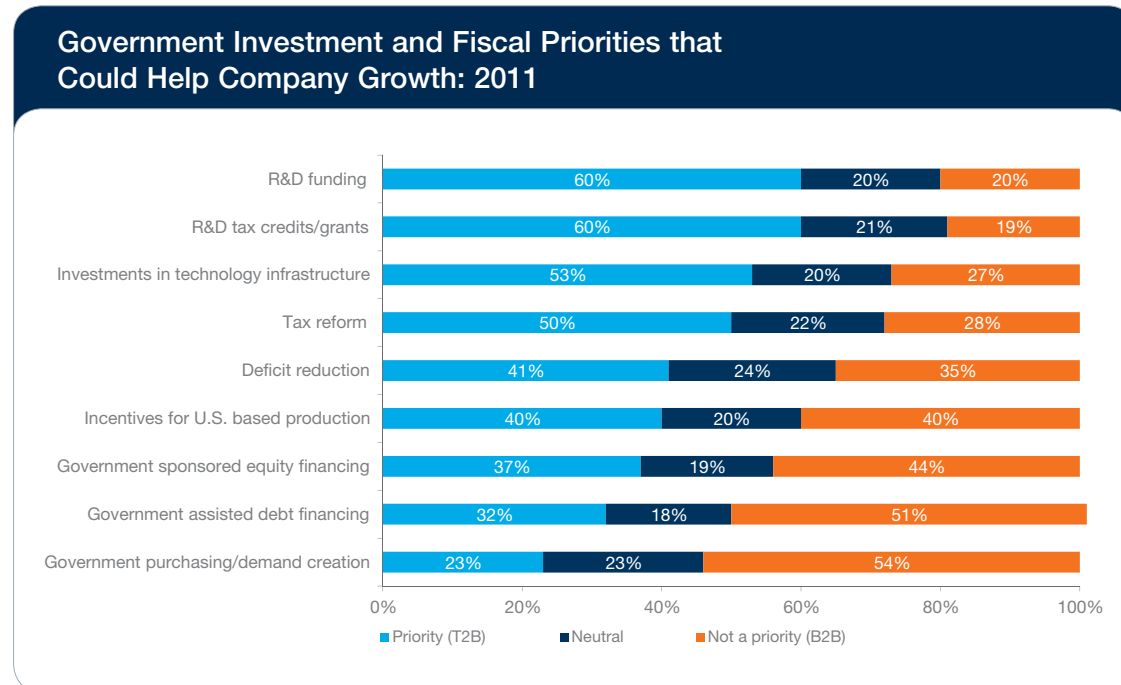
Policy Priorities (con't.)

Similarly, eight life science executives in 10 say that improving the FDA approval process would help their company's growth — again, consistent with the data discussed earlier on their challenges. It is important to note that life science companies often compare the U.S. FDA approval process unfavorably to processes used in Europe. The criticism thus cannot be dismissed as a natural and unavoidable by-product of a highly developed legal system and/or an appropriately cautious approach to matters involving human life and health.

Among clean technology companies, executives cite intellectual property protection (80 percent), energy/climate regulation (79 percent), federal renewable energy standards (68 percent) and improved R&D commercialization (68 percent) as top policy priorities that could help their growth.

Fiscal Priorities

Turning to fiscal priorities, more than half of all respondents indicate that R&D funding (60 percent), R&D tax credits or grants (60 percent) and investments in technology infrastructure (53 percent) would help their companies grow. Half of the respondents call for tax reform, and four in 10 respondents (41 percent) cite deficit reduction as a priority. Executives do not by and large support government sponsored equity financing or government assisted debt financing, although these are priorities for cleantech companies.



Executives in the current survey are significantly more likely than those in the 2010 survey to say that investments in technology infrastructure would help their company's growth (53 percent in 2011, versus 42 percent in 2010). This clearly reflects at least a partial change in views: In 2011, for example, 64 percent of software companies highlight the benefits of investments in technology infrastructure, up from 53 percent a year ago. It may also reflect a shift in the sample population away from life science companies, who constituted 32 percent of respondents in 2010 and only 18 percent in 2011, and who likely see less of a role for government infrastructure investments as a pro-growth policy.

In other year-over-year trends, life science companies are significantly more likely this year than last to call for government-assisted debt financing (33 percent in 2011, up from 19 percent in 2010).

Government Investment and Fiscal Priorities that Could Help Company Growth: By Industry

	Software	Hardware	Life Science	Cleantech*
R&D funding	50%	62%	76%	83%
R&D tax credits/grants	49%	66%	78%	68%
Investments in technology infrastructure	64%	58%	28%	38%
ARPA-E funding**	N/A	N/A	N/A	54%
Tax reform	55%	53%	41%	33%
Deficit reduction	46%	43%	32%	29%
Incentives for U.S. based production	29%	51%	49%	79%
Government sponsored equity financing	33%	33%	44%	63%
Government assisted debt financing	26%	38%	33%	58%
Government purchasing/demand creation	20%	40%	11%	46%

*Small sample size, 23 companies
 **Shown only to Cleantech companies
 ("None—No challenges" removed from base)

Not surprisingly, cleantech companies say that R&D funding (83 percent), incentives for U.S.-based production (79 percent) and R&D tax credits and grants (68 percent) are their highest priorities.

Policy Perspective: A Pro-Innovation Agenda

There are five ingredients for a robust innovation sector — and, hence, five basic areas for policymakers to focus on to create a policy environment that promotes innovation. First, policymakers should promote a culture of entrepreneurship: an environment that promotes risk taking and rewards success, is open to disruptive innovation, provides a stable, predictable legal and business environment, and avoids excessive regulation. Second, they should make sure we create a strong talent pipeline, by educating Americans and having sound immigration policies that let foreign-born innovators create companies and jobs in the United States. Third, they should make sure we have a strong pipeline of ideas, by funding government-sponsored R&D, enacting long-term, predictable R&D tax credits, supporting new approaches (like the very successful ARPA-E program), making sure ideas created in government-sponsored R&D labs cross the “valley of death” and reach commercial markets, and maintaining a sound system for protecting intellectual property rights. Fourth, policymakers should promote the flow of adequate, appropriate risk capital into startups (see separate policy recommendations below). And finally, policymakers should create some competitive markets by removing subsidies, regulations, and other market-distorting forces that favor incumbents and make it harder for innovative technologies and business models to succeed. In the clean energy sector, they could adopt renewable energy standards to promote our migration to renewable energy sources.

Policy Perspective: Access to Talent

The early-stage companies that responded to the 2011 survey highlighted cost-related issues as their greatest recruitment and management challenges. By and large, most did not appear to be having difficulty finding qualified employees in the United States or obtaining visas for qualified, non-U.S. employees. Not surprisingly in light of these responses, only 31 percent said immigration reform was a government policy priority, and only 33 percent cited education reform as a policy priority.

We believe these responses reflect two underlying facts. First, the companies in this survey are at a very early stage of their growth: more than half have fewer than 25 employees, and 45 percent have less than \$1 million in annual revenues. Second, it has been relatively easier to find qualified U.S. employees and obtain H1B visas during the economic downturn.

Despite these responses, we see talent as a critical issue that needs policymakers’ help.

The experiences of SVB client Exa Corporation illustrate how critical it is that we take steps to make sure growing companies can continue to hire U.S. and foreign-born graduates from our universities. Exa, based in Burlington, MA, USA, is the kind of company we should care about, as a country. It’s an innovative, fast growing company that expects to go from

160 employees to 200 employees this year. It’s developing products that will help us achieve our energy and competitiveness goals: Exa’s fluids engineering simulation software helps automakers and other transportation companies design more fuel efficient vehicles, shorten product design cycles, and improve time-to-market. And Exa will help us create high quality jobs: approximately 80 percent of Exa’s employees hold masters or above with over 60 percent holding a Ph.D., making its workforce full of the kind of highly skilled jobs we aspire to create.

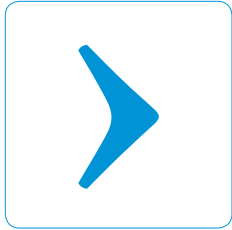
For Exa and companies like it to succeed, they need a ready supply of talented employees. Yet today, 70 percent of the Ph.D.s graduating from top U.S. universities are unable to stay in the country, and so are inaccessible to Exa and other employers. We need to address this. We urge policymakers at the federal, state, and local level to make sure American kids are getting the kind of education they need to pursue and enter Ph.D. programs. And we urge Congress to let highly educated students who were born overseas but studied at U.S. universities stay in the United States, whether to form their own entrepreneurial companies or to join existing high growth companies.

Policy Perspective: Access to Capital

One of policymakers’ greatest areas of focus should be on creating an environment that encourages capital to flow to startup companies. There is plenty of capital out there, but policies can encourage or discourage it from flowing. Policymakers can be most effective when they provide appropriate incentives and remove impediments — as the survey makes clear, startups do not government to be a source of equity or debt financing.

At an absolute minimum, policymakers should avoid artificially constraining the flow of capital. For example, it is crucial that the Obama Administration implement the so-called Volcker Rule in a way that does not constrain the flow of capital to high growth startups. In addition, to encourage private sector capital flows to startups, policymakers should focus on adopting tax policies that encourage long-term investing; regulatory policies that carefully balance the costs and benefits of regulation; and capital markets policies that allow growth companies to go public without undue burden. More broadly, policymakers should work to create an over-arching regulatory/political environment that provides long term certainty and allows new entrants to compete fairly in regulated markets, such as energy.

In addition, while respondents overall did not highlight access to debt as a significant challenge, there are pockets — often referred to as “valleys of death” — in which private markets are unable to meet the borrowing needs of technology companies because the mix of market, technology, regulatory and operational risk are too high. This is a particular concern in the clean energy and life sciences sectors. We believe governments can help provide a bridge to meet these financing needs by adopting co-lending arrangements with private banks. Institutions such as the Export-Import Bank of the United States have demonstrated that a co-lending approach is an effective way to leverage public sector dollars effectively, while also drawing upon the underwriting and portfolio management expertise of banks who have an established track record lending to technology companies.



Market Insights: Industry Sectors

Software

In 2010, the software sector experienced strong positive momentum, with particular strength in technology/solutions centered on:

Cloud Computing: In this sector, the use of remote-from-the-user servers to store and provide nearly instant access to files from anywhere via the Internet (cloud computing can also utilize on-premises servers for businesses storing sensitive data), we're seeing ample seed-stage funding. Large players in cloud computing, such as Amazon and Rackspace, are experiencing good margins. They are addressing perceived barriers, such as integrated enterprise adoption and provable regulatory compliance, which presents a wide-open opportunity.

Virtualization: Server virtualization technologies provide a way to create on-demand computing resources that can be scaled up or down as necessary to address, for example, spikes in demand as might be experienced when a company offers an upgrade or a new version of a popular product, or seasonally — an online store's business may jump around the winter holidays. Rather than buying and maintaining hardware and software to handle the highest demand periods, a company might opt to "rent" computing power during these busy times. Virtual computers/servers can also be built in-house. These virtual computers may be in existence for short periods of time, perhaps to provide a private working space and dedicated resources for a specific project. Virtualization offers many real benefits to enterprises, maximizing hardware resources and providing significant cost and energy savings.

Security: Both cloud computing and virtualization have created a market for new security technologies. Old methods of securing fixed-location servers don't work in the virtual space where servers are rapidly created, decommissioned or migrated to new IP addresses. Dynamic systems need proactive security systems that watch for anomalies and act on their own to block suspicious activity before a malicious attacker can access data.

Software as a Service: "Renting" the software a business or individual needs and then accessing it via a Web browser interface rather than installing it directly on the user's hard drive is now seeing widespread adoption. This business model relieves companies from the need to buy, administer licenses for, and maintain applications.

Social Media/Networking: Particularly in the mobile space, these solutions continue to be of very strong interest to investors. The lines between gaming, virtual worlds and social media continue to blur and shift. Online gaming companies raced to Facebook, building apps that allowed Facebook friends to play together/against each other. Now a sense of game play is present on many social networks, such as foursquare, a sort of virtual networking monopoly game with real world prizes. Social searching — personalized search results based on a social network's recommendations or interests — is likely to be the next big thing. Concerns about data privacy and ownership may increase among older users, while many younger users —

accustomed to "sharing" information about themselves on Facebook and other social sites — seem less worried about their privacy online.

Spending on technology is increasing. Valuations are growing at a rapid pace, leading some analysts to wonder whether a new tech bubble may be forming. Facebook is currently (March 31, 2011) valued at around \$75 billion, whereas two months prior it was valued at \$50 billion. Groupon, the daily discount company, is currently valued at about \$25 billion, less than six months after it turned down an offer from Google for as much as \$6 billion.

Given that software firms have low capital needs in order to prove their revenue models, companies with proof of concept for their products or services are getting "easy" funding (easy but not "frothy" — frothy being that over-exuberant, frantic investing that we saw during the dot-com years). For hot sectors, such as social media/networking, venture capitalists are competing for deals. Meanwhile, VCs are jockeying to hold onto their percentage stakes in companies with solid business plans or proven concepts.

Among SVB's survey respondents, executives at software companies cite scaling for growth and hiring skilled people as top challenges given the sector's current momentum. Some feel that U.S. education is poor — "grades have no economic value."

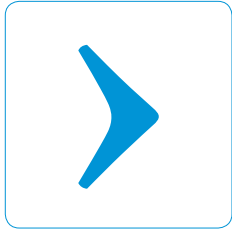
Regulatory challenges are also a significant issue for many of the CEOs that spoke with us. Software companies are avoiding going public because of the costly, time-consuming burden of complying with Sarbanes-Oxley and Fair Value Accounting demands. Some companies are also citing uncertainty about federal privacy regulations as a concern.

Clearly, globalization is a huge success for software firms. Software creation lends itself well to remote workers, such as programmers and quality assurance testers, and CEOs say there aren't as many reporting regulations to comply with overseas.

That said, companies are staying in Silicon Valley to have ready access to capital and top-notch talent. Face-to-face networking is also cited by SVB-pollled executives as a high-value benefit, as is the clout of the Silicon Valley name for brand messaging.

Hardware

Executives in the hardware sector told SVB that 2010 was a considerably stronger year than 2009, with improvements in topline sales growth and in both gross and operating margins. In general, hardware growth in 2010 was driven largely by the demand from consumer electronics (smart phones, tablets, and others). Companies in this sector met and are meeting their sales forecasts, though it must be noted that sales forecasts during the downturn became more reasonable, rooted in real world realities rather than the more hopeful "pie in the sky" type projections that were in wide use in this industry prior to the recession. As the economy continues to recover, companies may revert to their normal, "optimistic" forecasts.



Hardware (cont)

Due to continuous growth experienced by the electronic systems industry, many of our hardware clients have been feeling the chip chain constraints, which have not improved much lately. It remains to be seen how the tragedy in Japan may affect the industry's supply chain. The fact that a good amount of silicon wafer and NAND flash supply that are core components for smart phones and tablet PCs are manufactured in Japan could have some impact on the chip ecosystem.

The executives SVB polled for this study indicate that their current focus for 2011 is on top line revenue growth. Among hardware companies, 84 percent report they expect to hire employees within the year. Chip companies are becoming more capital efficient through process improvements such as Electronic Design Automation and IP (in this instance, IP refers to purchasing another company's proven intellectual property for use in one's own product). Used together or singly, IP/EDA manufacturing both speeds the design process and simplifies the process of evaluating a chip design for manufacturing readiness. The companies that offer EDA tools are also seeing some growth, due to the semiconductor industry focus on finding ways to produce quality products more efficiently and cost effectively. Hiring seasoned engineers is obviously another key part of a business's overall efficiency.

Companies seeking funding are for the most part getting the money that they need, although funding is constrained for those with products moving into production or very early in the revenue generation cycle. This is often the most difficult time for companies to raise financing. Across all series of funding rounds, the majority of hardware firms are experiencing flat to modestly up rounds. Companies that are showing steady growth, but are still burning cash, are able to raise money more easily to support ramping revenues. Down rounds are seen in stale deals (deals that have been attempting to raise money since 2007-2009). VCs are putting much of their capital in existing deals and are investing in new deals opportunistically.

Companies in the connectivity (mobility) and storage spaces are attracting funding. Wireless sector performance should be higher given demand for smartphones, but performance statistics may be lagging demand stats. Nevertheless, this demand bodes well for future of wireless-related technologies, especially for those that effectively enable 3G and 4G data offload from the carrier's network, which has been chocked by high bandwidth demand from smartphones and tablets use. In the storage space, the move to cloud (remotely located server farms as well as private/on premises cloud servers for sensitive material) continues to grow due to cost and scale economies.

Companies are cautiously optimistic about the exit environment as expectations for IPO and M&A activity are increasing.

Life Science

Life science companies tended to be the most cautious in their outlook for 2011 among all the executives SVB surveyed. Though more than half of them said their companies performance is "on target," they are significantly more likely than executives in other industries to report challenges to

their businesses in general, with 64 percent citing challenges due to regulatory/political issues as a major impediment to their businesses success, as opposed to only 21 percent of software and hardware companies.

Their primary concerns also include uncertainty about new regulations and an overall environment that discourages risk-taking. This primary concern perpetuates itself in the other main roadblock, seen by 58 percent of these firms, which is access to equity financing as capital providers hold similar concerns regarding the uncertain regulatory environment.

These dynamics — concern about a shifting and overly complex regulatory environment and difficulty in finding funding — are trends we see across the board in life sciences, but certain key differences are present within the different segments that comprise the industry.

Biopharma: The outlook is optimistic but guarded. On a positive note, the industry is becoming more capital efficient, mergers and acquisitions activity — spurred partly by the need to add revenues, new products or new geographical reach to companies grappling with key patent expirations — is increasing, and there's been an uptick in seed and Series A funding. Layoffs and cuts in R&D have led to a number of Big Pharma spin-offs, which VCs have found attractive. Still, many VCs are hedging their bets by apportioning investments more broadly in hopes of capturing a larger piece of the future drug pipeline.

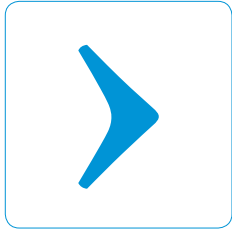
Medical Devices: This sector is facing stronger headwinds, including what executives perceive as a tough regulatory environment. Increasingly stringent FDA approval guidelines result in a lengthy and costly approval process. This slow approval process is taking its toll, not only on the bottom lines of these companies, but also in the areas of funding and acquisitions.

Total U.S. venture funding for medical devices was down 3 percent in 2010, in contrast to every other industry sector, all of which showed a funding increase. Many believe that "over-regulation" by the FDA is the primary culprit. Many medical device companies go to European markets for approval first, with the idea of gaining traction for their product/s before navigating the more challenging U.S. regulatory gauntlet. In fact, the House Energy and Commerce Health Subcommittee, citing research by PwC, Stanford University, and BCG, recently issued a directive for various committees to investigate the reported FDA delays.

On the U.S. regulatory front, there are some hopeful signs. The FDA is starting to acknowledge that the regulations are limiting innovation and investment in medical devices and resulting therapies. The agency has announced that it plans to take initial steps to alleviate the pressure by clarifying its regulatory process.

Cleantech

The cleantech sector is still in its infancy, much like the semiconductor industry in the 1960s. Each cleantech subsector (solar, wind, biofuels, water, etc.) has an intricate and often distinct set



Cleantech (con't.)

of economic and supply chain dynamics, but all are affected strongly by what the industry sees as a challenging, fragmented regulatory environment and a lack of long-term funding commitments from the federal government.

In the last five years, cleantech investment has overtaken technology, medical device, drug development and other traditional venture segments. But the sector's key drivers — which include substantial private and public funding, the creation of legislative and regulatory frameworks, and heightened consumer awareness and demand — are only beginning to align.

Interest in the sector has increased, in part, due to an improving exit environment. The fourth quarter of 2010 was the best quarter for U.S. venture-backed IPOs (across all sectors) in nearly 10 years, and cleantech IPO proceeds during the fourth quarter eclipsed all three previous quarters combined.

While 2010 was a positive year for the U.S. cleantech sector, it's worth noting that China accounted for more than two-thirds of all cleantech IPOs and almost 61 percent of total funds raised in public offerings. This isn't surprising; an essential component of China's success and global rise has been the government's financial commitment to large-scale infrastructure and renewable energy projects, as well as efforts to provide lower-cost (yet highly qualified) labor, cheaper credit and other incentives — all of which help Chinese companies reach economies of scale more quickly than foreign competitors.

U.S. based cleantech firms would clearly appreciate a comparable level of governmental support. Nearly 70 percent of cleantech executives participating in our study say their companies are most challenged by gaining access to equity financing. Moreover, nearly 80 percent report that energy and climate-related regulation and incentives for U.S.-based production are government priorities that could help their company's growth.

One of the challenges facing the industry is that angel and venture investors have moved away from seeding large-scale, capital intensive energy production companies and are now focused instead on capital efficient plays. Some of the more fortunate mid-stage companies have raised funds from strategic corporate investors interested in developing partnerships or gathering information in advance of potential “buy vs. build” decisions.

Moreover, select late-stage companies have benefited from federal and state governments unlocking frozen project finance markets and providing loan guarantees, grants and other key incentives.

Unfortunately, government funding has been slow and laden with restrictions, such as requiring substantial equity alongside a loan guarantee. In many instances, this has resulted in a “who goes first?” scenario between investors and the government, leaving cash-starved startups caught in the gap.

Note: Due to the small sample size for cleantech companies, survey responses from these executives are directional and results are not compared statistically to other groups.

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SVB Financial Group

Silicon Valley Bank Headquarters
3003 Tasman Drive Santa Clara, California 95054 U.S.A.
Phone 408.654.7400 svb.com

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