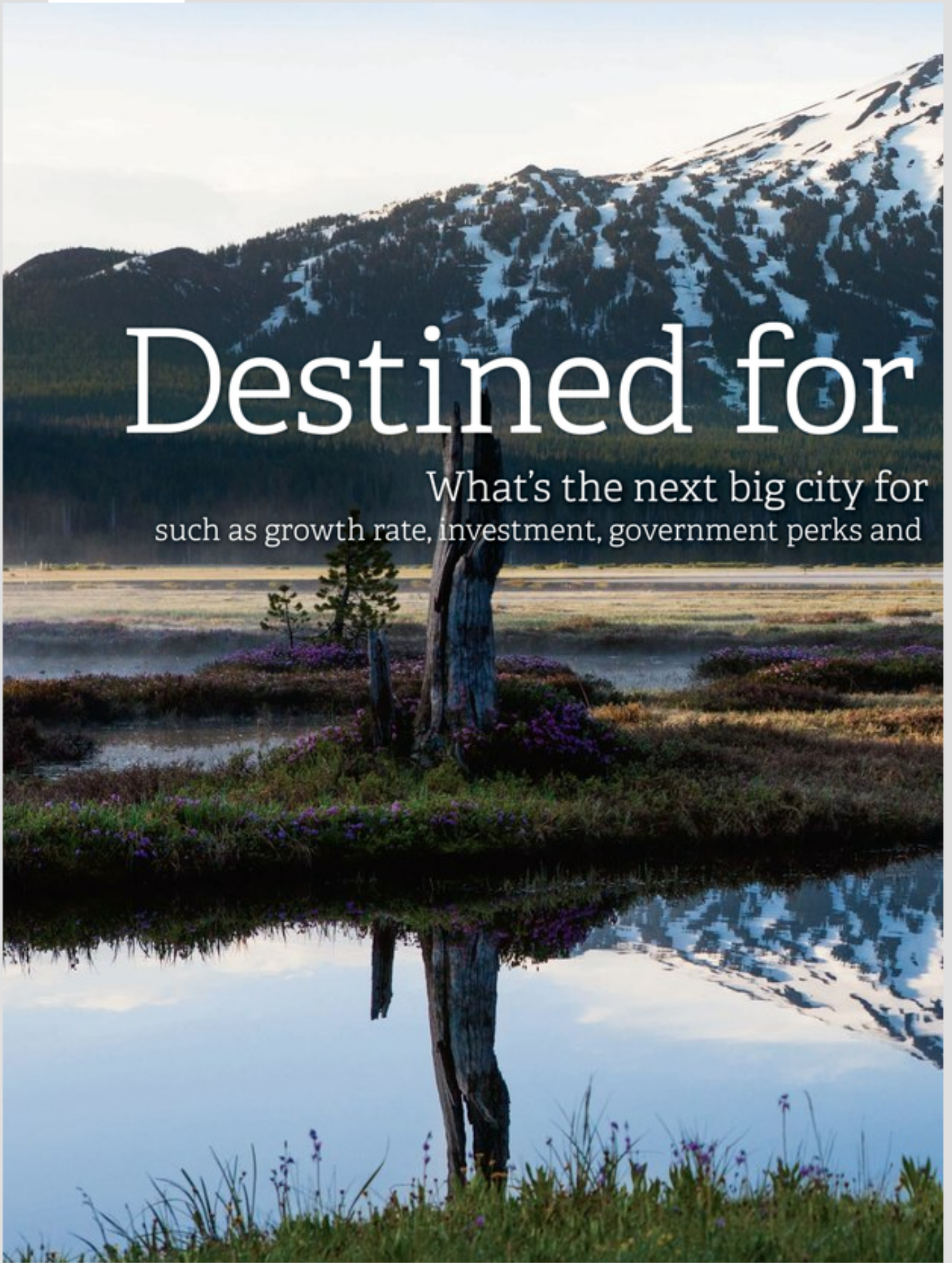


Destined for

What's the next big city for
such as growth rate, investment, government perks and

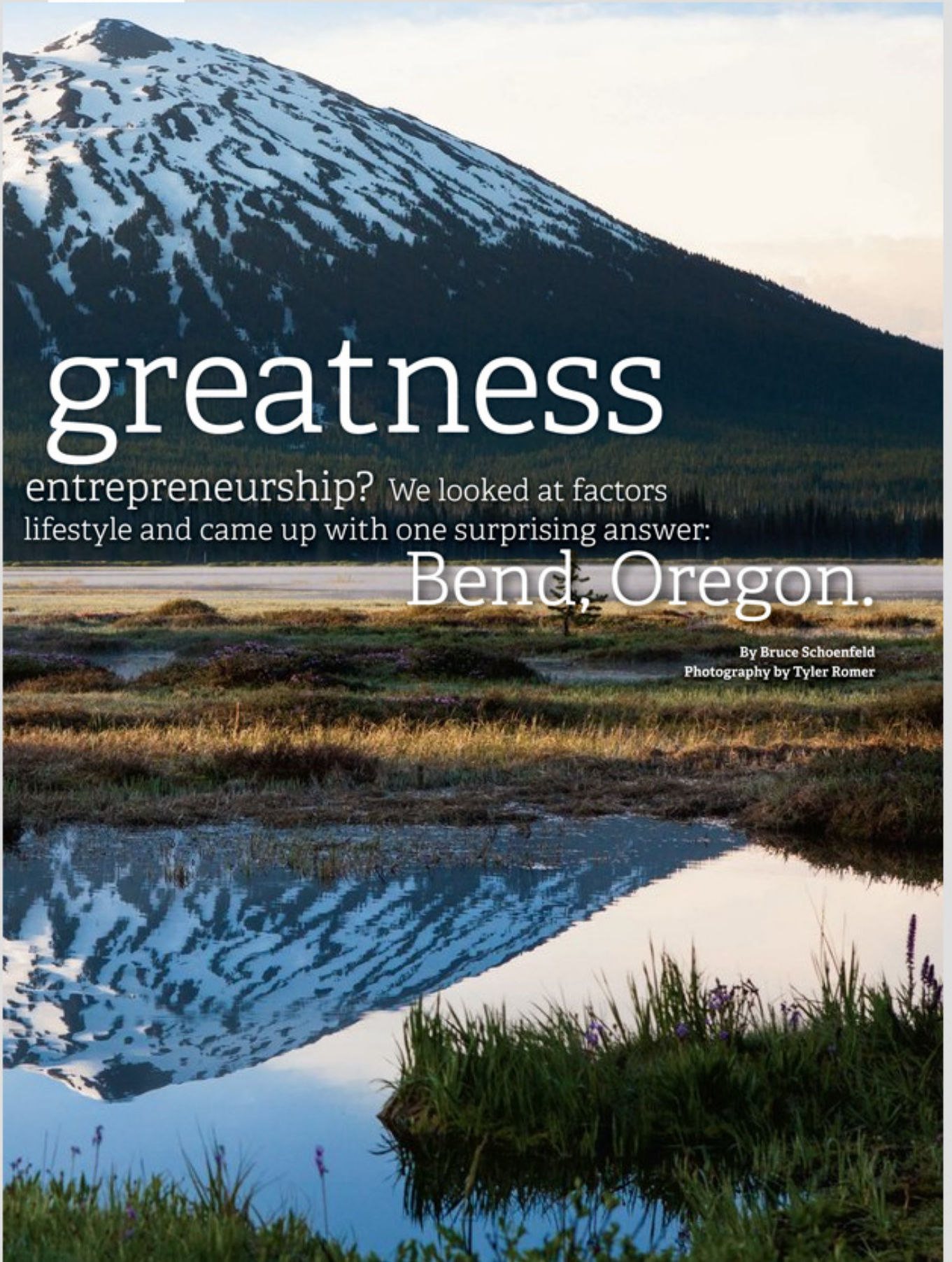


greatness

entrepreneurship? We looked at factors
lifestyle and came up with one surprising answer:

Bend, Oregon.

By Bruce Schoenfeld
Photography by Tyler Romer



Not so long ago, what is now the most entrepreneurial city in America was nearly a ghost town. The timber industry had crashed, and it was the only industry that Bend, Ore., had. "Two of the biggest pine mills in the world, and one had closed and one was about to close," Dan Smithey says of the first time he saw Bend, in 1979, when the population was less than 20,000.

Smithey is sitting in the conference room of Agere Pharmaceuticals, a \$4 million manufacturer of materials for clinical trials that he co-founded in 2007. "But it was a beautiful place," he says. "Sunny days, crisp nights. It's the kind of place people come to just because they want to be there. And now there's a network of talented people who've done exactly that."

These days, Bend's population is nudging 80,000. There are still rolling hills and mountain vistas, but they share space with a business community that might be the most eclectic—and fastest-growing—of any similarly sized city in America.

Bend is humming with new ideas, businesses and capital. "You can smell it in the air," says Scot Bayless of Irvine, Calif.-based gaming company FireForge, which recently expanded to a Bend office. Bayless previously worked at companies including Sega, Electronic Arts and Microsoft. "The diversity of people bringing businesses here is astounding. A community of big brains, here because they want to be."

"Over the past decade, it just got to the point where it became cool to start a company here," says Jim Boeddeker, executive director of Founderspad (formerly known as VentureBox), a local business accelerator that graduated its first class of fledgling entrepreneurs in May. "The money here has energy."

Set on the Deschutes River along the eastern ridge of the Cascades, three hours (and a mountain range) southeast of Portland and a nonstop flight from Seattle, Denver and San Francisco, Bend has a sunny climate and endless opportunities for recreation. In that sense, it reminds people of Boulder, Colo., and Austin, Texas. In fact, you can't spend a day in Bend without hearing those places invoked as the model for its growth.

The people Bend attracts are active, creative types with money to spend, ideas to cultivate or both. "People maybe sell a business, they move to Bend for the lifestyle, but they still want to be involved," says Brett Mills, a serial entrepreneur from nearby Redmond and most recently the founder and CEO of RES Equine Products, a manufacturer of products for horses.

What might start as a ski vacation at Mount Bachelor often leads to the purchase of a second home—then, frequently, permanent relocation. That trend started in the late 1990s but accelerated in the decade that followed. Property values soared in California tech centers like Palo Alto and Santa Monica, and the

generation of executives and innovators who were sending kids to college figured it was time to cash out.

In Bend, they found good schools; high-speed internet ahead of the curve, thanks to BendBroadband; well-planned developments; and world-class medical care. Most important, they found a city that valued innovation. "It definitely has the entrepreneurial spirit, that drive to pave your own path," Garrett Wales says. "There's a real pioneer spirit in Central Oregon, and there isn't much land left to pioneer. So it manifests itself in business."

Wales, raised in Bend, longed to stay. But how? "There was the service industry and tourism, and that was it," he recalls. "How do I find a way to be



"I can't fail, then go down the street to another VC with a new idea like in the Bay Area. I need to succeed in order to be able to continue living here. That creates a lot of incentive to make this work."

—Peter Ozolin, Manzama

TOWN PHOTO © STUDIO4PHOTOGRAPHY.COM

successful and stay in town? That was the challenge." In 2008, he joined on as an equal partner in 10 Barrel Brewery. Now it has 74 employees, a 15,000-square-foot facility, a spinoff restaurant and bar and \$5 million in annual revenue. "We love beer, but if we weren't running a brewery, we'd be doing something else," Wales says. "We're businessmen first."

Advances in communications are part of what allows this midsize city to incubate so many new technologies. "It would have been impossible when I first came through in 1994," says Bayless, who started his gaming company last spring. "Now it's easy. My other office is in Singapore, but we have weekly videoconferences."

It helps, too, that today's lean tech startups don't require hundreds of employees. "You no longer need to be firmly attached to a major metro area," says Dino Vendetti, managing director of Silicon Valley-based Formative Ventures. "You can build valuable companies without a lot of money or people, as long as you have the key components of an ecosystem in place."

Vendetti formerly worked at major creative shops such as Paul Allen's Vulcan Ventures and Qualcomm. These days, he spends part of each month in Bend. An investor in Founderspad and the internet startup Manzama, he discovered the city after a former colleague cashed out and moved up.

"He was semi-retired, but he kept telling me, 'Dino, get your ass up here and check this place out,'" Vendetti says. "I thought it was going to be all cowboys, but every third person I met was a transplant from the Bay Area or L.A. or Seattle—and a lot were tech people. They loved the area, loved the lifestyle. They didn't want to give up their careers, but there were no big companies. So they started their own."

SUPPORT SYSTEMS

It's no accident that this private-sector boom is occurring in a place where government aims to foment new business,



in the form of enterprise zones, public/private partnerships and enlightened decision-making. "There is a role for city government in fostering economic development," says Jeff Eager, an attorney who serves as Bend's mayor.

Funded half from public dollars and half from private sources, the Economic Development for Central Oregon (EDCO) is dedicated to ensuring that devastating economic events like the timber crash don't happen again. "Over the past year, I've dealt with 150 startups in all kinds of categories," EDCO venture catalyst manager Jim Coonan says. EDCO has a stable of more than 70 experts recruited to offer advice in specific fields, as well as a monthly entrepreneurial PubTalk. It also helped launch the Founderspad incubator, which has now segued into the private sector.

"We're trying to put these entrepreneurs on a different plane in terms of their odds of success," Founderspad mentor Chris Capdevila says. Toward that end, the EDCO-administered Bend Venture Conference pools contributions from small investors and annually invests roughly \$250,000 in a company of its choosing.

"We had the car, so to speak, but the conference was our fuel," says Mills, whose RES Equine was picked last year. "Could we have gotten there without it? Probably. Would we have run out of money first? Maybe." From \$500,000 in revenue this year, Mills has a five-year projection of \$10 million.

At the conference, more than 300

A FEW MORE ...

Bend isn't the only city with a newfound reputation for entrepreneurship. Other up-and-coming locales offer serious benefits to small businesses as well. Tops on our list:

Albuquerque, N.M.
Charlotte, N.C.
Colorado Springs, Colo.
Indianapolis
Las Vegas
Oklahoma City
Omaha, Neb.
Salt Lake City

In addition to offering great lifestyle and recreational perks, these cities are among those that earned the highest marks on the Thumbtack.com and Kauffman Foundation 2012 Small Business Survey, which considers factors such as economic health; networking and training options; regulatory issues; and ease of licensing and zoning.

entrepreneurs and would-be investors gather to hear presentations by five finalists. Beyond that, the mentoring that takes place during the process is invaluable for first-time entrepreneurs. "I'd been through those types of things before and didn't expect much, so I was very surprised," says Peter Ozolin, CEO of Manzama, a \$1.5 million startup that aggregates internet content about the legal community for subscribers. Ozolin was chosen to receive a \$200,000 investment in 2010 from the Bend Venture Conference and was able to hone his business plan from the feedback he received.

If there's such a thing as a typical transplant to Bend, Ozolin might be it. Trained as an attorney, he started a company in Portland that built websites for law firms. When that was acquired, he worked in the Bay Area, then landed in Los Angeles as a CTO. But his quest to think small, for his workplace and his lifestyle, led him away from California. "I wanted to start another company, but I didn't have an idea," he says. "So I thought I'd figure out where I wanted to live."

That turned out to be Bend. "I'd been [there] skiing in the '80s and loved it, but there was absolutely nothing there," he says. "But things have evolved to the point where it makes sense. Technology,

sales, you can do from anywhere. For everything else, there's a talent base big enough. If you like the other kinds of things that pull you here—skiing, fly-fishing, mountain biking—you'll love it. There's not a lot of ski towns that have

these kinds of opportunities."

Working outside of a major tech center ratchets up the stakes for Ozolin—and so too, he believes, his chances for success. "I can't fail, then go down the street to another VC with a new idea



PHOTO © STUDIOGRAPHY.COM

SUCCESS STORIES

The variety of businesses in Bend is staggering. Here are three tech companies that got their starts with help from a forward-looking city.

BREAKOUT BUSINESS: G5

G5's second-floor office space in downtown Bend looks like the stage set for a sitcom about a postmillennium tech company. There's the cooler stocked with Red Bull, the exposed heating pipes and bare concrete floors, the dartboard for blowing off steam—even the requisite canine trotting between desks in the open-space work area.

"No one works in offices anymore," says CEO Dan Hobin, who founded the company seven years ago. "They all want to work

in a Starbucks. So this is like one big coffee shop." At last count, G5 had 130 employees and a 43 percent annual growth rate. Its 2012 billings are expected to top \$22 million. From the original concept of providing internet marketing for self-storage facilities, it has expanded its online services to owners of retirement homes and multifamily apartments.

Hobin came north from California in 2002 and co-founded the Bend Venture Conference. "No one here even knew what a venture conference was," he says. "We wanted to start the conversation."

But after two years of entries, he couldn't find a company he wanted to invest in. So he started his own. His brother owned multiple self-storage units in Los Angeles and had little internet presence. That led to G5, a marketing tool for a category of business that typically isn't tech-savvy.

"We bootstrapped the company for five years," Hobin says. "I couldn't have done that in Silicon Valley, but you can run a company for a lot less money in Bend. I'd also have to compete with 50 other companies for my employees. They'd jump across the street for a better job."

Instead, Hobin employs

overqualified pros in nearly every position. "If they were in Seattle or San Francisco, they'd have a much bigger job, but they don't want to be in Seattle or San Francisco," he says. "They want a 10-minute commute and a cost of living that's one-tenth what it would be. The result is, you get people who are more engaged in what they do."

HELP FROM FRIENDS: Agere Pharmaceuticals

Agere founders Dan Smithey and Marshall Crew had been living in Bend since the '90s. They met while working at Bend Research, which was founded in 1975 as an outpost of technology in a sea of



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like in the Bay Area," he says. "I need to succeed in order to be able to continue living here. That creates a lot of incentive to make this work."

Knowing that others are in the same situation fosters camaraderie. "I was a skeptic," says Roberto Aiello, co-founder of Pocket Bounty, an electronic coupon that takes the place of school fundraisers. Aiello, who relocated from San Diego, confides, "I thought I'd have to put my company somewhere else. But people here really care about my success. It makes me want to be more helpful to other entrepreneurs."

Even the real estate downturn at the end of the last decade came at a propitious time for Bend, and not just because the community values its small-town feel. "We got off this bandwagon of buildings and homes," Founderspad's Boeddeker says. "Entrepreneurs started saying, 'I'm not going to buy more land. I'm going to start a company. Instead of a

building, I'm going to build a business.'"

So far, all that's lacking is a major program for developing local tech and computer talent, and that may be coming soon. Formative Ventures' Vendetti began working with Oregon State University's Cascades campus in Bend to create a computer science curriculum. "It's important to be able to crank out your own, organically grown developers," he says. "If Google or Facebook acquires a company, the question becomes, do they leave it in Bend or bring it down to the mother ship? The answer is tied to whether there's a source of technical talent in Bend."

None of Bend's companies have yet become the kind of high-profile acquisition that penetrates the national consciousness. But Vendetti believes the next Instagram may well be nestled at the foot of the Cascades.

"Bend is one M&A deal from being seriously on the map," he contends. "Once one of these little companies gets acquired, do you know how many engineers down in Mountain View [Calif.] will say, 'Dude, we got an office up in Bend. I'm moving there.' When that happens, you have the next Austin, the next Boulder. To me, it's a matter of time." (E)

timber—"a neat little company that was doing cool science," Smithey says.

By 2007, they'd formulated an idea for a company that would develop and manufacture materials for clinical trials. But where to do it? That's when they experienced one of those Bend moments that has prospective entrepreneurs flocking. "We met someone who happened to be a world-class guy in the electronics business and happened to live here," Smithey says.

Ron Rohrer—founder of Performance Signal Integrity and the 2002 winner of the prestigious Phil Kaufman Award, which honors individuals who have

made significant technology advances—had retired to Bend. "He mentored us and ended up investing in us," Crew says. "It never would have happened if we'd gone somewhere else."

Agere is expected to double in growth this year and is now up to 20 employees. "You wouldn't believe the number of conversations we've had through the years about whether we could do this in Bend," Smithey says. "So to see all this happening now is kind of shocking. We wouldn't want to be anywhere else."

THE DREAM TEAM: Element 1

Four entrepreneurs, each of

whom has started at least one previous company, sit around a table. Three—Rob Schluter, Dave Edlund and Peter Hall—are principals in Element 1; the fourth, Greg Haugen, is their CFO.

The Element 1 concept is rarefied. It is one of perhaps five companies worldwide that offers products that generate hydrogen on demand. It started shipping product in the fourth quarter of last year and will bill \$500,000 in 2012. Once the product gains a reputation for reliability, Schluter says, "just one project from one customer can mean tens of millions of dollars."

The principals of Element 1 all came to Bend because they

loved what the area offered.

Schluter arrived in 1998. "If you wanted to live here then, you had to create your own job," he says. "Dave and I were neighbors, and we'd look down our street and realize that in maybe 70 percent of the houses, there was someone who owned a business."

The percentage of entrepreneurs may have declined somewhat as the more successful startups ramped up their hiring. "But there's still a critical mass," Schluter says. "Just look around this table. Everyone knows what it's like to start and run their own business. It's an embarrassment of riches." —B.S.