Silicon Valley Bank Oral History Panel
Robert “Bob” Medearis and Roger Smith

Moderated by:
Stephen “Steve” Smith

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Stephen “Steve” Smith: I am Steve Smith. I'm a trustee here at the Museum, and I am delighted to be interviewing Roger Smith-- no relationship-- and Bob Medearis today [November 11, 2014], two co-founders of Silicon Valley Bank. I'm going to start by asking them to tell us a bit about their personal background, their history before the bank. I think it's very interesting for the essence of the Silicon Valley Bank story to know where you came from. So Bob, why don't you start?

Robert “Bob” Medearis: Well, it's an interesting question because I'm a native Kansan and a professional father on one side and Kansas wheat farmers on the other side of the family. I really got out here quite by accident. I had applied to Stanford and was fortunate enough to get accepted, probably because they had a policy of geographical diversity, rather than the things that they have today. And being from Kansas, I think that they didn't know who-- they didn't have a guy from Kansas before, so I think I got in because of that.

But on a lighter vein, I tried to play some basketball at the University of Kansas and Phog Allen said I wasn't going to make the team. I didn't feel too bad. They won the national championship the next couple of years, and so I came out here to Stanford, and it was a remarkable place. That's sort of how I got here.

And I studied civil engineering here. And I have a mentor over here by the name of Clark Oglesby, long since dead now. But Clark Oglesby was a very great inspiration to me over here. And it was really due to Clark that I stayed in the profession that I did and then went to business school at Harvard after my service-- three years in the service, in active duty, and then followed up with-- I needed to have money, so I stayed in the Reserves.

S. Smith: What was your early profession before business school?

Medearis: I was a student before business school, and then I went into the navy. I served--

S. Smith: Oh, you went straight to business school from the Navy.

Medearis: Yeah, I went straight from graduation from here under the ROC program. It was the ROC program to get your commission-- very similar to NROTC, but a program that gave you more money, and then you committed for three years in the service. And it was a great, great educational experience. I grew up in the navy. I was pretty still a wild kid before that.

S. Smith: And then, when you finished your navy obligation, did you go to Harvard?

Medearis: Harvard Business School. And then, after Harvard Business School, I left and I joined a firm mainly of a lot of Harvard Business School guys doing housing in Arizona. That company ran into very severe problems because the real estate industry couldn't overcome the cyclical nature of it. And so I ended up buying some of the assets of the company and moving to California and that brought me up here.

And then, Clark Oglesby asked me into teaching, and so I taught at Stanford for 31 years as a consulting professor of construction management. And that's important because-- and maybe it's too early to lead into that-- but that was-- I had a lot of students there that really wanted to find out how the whole financing system worked. And what my class was for was really to help guys going to Bechtel and Fluor Daniel and construction firms like that.

Most of them-- this was a master's program only, but a lot of them came and wanted to find out how they could get financing from banks because they just weren't-- if you had an idea, venture capitalists weren't around yet, and so it was an interesting 4, or 5, or 10 years that I kept hearing this statement.

And then finally, I got the idea that hey, maybe, just maybe, after Reagan came in and eased up the regulatory structure, that there could be a financial institution. I must say that it was an activity that-- it was constantly evolving due to people like Bill Biggerstaff and particularly my friend next to me here, Roger Smith. They took the idea and really massaged it to where it is today.

S. Smith: So your time frame, Bob, you've got here-- was this the early '70s when you went to business school or late '70s?

Medearis: Actually, in the early '60s.

S. Smith: Early '60s you got here. I see.

Medearis: I got out of business school in '59 and went to Arizona. And then, we stayed down there, worked, and took that company public, but builders should never be public because they couldn't match the cyclical earnings. And then, when I came up here, I started branching off, and I really focused on teaching. And then, all the attributes that came out of teaching, I worked on and started getting into boards and activities such as that and taking some ideas and nurturing them, which I'm actually still doing today.

S. Smith: Tell us about your family. Kids? Grandkids?

Medearis: Interesting. I have a wife. She's German-- came over here right before the war broke out in Germany. Her father was OB/GYN in Hillsborough. And Helga and I met in March of '53, and we've been together since then-- married for 58 years and three kids. Only one went to Stanford, Ken, who took a master's in construction management.

And our daughter, Ilsi, is a Pomona, Cornell, UC Davis graduate. She has her doctorate in veterinary medicine and-- remarkable young lady. Her husband is a-- small animal surgery at UC Davis. And that was one of the reasons that later in life prompted us to move to Davis, where I live now, to be closer to her. And I frankly also got a little bit tired of the traffic down here.

And then, our youngest is Dale, and Dale has his doctorate from Virginia Tech. He went to Redlands and then played soccer overseas in the professional league and then came back to Wharton-- University of Pennsylvania-- and took his master's in the school or government. And he's an interesting young man, in that he's leading a bunch of Nobel laureates in a seminar on addressing the problems of global climate possibilities that merge from the anthropomorphic development-- mankind's influence on those conditions.

And he's going to be in Hong Kong. He does a lot of traveling, and he's got appointments with the Humboldt Foundation and the Free University of Berlin and also a professor at Johns Hopkins. So those are the kids and four grandkids, and Helga and I have had a wonderful life together, and I think she would say that she enjoys it as much as I do.

S. Smith: I’m sure. Roger, why don't you fill us in on your early background.

Roger Smith: Sure. I grew up in Colorado and Kansas. My father worked for a company called Colorado Interstate Gas Company, and so we moved around a bit. I ended up in a little town called Elkhart, Kansas, where I went to high school-- and 26 in my graduating class. The good news is you got to play all the sports and be in the plays and all of that. And then to the University of Colorado, where I majored in business, and came out here in 1964 to work for Wells Fargo.

In the Midwest at that time, there were no branch banks. So if your dad didn't own the bank, there was not a lot of opportunity, so I came out here and moved to Mountain View. And I have four children-- three of them in the area here and one in Florida-- and five grandchildren. And I did a nighttime MBA at Santa Clara and got an MBA there in 1969. So it's always in the banking business. That's all I did.

S. Smith: Amazing. There's Kansas in the--

[INTERPOSING VOICES]

Silicon Valley Bank DNA, isn't there? Very good. As an aside, my dad actually graduated from the University of Kansas.

R. Smith: Is that right?

Medearis: Is that right?

S. Smith: He had been an Oregonian. Long story. OK, let's talk about the founding of Silicon Valley Bank, and I really want to focus on the first 10 years, which was the founding era and the real establishment of this quite unique institution, and the time during which you guys were actively involved as executives. So I think it's good to start by laying the picture. Tell us a bit about Silicon Valley Bank, why it's unique, how it's positioned in the banking world today.

Medearis: Why don't you start that, Roger? And then, I'll add my comments--

[INTERPOSING VOICES]

R. Smith: Well, I think we probably should frame it a little bit. We started-- we got the bank opened in 1983, but Bob should talk about before--

S. Smith: Actually, '82 is when--

Medearis: Well, we filed documents then. The original idea sort of kept hitting me in the head with my students because they literally really wanted to find money to start backing a new idea. And some of these-- one of these students Roger and I will talk about today, John Igoe, is now running all constructions for Google, and he was one of the kids that came up.

I'll tell you another interesting young man that did it was Takeo Obayashi. Now, you don't know Obayashi, but that's the largest construction firm in Japan, and Takeo was really interested in where you're getting money to finance their projects, rather than just from the banks, or what kind of lending institutions were available to do it. And so this was in the late '70s when these things were starting to occur.

And then, Bill Biggerstaff lived in Atherton, where we lived, and he and I play tennis about every weekend. And Fred Mielke living across the street-- and we used to swim at Fred's house and play tennis at our house and do those things. And I said, Bill, you know, I think that there might be something here.

And when Reagan came in and put in the new banking regulations, I really became very interested in doing that. So I started talking to a lot of people in the banking industry. But I said, I don't know the bank operation, so I asked Bill, and he was working with a bank in San Jose-- a Mexican bank. And I said, you know, Bill, why don't you join me? And let's just start talking. If you could spend some time with me, I'd learn a little bit more. And so we started doing that, and--

R. Smith: And I just interject, Bill had spent his time at Ford, and then at Wells Fargo.

Medearis: At Wells Fargo international at the Wells Fargo.

R. Smith: I was very proud because I was a trainee at the Menlo Park office and Mr. Biggerstaff came. I opened his account.

Medearis: Is that right?

[LAUGHTER]

R. Smith: He was really an early international guy at Wells Fargo.

Medearis: He's-- was-- Bill died a few years ago. He was a marvelous friend. I think he's the greatest schmoozer that ever existed in Silicon Valley, and I mean that as a compliment. He had a uniqueness that he could really get people in to be comfortable, and they would tell him their most difficult problems. And he had that knack, and it was really good.

But anyway, I asked Bill to just tell me about the banking operations, and so we did that for almost six months before we really got interested in the-- of course, he knew Roger, and he introduced me to Roger. And I can't remember the date of that introduction, but I had a little office over in Menlo Park, and we-- really, the bank got started in that office. And we had many an afternoon meeting and a lot of night meetings too, if I remember right, saying, OK, what are we going to do? And that was the genesis that started it, was right there.

S. Smith: So I think it would be useful to understand what it was about the Reagan initiative that opened the door

R. Smith: Well, I might jump in there a little bit. I just saw some statistics. I think there were like 400 banks started in '83 in the nation and 72 in California. And if you look back, I think Kennedy started it when he became president. He said we got to get the economy going, and they came up with the idea of chartering a bunch of banks because theoretically, you'd loan money in your community.

So in the early '60s, you saw a real rash of new banks, and then in the '70s-- the early '70s-- '72, '73-- and then again, in the '80s-- and so it was a time where a lot of banks were formed. And so I think Bob got the idea. He and Bill and another group of folks said let's move forward on it.

S. Smith: So was it a relaxation of regulations that opened the door? Or was it federal support for doing it? What--

Medearis: There was no federal direct-- there was no direct federal support, but it was the easing on the process of the formulation of the bank and the fact that, as Roger said, there was about-- what is it, 70 banks that were formed during that period?

R. Smith: In California, yeah.

Medearis: In California that year--

R. Smith: I think that they had shown that the economic model worked. If you get local people form a local bank, they're going to loan money in their local community.

Medearis: And I'm sure that if you look back in the history, that was sort of where Bank of America got started, with Giannini going through the Valley and starting these banks to do agricultural loans. But that's a very important point to look at because we also had a great professor at Harvard Business School. And he said business is 50% luck, and the other 50% is what you do with it.

And we were damn lucky, and I'll tell you where we were lucky. The only bank that was really doing what we would today call high-tech loans was BofA. But BofA had massive real estate problems, and those real estate problems forced the selling of that bank-- the big building-- to Shorenstein in San Francisco, as you may recall. They sort of exited the high-tech centers. And due to the genius that Roger had, we just sort of slid right in.

S. Smith: So at this point in time-- we're talking early '80s-- there were beginning to be quite a few early-stage technology companies emerging here. But to get a commercial banker to support them was very difficult, right? Tell us about that.

R. Smith: Well, we may want to go back a little bit further. I think Bob's sort of glossing over. First of all, it took-- even though it was easier to start a bank, it took a long time. And Bob worked at it, and Bill worked at it, and--

Medearis: Three years.

R. Smith: Yeah, it worked a long time to get it going. And then I entered the picture later, when we-- right before we got the charter-- right after we got the charter.

Medearis: Right when we got the charter.

R. Smith: And the other interesting thing-- at the same time, in fact, if you look at the Chronicle, there's an article about two banks forming in the Valley. There was Silicon Valley Bank and High Tech Bank in Los Gatos. And so they were going to try to do what we were going to do.

And one of the things with Bob's good network and my network, we were able to raise our money in 45 days. They took about nine months, and about two years later, the FDIC took them over. They changed their name to Bank of Los Gatos. So Bob, you might just mention the name of Silicon Valley, because you and Bill came up with the name, right?

Medearis: When it really looked like it was going to go, we had to-- we were talking to Findley Reports. They're a lobbyist legal group down in Southern California. We used them to support our documentation to the state. And we made a decision to go state banks, rather than federal banks, because it gives you a great deal more flexibility on what you could do, and that was very important.

But when we started doing it, we knew we wanted to be a high-tech lender because that was the genesis of what I brought to the table, was that this is going to be big business. And if we got in there before other people were starting to do it, we could significantly make a huge impact. There was a guy by the name of CvietusaCvietusa at the bank at that time-- or BofA bank-- and I had a lot of conversations with him about what he was doing there. And then, they just exited it, and Roger--

R. Smith: Well, but I think Bob's sort of jumping ahead. Excuse me, Bob, for jumping in here. There is-- we have to remember that Silicon Valley was not known in 1983. That was a new concept.

S. Smith: It was a very small-- the whole information technology industry was a tiny part of the economy.

R. Smith: It was. But it wasn't a common name, and in fact, we did a merger in, what, '86? We merged a little bank, and they really thought we should change the name. But I think that was a real genius part of Bill and Bob getting that name.

S. Smith: See the vision for Silicon Valley and seeing the vision for banking these kinds of companies.

Medearis: Well, there was so much silicon in everybody's name down there-- Silicon Graphics, silicon-this, and so on. And we were sitting there and said we really need to come up with a good name.

And so, actually, I can almost remember the day when Bill and I came up with that name. And then, when Roger came in, we bounced it off him because it wasn't finalized. We applied it under that, but we had a lot of flexibility-- could have moved it around. But everybody said, God, how'd you get that name? We said we just applied for it.

R. Smith: The name is worth a lot, so now we're early May or so of '83.

S. Smith: Let me just stop because I know there's a story about a poker game or something like that. That's got to be part of this story.

Medearis: Well, it's interesting. The poker aspects-- a gentleman by the name of Starr Colby, who worked for Lockheed, and Burton Blackwell, who was an individual builder out here and well known in the circles in the mid-peninsula-- builders are natural gamblers, and so we decided that what we would try to do-- and Starr was head at Lockheed of the pilot-less drone program. Now, think about that because how common drones are today. And they did the very first ones in the '70s back there.

Anyway, we were sitting around, and Burton came to me. He says, you know what we ought to do? Start up a poker group-- and just casual, friendly guys. And so the first group was Starr Colby, and myself, and a guy by the name of Bob Proctor, and another guy by the name of Jack Butler, and we got in Dave Elliott, who was with Memorex, and Bill Biggerstaff and Don Larson.

And we started playing on Friday nights-- poker-- and it was more for discussion of business activities and what's going on in the world. And it was sort of fun for Bill and I do it because we were getting input from guys that were already in the activities around Silicon Valley.

When we got the Findley Reports and we started to finalize it and we sat around, had the name, and so on, our group-- the poker group-- went down to Pajaro Dunes every year, some time in late spring, early summer, and we rented a couple houses, And everybody-- the guys would go down on a Friday night.

We'd cook our dinners and then invite the wives and the kids down on Saturday all day, and we'd still do all of the food preparation. It was a lot of fun.

Well, one day on the way down, Bill was sitting in the car. We were riding down with Dave Elliott. And Dave Elliott was a fraternity brother of mine and two years older, and he was also a Harvard Business School guy. And he was head of Heidrick and Struggles for a long time and then went with Memorex and-- now retired down in Carmel.

But the three of us drove in Elliott's car down there, and I brought up the question. I said, you know, Dave, Bill and I are thinking about starting a bank up. We were actually soliciting him as an early investor. And interesting enough, everybody in the poker group invested, and it was really interesting.

S. Smith: Best bet they ever made.

R. Smith: It was a good one.

Medearis: And so we talked about it. And one of the stories Bill told later on was-- he said it was really founded with the poker group, and that's where we had the idea. I think he was just sort of BS'ing all of that, but it was a good story, and everybody caught onto it. And I was up talking to some of the bank guys up in Santa Rosa the other day, and two of the questions that were asked were, was it really started at a poker game?

R. Smith: So anyway, we now got the charter. I'm on board. We have to raise our money. I might just go back a little bit on my own background. I worked for Wells Fargo and in 1971 became manager of the Mountain View Wells Fargo in Castro. And why that is sort of interesting is that we had-- Intel was a client of the bank there and Fairchild was a depositor. So Bob Noyce was a personal client, and Wilf Corrigan at Fairchild.

And then, in 1973, I took over a group called the Special Industries Group for Wells Fargo, and they were headquartered in Palo Alto to go after the technology market. And later, we opened an office up in Newport Beach, but Wells Fargo never had their heart in the business, and we were in the corporate bank.

So we would-- we'd go to loan committee. There'd be General Motors, Ajax Electronics, GE-- we were a total fish out of water. But we experiment with a number of things-- receivable lending, checks and warrants, and this type of thing. So with that background, that gave us-- myself-- a background in dealing with a number of these companies.

S. Smith: Very interesting. And Wells Fargo just didn't get it, even though they were running the experiments.

R. Smith: They didn't, And one of the reasons that they didn't-- and jumping ahead a little bit-- they didn't value the deposits that are generated from the technology companies because they really didn't need them because they had Mr. Business, Steve Smith, and all the other people.

But the other thing that they felt, and I think most banks even today, is that new is not good, and growth is bad. And so the other thing that most bankers don't understand that I think people here in the Valley understand-- most bankers that I went around the country said somebody's got a product. Then, the product's outdated. The company goes out of business. They don't realize the R&D that goes into the next product and the intellectual property.

So now, we needed to raise money. We had a core group of folks that we needed to raise some more money. And so we came up with the idea, Bob, Bill, and I, to have 100 founders, and our lawyer says you can't do it. We'd say why? He said, well, we were doing an S1, and he said the SEC won't approve it. So we talked him into trying, and so he came back and says, yeah, you can have 100 founders.

And so what we decided to do-- we said we would want to have a bank with three stools. We knew we couldn't be all high tech, a term we quit using because the regulators didn't like high tech. So we quickly started saying technology. And then, commercial business and real estate-- so we wanted to have three stools.

And the thing that I think distinguished the bank, and one of the things that made it successful, is all the banks-- the 72 that started-- had two stools. They had real estate and commercial. They didn't have the technology side.

So we decided to go after founders that we knew that that would give us some visibility because we wanted to, A, get our money, but we wanted to not be another crummy little bank. So we got founders in each of those areas. Ken Sletten in the real estate area was one. Larry Sonsini was a founder. Burge Jameson at Sigma Partners, Tommy Davis at Mayfield Fund, one of the original venture capitalists.

And so we had a good group of founders. Now, you could be a founder of the bank for $10,000. That was the entrance fee, which doesn't sound like a lot of money then.

Medearis: But it was then.

R. Smith: But we were very proud with Bill, Bob, and I, and working hard, we raised our money in 45 days. And that was almost a record, compared to the 72 banks. They would take 3 months to 12 months. And many founding banks, even today, stall, and they hire professionals to come in, and we did this on our own.

S. Smith: And it seems to me that having those 100 people-- I've seen the list. It's a who's who of Silicon Valley. That's called great networking. And the three of you and your friends from the poker table and wherever just knew the right people. You were able to get to them--

R. Smith: Well, we said from the very beginning

R. Smith: We had many, many sayings, one of which, we want to always appear bigger than we were.

S. Smith: 100 founders and 1 client.

R. Smith: And the other thing that we decided early on-- that we would never have enough money to advertise, so we worked very hard on the PR. And we got 10 times as much press as any of the other banks.

S. Smith: Now, there's a very interesting story in closing your $5 million financing that you told me once before. Tell me again. You had a sizable investor in that financing that wanted to reduce its commitment or something late in the--

R. Smith: Well, we had an investor that was going to be one of the larger ones, and they decided to just do half of what they were doing, and they were our big investors. We had four investors that were $250,000, and they were one of those.

S. Smith: And there was a potential problem because your filings had called for a full $5 million, but with this investor backing down at the last minute, you--

R. Smith: Well, we got--

S. Smith: Your lawyer--

R. Smith: Well, our lawyer says, well, you're going to have to go back to all your founders and say do you want to-- there's a change here, and would you like to renege on your deal? And we thought oh, my God, this is just running backwards for a while.

So one of the great phone calls we made was to Larry Sonsini, who has a lot of experience, obviously, in the SEC. And we told him the story. He said, no, you don't have to do that because they're going to be an investor. So we did not, and so we were able to then get the bank opened in October.

S. Smith: Went right to the closing.

R. Smith: Yeah.

Medearis: That was a remarkable achievement, when you look back and see the complexities of trying to raise money today versus then. Now, of course, we're asking for, at that time, a much smaller sum, but the economy was a lot smaller then too and there was not the well-established VCs around that later on occurred.

[INTERPOSING VOICES]

R. Smith: --early on. And so the other thing we did-- and Bob was very instrumental in this. We were very unique in that we opened in San Jose, but out in the northern part of San Jose in an industrial building. And so that made us unique. And one of the things we hyped up was that we wanted to be where our clients were. And so we built out the bank, and Bob's good experience really helped us do that.

It looked like a law firm, and we made another decision-- a lot of little decisions, I think, that have added up. One, we decided we weren't going to have any customers. Other banks had customers. We were going to be-- like a law firm, we were going to have clients. And it was fun. Over the years, we'd bring in somebody from another bank. It would take two to three weeks for them to understand that it's a client.

And so we felt that one of the things-- we wanted to be focused, consistent, but really treat people well. And part of our motto-- if we couldn't handle the problem-- or not the problem, the request-- we would try to work with a client to change it to figure out how to do it or refer them to somebody else.

And as I told Dick Rosenberg, who went on to become president of BofA, one time at Wells Fargo, I said everybody at Wells Fargo has unlimited “no power”. They say no. You walk away. You grumble, but you think that's the no. So we really worked hard on that. And I think that was what Bob, I think, had experienced over the years, that people just weren't creative.

S. Smith: So I should get, for the record-- what did the three of you do in the bank in those very early years? Bob, Bill, who is no longer with us, and Roger-- tell us about your roles in the bank.

Medearis: I'll start, and I'd like to have Roger add onto it. I think Roger-- clearly, having him as the president, he had the experience-- the direct experience. So he managed those affairs, and rightfully so. My role principally gravitated into the regulation side and the relationships with the banking regulators. We were a state bank, as I mentioned earlier, and--

R. Smith: And a Federal Reserve member.

Medearis: And a Federal Reserve member. And that was really a smart way to do it because one of the things that these guys came up with was the concept of taking warrants. It was unheard of. Now, it was not an easy thing to get approved. I really spent a lot of time on that one, and particularly with the lower-level regulators, to get that approved. Was that Titus that came up with that idea? Was--

R. Smith: Yep. Dave Titus was the one. But the bank was structured-- Bob was the chairman of the board but not full time in the bank. Bill and I were full time in the bank, and Bill's role was mainly business development, which he was very good at. And mine was--

S. Smith: The schmoozer.

R. Smith: The schmoozer. We hired--

[INTERPOSING VOICES]

Medearis: The doer, the schmoozer, and then I would sit back and try to put blocks on when anything went wrong.

R. Smith: And so it worked. It worked very well. And Dave Titus, a young guy who came over from Wells Fargo, was very helpful to us-- one of our initial loan officers.

S. Smith: Yeah. Talk to us about recruiting some of the key early people. Was it easy to get people to leave the big banks?

R. Smith: Well, one of the things that I publicly stated-- that one of the scariest times for any startup is when you hire someone that no one had worked with before. So we hired a lot of people from Wells

Fargo and a number of people from the Special Industries Group. J Kirens came in as our head loan guy. Harry Kellogg, who's still with the bank, came in, and he was another partner there.

But I think maybe to go back-- and Bob is so right about the marketplace. Bank of America owned the market. They owned the market. Bank of the West was number two, and there was no one number three. And so when we started the bank, it was a little bit of a yawner for the industry because they had a bank. They had the Bank of America. And so it was not easy.

We were-- and one of the times somebody did a survey, and we were number three. And then, as we worked our way, we got to be more number two. So we would say we're like Avis. Back then, there was an Avis commercial. We're number two.

Medearis: We try harder.

R. Smith: Yeah, we try harder and that type of thing. And then, back to Bob's thing about luck, which I fully agree with, is Bank of America got into trouble. And now, all of a sudden, the industry-- their bank-- wasn't there for them.

S. Smith: The gates were open, yeah. They were saying no, and--

R. Smith: Well, they had to--

Medearis: They had to say no.

R. Smith: And they came out with a edict that if you didn't have a two-to-one-- or one-to-one current ratio and a two-to-one debt ratio, we can't do anything with you. And the other thing that they then shied away from was if you were losing money. And so we had a number of sayings, one of which-- we don't finance losses. We finance growth in assets.

And back to Bob's thing about the regulators. First of all, they came in and said that technology is a concentration. And we said no, though, it's very broad. And Bob-- working with them, and we finally convinced them that it's not a concentration. But the niche that we had, and the bank still has today, was the real different thing that we did.

S. Smith: And obviously, your interactions with and support from the venture capital community were vital to getting business and also being assured that the loans you were making had substance behind them. Tell us about that.

R. Smith: Well, no. It was a real key to us. And there again, it's almost like hiring people. We would loan money to people we knew. And we had a network. But keep in mind, when we started, we were the junior guys. We worked very hard. We worked very hard at being everywhere, anytime. This was back in the WEMA [Western Electronic Manufacturers Association] days, and we'd go to all the WEMA meetings.

And the other thing, we promoted and sold our founders group. And people would say, who are you? And we'd bring out the founders group, Bob and other people. I never went anywhere in the world that I would not share our founders group, that somebody didn't know or know of somebody.

S. Smith: And some of those people must have been your other outside board members, right?

Medearis: Oh, yeah.

S. Smith: Who were the active board members?

R. Smith: Oh, you might mention Pete McCloskey when we first started.

Medearis: Yeah. Well, that's an interesting story. I was a pretty good friend of Pete's, and I asked him to come on the board because I thought that having a guy like him would be really valuable. And he accepted, and we had two board meetings, if I recall correctly, with him.

And then, Wells Fargo said, Pete, you got to get off that board. You're competing with us, because he was a lawyer representing Wells Fargo. And he came to me and he said, “Bob.” he says, “I've got to leave this board.” He say, “I don't want to. This is the best board I've ever been on.” And he says “but I lose my client if I stay on your board, and I got to keep them as my client.”

R. Smith: Having Pete on-- so we're getting ready to open the bank, and we decide-- how can we get some publicity? It's a yawner, right? So we got Ed Zschau to say he would come. And then, Dave Titus and I were visiting a company that had a clean room, and we saw the bunny suits, so to speak. And we said, why don't we dress up in bunny suits? So we dress up in the clean room suits, and Pete McCloskey was there, so we got on the front page of the business-- Chronicle-- the green sheet back then. And so it was great publicity.

S. Smith: And Ed Zschau at the time was CEO of--

R. Smith: No, Ed was in Congress.

Medearis: He was already in Congress.

R. Smith: And he could not come for the ribbon cutting because they called him back to Congress, so he was not there. So we got kidded about the bunny suits for a long time. But it was a combination of Pete McCloskey, who had ran for president, right? And so it was a real helpful thing to us. But one of the key underlining-- we worked very hard at the PR-- is that we wanted to tell people what we did.

And the consistency, the focus that-- Bill and I, in a meeting one time, we said we need to have a newsletter or something. So we're scratching our heads, and we said, why not do a did you know letter? And so we came up with this did you know on one sheet of paper-- 10 items, sort of just 1 sentence or two, highlighting our clients.

And all of a sudden, we send that out, and we got to-- I think we sent that to 10,000 people. Now, keep in mind, this was before email, and we had a lot of compliments on that. And Art Rock came to me once at a conference and says Roger, I love your little email. But what we were able to do is highlight our clients. And so people would say, oh, these guys are doing this. And it was a very important thing for us. Now, keep in mind, we did work the commercial side of the business and the real estate side of the business.

Medearis: Let me add on to that, Roger, that one of the things I always was impressed with also was that you and the whole staff would concentrate with the Silicon Valley clients that we had that's the VCs that were backing them could make deposits in our bank. Now, they didn't have to, but they did enough educational work with them that we started having deposits. And of course, at that early stage, you grow more on your deposit base than you do-- you're not going to have the profitability on record, but this bank, with that management group in there, was profitable fifth month on, wasn't it?

S. Smith: Yeah. So the venture community would deposit the funds they had drawn from their limited partners prior to dispersing it to the early-stage companies, and then your early-stage company clients would deposit their cash flow while they were--

R. Smith: Early on, it was mainly the clients. We hadn't grown to the stage where we had gotten the venture-- but back then, the FDIC insurance was $100,000, so we would have clients say, well, I wouldn't deposit $100,000 then. And so we had one of the founders of the bank, who was well known-- had a client that-- or one of our clients-- they raised a big round of financing, and they put $5 million in the bank when we were $50 million total. So people would say, well, how large is your largest client? We'd say, well, $5 million. So we worked very, very hard at getting the deposits and then helping people.

The other thing that we did that was really instrumental is we did not-- none of us had a loan limit. We did all of our loans in a loan committee, and there were several advantages. One, clearly, a 25-year-old loan officer isn't as good as an experienced guy-- say, like Bob-- in negotiating the loan. And so we took that out of the young guys' hands.

The second thing is people got to know that we made decisions. We met on Tuesdays and Fridays, an the Valley started knowing that you can get a decision from the bank. And the third area is it was a great educational tool because the loan officers would come there, and they could understand what we were trying to do.

S. Smith: Yeah. They saw the clients you were supporting, and they could translate that into "Ah, there are clients that I could call on that are like that."

Medearis: Exactly.

R. Smith: And another thing--

S. Smith: I can quote up to the minute as to who our other clients are and why they're coming with us and so forth.

R. Smith: And we had a client that went on to become a public company that-- the other thing we did, once we approved a loan, we've got it documented. And there was a big company that turned us down, but Bill stayed on them, and their bank could not document it. And we were able to do that.

Medearis: Document for them, yeah.

R. Smith: The other thing that we did that I think was very helpful is we had an 8:30 meeting every day, and it was all hands meeting because there wasn't a lot of us at first. But we would announce all the new relationships. So everybody in the bank, A, would get excited about it, but then they would know there's a relationship. And also, we would know if somebody was sick or something so you wouldn't be counting on them.

And so that was something that-- every day, we would announce our deposits and our loans, and so we kept people very focused. Also, if you weren't there at 8:30, you were tardy, right? So it was a-- and as many people know, Lombardi had Lombardi time. So the 8:30 meeting started at 8:25. But I think it was a-- it really helped us stay focused.

S. Smith: This is bankers being like entrepreneurs, rather than being like bankers.

R. Smith: That's true.

Medearis: Let me add on a little deviation, a little wrinkle, to that. One of our professors at Harvard-- and Bill Biggerstaff was a graduate of business school at Harvard, also. And it was a guy by the name of General Doriot. And he has an international reputation because he lectured, and he didn't have case studies. And questions were often asked-- well, if you didn't have a case study, what would you do? If everybody lectured, what would you do? He said I'd teach my case.

But he said also-- the other thing is that he had Doriot time. He said you gentlemen leaving this classroom, you show up 10 minutes early for every appointment and set your watch 5 minutes back so that you arrive early on every meeting. And I'll never forget that, and I think Roger and the staff picked those things up, and it was really good.

The other thing-- and let me comment on another thing that sort of segues into what happens there is-- with our relationships with the university. We had both founders and friends of ours that were university-oriented professors and so on. If there was a real tough decision to make on-- what is the background of this company? What are they doing? And is there-- and we used to ask the question of, well, are there anything that is a fatal flaw in this loan-- this company that's requesting this loan?

And if that were made, we'd talk with our friends at the university and bring them in. And there was this willingness to share and say, hey, what do you know about this product? Or what do you know about this field? Is this something that's really good? And if they didn't know anything and they said that there was no fatal flaw, then I'd go ahead and process the loan. If there was a fatal flaw, then you'd question further and find out should you do it.

S. Smith: Yeah, this raises the question in my mind:, Could a bank like this have been conceived, designed, launched, and become successful anywhere outside of Silicon Valley? Many of the things you're talking about here seem to be fairly Silicon Valley-specific.

R. Smith: Well, yeah. I think it's very fair to say there was a lot of very successful banks started around the country. There would be no chance somebody could do that in the technology area because there's not enough mass.

S. Smith: Well, that's the point. Loaning to these early-stage technology-oriented companies that didn't have profitability, and did have growth which scared bankers, and did have brand new things, which scared most bankers.

R. Smith: Well, but we did it smartly too. We don't want to-- we were not venture capitalists, and we made that very clear, that our money-- we loaned the money, and we want it back, right? And so we did it smartly, mainly in the early days, on receivables.

And so here, you're a new company, but you have a receivable from HP. That's a pretty good piece of paper. And so we were able to track the company's monthly, and so we worked very close-- so we had to-- so we're not magicians, and that's what a lot of people worried about us because they thought we were taking too high a risk, where in fact we were not.

S. Smith: Well, in fact, you called on-- you got benefits from the ecosystem that was emerging. You mentioned the universities--

Medearis: Let me--

S. Smith: --networks of experts that--

Medearis: Let me build on that.

S. Smith: --could help you decide whether a client was a worthy client.

Medearis: Yeah. You asked the question, could this have been in other places? The answer, obviously, is under the right circumstances, yes. And what are those circumstances? None of us know. You just got to look at them and take care of them. But let me build on that and say that the early history of Silicon Valley has not been duplicated in any place that I know of, and I'll tell you two stories about that.

One of them is that a friend of mine, Dr. Gibbons, who was the dean of the school of engineering-- electrical-oriented individual and a very, very brilliant guy-- was asked by Bill Hewlett one time, why is Silicon Valley, Silicon Valley, and there are no other Silicon Valleys? And he responded by saying there are five reasons, and he researched this into some depth.

And he said the reasons were that in Silicon Valley, there was a willingness to share information. One person could call another who had tried an idea, and there was a willingness to say here are the things that went right with it. Here's the things that went wrong. And if you can better on that, good luck to you. But there was a willingness to participate. It was a very collaborative and participatory environment.

The second area was that there was no stigma attached to failure, and failure was bad in Germany or Japan at those times, and you couldn't build on that. But here, there was this willingness to share. And if you had failure, you had experience, and experience was a good thing to have. So that was a factor that led to Silicon Valley.

The third factor was that it was at the confluence of three terrific international institutions-- Cal Berkeley, Cal San Francisco and the medical and medical tech business, and Silicon Valley South, which was Stanford. That was a-- and there was a participatory and a collaborative relationship between those institutions, which we played on.

The next thing was their availability of money, and that stemmed from both the agricultural community and the building community that during the war profited a great deal. And immediately afterward, the period when Silicon Valley started to emerge-- from '45 to '55 and '60-- and blossomed to where there could be this high-tech expansion. And then, of course, the last thing is, where else do you have a California? And we all love living here. The service people that came out stayed here after the war, and so on. That was a very interesting play.

The second story is, which I haven't expounded on too much, but in 1986, there was three years-- or it might have been 1987. I got a call from the Russian embassy, and they wanted to talk with me about the idea of developing a Silicon Valley in Russia. Now, this is pre-down of the wall. And I said, well, I'd be happy to talk to you, but I don't think there's a chance in hell of you doing that.

And he said, well, why not? I said A, because you're communistic, and people don't own land, so you have no-- you can't sanitize or securitize the asset. Second thing is you're communistic and you live in a culture of corruption. And the third reason, you don't have a rule of law. And so you need those three things.

Well, he wanted to come out anyway. And so he comes on out here, and this is Agan Beygan and he was the Paul Volcker of the Soviet Union, only a bigger man. He was about 6' 8" and about 400 pounds. That guy was enormous. So I'm in my car-- or I can't remember if Bill was with me or not. But we were driving down the freeway, going in. I wanted to show him our office then and a couple of clean rooms.

I forgot totally that they are Darth Vader and we're the good guys, and I had about four highway patrol guys pull me over. And I said, well, look, you know. And they said-- and they knew who I was because I think they got on the radio and says, what's going on? And they knew that Beygan [???] was coming out. Literally, they really didn't want the Russians in Silicon Valley. And I said, look, I don't know what's going on in these clean rooms.

And in fact-- and I started stumbling around or trying to convince them that it was OK. I said, why don't you just come along and join us? And so they did, and I that's when I remember Bill Biggerstaff saying-- we went into two or three different clean rooms, and it was OK with the authorities.

But later on, I went and started giving lectures over in the Soviet Union on emerging technologies and how you can best prepare for them. But Silicon Valley became so well known as a valley for all this activity, and we just, with that name, just meshed right in. And I was dumbfounded that Russia made that call, and it worked out that we did a lot of things over there right up until the time the wall fell. And then, we did it in Georgia too.

S. Smith: Very good. So let's go back and talk about the bank, as it's now up and running. It's got clients. It's got-- it's early money. It's become profitable. It's beginning to expand. You did some public financing. You actually started trading over the counter, I think, in '84 and then went public on the NASDAQ in '86. Tell us about those steps.

R. Smith: Well, those were evolution steps. We were growing quickly, so we needed more capital, and there was a little bank in Santa Clara called National InterCity Bank, and we merged with them. They were about $50 million. We were about $100 million, and so they had excess capital. So we merged with them, so that was a capital infusion.

And so then, as we grew, a lot of our roots-- I lived Palo Alto, Bob in Atherton-- and so much of the technology back then was Palo Alto central, and so we opened a little office at Palo Alto Square, and that was very helpful to us. So that was part of our expansion. And so then, we kept growing, and we did a financing of $6 million, which was a lot of money back then too, and that got us some institutional people that came into that.

S. Smith: Was that the NASDAQ IPO, or was it--

R. Smith: That's when we really started trading on NASDAQ. See, with an S1, Steve, we were a public company from day one. We were a public company.

Medearis: It was a pretty easy transition into the NASDAQ.

S. Smith: And you started listing because you already had the shareholders.

R. Smith: But keep in mind, we were not traded a lot then. But like everything, you get lucky.

S. Smith: Do you remember what the market cap for the bank would have been when you started trading?

R. Smith: It would've been about what our book value would be-- probably $12 to $15 million or something like that.

S. Smith: What is it today?

R. Smith: I think it's $5, $5 and 1/2 billion, something like that.

Medearis: I think it's actually higher than that today.

R. Smith: Really? I'm not sure, but it's in the billions. But there again, you always remember people that took a chance on you, and Mark Curtis at Smith Barney then-- now Morgan Stanley-- at Palo Alto started making a market in the stock. And of course, it wasn't traded, but some people needed to sell some shares and people to buy it.

We also were very lucky in-- a fellow named Preston Athey at T. Rowe Price Small Cap Fund became a shareholder, and that was a real key. That was one of the real key institutional shareholders for us.

S. Smith: So they started--

R. Smith: Talking about it, yeah, and--

S. Smith: --promoting the bank's merits and attracting new investors.

R. Smith: Right. But the other thing that we did-- we were profitable, but we were low cost. And so I think the things which is clear-- most startups that are successful-- we worked extremely hard. We work probably 50% harder than any other bank around the area, and we watched our costs, and we were profitable, and that's because we were doing good business. But the warrants helped us also, and so we became known for our growth and our profitability.

Medearis: And for the toughness in the processing too. So the more that Roger and his team got into that activity, the better the loan processing became because they realized that they weren't going to-- there were going to get a fair deal. They were going to get probably lower fees. They were probably going to have to give up some warrants. And that became sort of a rule, and it was really good. But Roger's right. The work ethic of that bank, I got to say, was a 50% level higher than any other bank that I've seen.

R. Smith: Along those lines, Steve, we should mention that Bob and I and Bill, we decided we've got to have a board of directors meetings. But because of this Silicon Valley work hard, our board of directors met at 7 AM, and so first of all, you didn't BS a lot because people had to get to work. But because we did the 7 AM board of directors, we had our loan committee meetings at 7 AM. And so we put more hours into the day.

But I think what Bob said is people started to know that, one, we were straight shooters. We did what we said, and we could make a decision-- not always a yes, but we would make a decision. And that became a real key part. There was a bank that had an ad on the radio during that time, and the guy says,”Is my loan approved yet?” And the guy says, ”Well, not yet.” And the client said to the banker, ”Well, it's been eight weeks.” And the banker said, ”Oh, are you in a hurry?” So we played on that.

The other thing that we really did is we tried to be everywhere. If there was any kind of group of venture capitalist companies or whatever, we wanted to be there. And I worked very hard at giving a number of speeches around the area, and because of our uniqueness, we got picked up in that.

In fact, just a side note there to flash forward a bit, is I gave a speech at the Robert Morris Association in Houston on a panel, and a fellow named Allan Woodward from the Bank of New England was there. And so we've created a friendship, and we were so small then, our loan limit, when we started, was-- $450,000 is the most we could lend. So we started doing some corresponding work with him.

And to fast way forward, when the banks in Boston hit the wall, like the Bank of America did, those folks came from Bank of New England and started our Boston office.

S. Smith: Yeah, that raises two things. One, you're talking about the culture of a bank that was quite different from traditional banking culture. You were harder working, very entrepreneurial, deeply analytical with your clients, but great schmoozers in your daily work and willing to promote this notion in an open and honest fashion.

There had to be some really intelligent hiring of new people to grow the bank that fit into the culture. You could take bankers out of a stodgy banking culture that were going to make the transition to fit in Silicon Valley Bank. How did you do that?

R. Smith: Well, one of the things we did-- we felt that each of us, part of our responsibilities was to know good other bankers. So we never used a headhunting firm, and we just found people that, first of all, that we knew, and then we brought people in. And the second thing is that we were always aware, and we lost a couple of deals that we were looking at to a bank, and we said, wait a minute. I said, this can't be. This can't be a bank. Who's doing the deals?

So the guy said, well, here's the guy. So they bring the guy over to me. The guy's name was Peter Mok. And I said, how are you guys doing it? He said, well, that's our special sauce. And so we hired him. So we were always on the lookout for the unusual banker. And then, I think we got to a point where it was sort of a neat place to work. It was focused, and so that helped us.

But in fairness, we did hire some people from bigger banks that didn't make it because they just couldn't run as fast. But Bob mentioned Don Sevatusa [???] who was really the-- he came to work for us. And another key part of our strategy, we opened an office at Sand Hill Road-- 3000 Sand Hill Road-- and Don ran that office for us. And so that was a point where we really started concentrating on the venture capitalists because we were at a size then and had the reputation that we could do that.

S. Smith: And you also mentioned your expansion to Boston. Tell us more about the geographic expansion that started in this time period.

[INTERPOSING VOICES]

R. Smith: Well, what we did-- and see, a lot of it is history, like back to the Special Industries Group. We had an office in Southern California, so we had experience there, so we opened an office down in Irvine. And so we had offices then at Palo Alto, Santa Clara, and Irvine. The folks at Hambrecht and Quist, Steve Case--

S. Smith: Dan Case.

R. Smith: Dan Case, excuse me. Dan called and said, hey, we know a guy up in Portland that's working for, I think, First Interstate, and he's frustrated, but he's really a good guy. So we hired in a guy named Art Hiemstra, and he-- we'd rather be in Seattle, but he was our guy. So we started a loan production office there. And being the cheap guys we were, we did it in the basement of his house. And the rent was right, and after about three months, his wife kicked us out.

So we had a fellow in Portland doing Portland and Seattle. And so then, when the banks hit the wall in Boston, we brought those folks over. And what we were able to do there, we were able to process their book of business very quickly. And people then said, well, is that name going to work well in Boston? And clearly, it did. But we were able to add people. And we filled a void because if we hadn't come there, there would have been a real void there with Bank of Boston and Bank of England, who went out of business.

S. Smith: Right, and that's an interesting element of the story. The only other place you would think might have a culture like Silicon Valley in those days would have been Boston.

Medearis: Route 128, yeah.

S. Smith: --technology companies. They were the site of General Doriot and his early venture investors and other investors on the East Coast, but no such bank had been built.

R. Smith: But again, they had sort of a Bank of America lookalike in the Bank of Boston and the Bank of New England.

S. Smith: Right. Big banks that were doing--

R. Smith: --that were doing that and then hit the wall for different things.

S. Smith: Backed away.

R. Smith: And backed away, and again, because of the perceived risk. But that did give us a nationwide footprint, so to speak.

Medearis: And because we had that, we picked up a guy by the name of Ken Wilcox, who was really outstanding.

R. Smith: And he went on to become president of the bank. But also, we then started doing business in Colorado and Texas, and so we had a national footprint.

S. Smith: And were you able to be successful in all of these geographies, or was it an experiment that--you had some failures?

R. Smith: No. All of them-- well, we had-- every one of those areas, we added value to the economy and the technology industry-- and yes, successful. And I don't know all the places the bank now has, but any cluster of technology companies, there's a banking office of Silicon Valley. And then, we started with Peter [? Mock ?] our far east practice, so that helped us because we wanted to be in the flow of things coming from Hong Kong and Taiwan.

S. Smith: And what time frame was that?

R. Smith: Probably about '90. And Peter had grown up in Hong Kong. But again, it was sort of a tie-- and this was before, really, the venture guys ventured too much out of the area. But they had a lot of business there, and so it was helpful. But it added to our menu, so to speak.

Medearis: But the areas all were areas which had a high tech core, and I think that the crowning gem was-- it's yet to be determined if it's a gem, but I think it will be-- would be the work that Ken did in China on working with the government, where they gave us the money, and we did the manpower and the Innovation and Technology Bank of China. That was sort of a demand pull.

Marketplaces abhor a vacuum. So we could fit in the vacuums in the Route 128s and the Austin, Texases, and so on. Then, there's-- you start looking at the international markets, as mentioned through the Russian story. People started looking at us in the late '60s. And when that occurred, then it was natural, whereas you get into the '90s and the 100s, where the high tech area spread internationally, you would have such a thing like that occur. And the first name they thought about was Silicon Valley.

S. Smith: Were your first clients in Asia suppliers to the North American technology firms, or were they independent startups?

Medearis: I can't answer that because I was out of the bank at that time.

R. Smith: Yeah, it was a combination, Steve. And we didn't do a lot of lending there, but we wanted to be in the flow. And I think that what made it-- our niche lent itself to our national expansion and worldwide expansion because the people that were supplying the money, the venture capitalists, were-- Austin was not-- they would have probably a West Coast or an East Coast venture firm in the deal, so that was very helpful to us.

And so we really wanted to be in the flow, and we had folks that started the ExIm [Export Import} banking program that was very successful for us. But mainly, we were sort of like the lawyers. We followed the money, so to speak, and the venture people. But we were able to gain a reputation that people knew we would do what we said, and that was very, very important to us.

S. Smith: Now, another thing that I find interesting, I've heard some stories about who your early clients were, and some of those turned out to be the largest, most successful companies on the planet. But you started at very early stages as their banker. For example, tell us the Cisco story. I understand Cisco became a client before they were--

R. Smith: Well, that's a great--

S. Smith: --barely out of the womb.

R. Smith: Well, that's a great story, and I think it goes to our friend, Bill Biggerstaff, who had a yellow pad every day, and he had all the clients he was going to call. And he met with the founders of Cisco in their kitchen. And so we were able to get that account and bank Cisco.

S. Smith: Was that an easy credit analysis in their kitchen?

R. Smith: See, there again, I think we'd like to-- that wasn't a credit situation, so we were the bankers. And what we wanted to do was get the account and get the money and then help them do that, and I'm not sure--

S. Smith: Was this before Sequoia had invested in them?

R. Smith: Oh, no. This was before Sequoia. But I'm not sure if Cisco ever really borrowed any money--

Medearis: I don't think they did, but it was a great name to have. John Morgridge-- a little story on that one. I knew John. We were actually in a social gathering in Atherton one time, and we talked about that. And then, a good friend of mine, John Fondahl, who was a professor at Stanford in our department, knew him, and he said, Bob, there's a group you really ought to go after because they started-- just the transfer of information between two departments at Stanford. And both John's wife and he picked up on that and came to us, and Bill was at one of those meetings and took it from there.

But it was just-- I think Roger hit it on the head. They weren't really the typical customer at the time, but it was sure a nice customer to have. And they didn't do any high tech borrowing from us, but having them as a relationship solidified our abilities to go to other people.

R. Smith: Well, one of the things that we did that was helpful to a lot of the small companies is that we would give them a line of credit based on receivables. But they didn't have any receivables at that time, but they had a line of credit. So it was good for them, the management of the company and the board and the investors, to know they could grow into it. But it was helpful to them just to open up credit for suppliers and stuff. They knew they had a bank, and so that was helpful to them.

And I think one of the things that we really did, and the bank does today, is we put ourselves in the entrepreneurs' shoes and try to-- we were builders of companies, if you will. But keep in mind, our money was-- we wanted it back. And we used to explain it as sort of like musical chairs when we were kids.

When the music stops, we want two chairs, not just one. But we were able to help people grow and to maybe delay a round of financing. But mainly, we became-- we were part of the flow.

S. Smith: Who were some of the other most notable companies that you banked at an early stage? Do you recall?

R. Smith: Seeq Technology was one of our first public companies, I believe, and Gordy Campbell, I think. Problem is, it's a long time ago. I'm having to think about it.

S. Smith: Thinking of companies that are still around-- lots of them end up being acquired

Medearis: Bought out or acquired, yeah.

S. Smith: But you probably had some relationship with Intel, maybe Apple--

R. Smith: We had some personal-- no, we did not.

Medearis: Not with Apple.

R. Smith: And back then, there's an old joke, which I presume-- but not an old story that Bob Noyce said to his wife, Ann Bowers, ”Go ahead and make an investment there, but it's not going to make any sense.” I mean, it was early, early times. And so, we--

S. Smith: Seagate, maybe? Would Seagate have been a client?

R. Smith: No. Seagate--

Medearis: We talked to them. We talked to them at length.

R. Smith: Seagate was, but Shugart Associates in the old days-- a Special Industries Group-- was-- and we quoted Al Shugart a lot, who had the 10 rules of a startup. The first was treat other people like you would like to be treated, and I think number eight was remember, cash is more important than your mother. But the bank-- as it got bigger, we were able to do bigger deals, but we were doing a lot of small companies then.

S. Smith: Small little companies like Cisco.

R. Smith: Well, yeah, the Ciscos. But the big thing is, I think we-- well, I think you could make a comparison between Silicon Valley Bank and Wilson Sonsini. Now, I drive through Palo Alto. There are law firms that I don't even know who they are. But Wilson was very early. We were very early.

And the advantage the bank has today is there aren't a lot of players in the market, and that's been very, very helpful because it's a niche-- a growing niche-- that very few people do. And if you look at the banks that were formed, I would guess that of the 72 banks that were formed in California, there may be a handful left, and many of those went out of business-- and others that have merged or sold out.

S. Smith: Well, and the bank is probably bigger than you ever dreamt it could be when you were back there 30 years ago, putting this idea together.

Medearis: I think we thought that we would be successful, but not wildly successful like it was.

R. Smith: One of the things that pleases both of us a lot is that founders of the bank come up and say, I put my kids in college off their investment, and that makes you feel really good. And the other thing that-- I think we started-- was it 11 people, I think? And now, my understanding is the bank employees 1,900 people, and that's 1,900 families, and I think that is one of things I'm the most proud of.

But I think it's very important that Bob and I and Bill got the ball rolling, but other people came along and really kept it going. But it was like a snowball, and it would have never started without Bob and Bill saying there's an idea.

Medearis: And we always brought in people that were much better than we were, and that goes back to what Roger said, that we picked up people both that wanted to work with the firm, but the people who had worked on their own, outside, under tough conditions, and people that would come to work at 7 o'clock in the morning and stay at 8 o'clock at night.

Not that that was the work hours, but that-- keep in mind also one of the things that happened during that period-- and I've never thought too much about it, but I'm sure it had an effect-- was the Vietnam War because that was pretty prevalent leading up to that first decade. And I used to teach my classes. I'd go to the guys. We had a lot of former service people in my class, and they would say, we can either tolerate these riots, or we can work around them. And I said, well, I think we can do both. I think we can tolerate them and then work around them, and I started teaching at 7 o'clock in the morning.

And I had-- I remember I had three students from Berkeley. They got up at about 6 o'clock to drive down there, and I always respected those guys. But it was those kind of people that you wanted, people who were dedicated. And Roger and his group had their nose out and sniffed those people out, and they came to work. So it was--

R. Smith: And I think the bank is successful today with a lot of the traits that other entrepreneurial-started companies are. I think the biggest one that we talked a lot about is focus and consistency, and I think those are two of the really important things. And we could have branched off and done a lot of different things that-- we did not have a trust department and those types of things.

So we continued to be-- and the bank continues to be-- very focused. And this is very personal to me. It's very hard for people to do a lot of different things. And back in the old days, before we started the bank, the bank holding companies were going to have all this business, as opposed to just the mainstream of banking.

But I think there are some great firms that can do a lot of stuff. Google, for instance, is doing a lot of stuff, but they have one engine there that creates a lot of cash. But I think that's important. And the other thing is to watch cost, and I think the bank, even today, is very cost conscious. And we used to say the only expense we like is salary expense because that's our raw material, so to speak.

Medearis: That’s the fuel that drives it…

--finding the place down North 1st Street. We've already entered downtown.

S. Smith: Right. It's all part of the culture that continues to guide the bank today. Now, this brings me-- the story of the first 10 years starts out with this incredible genesis of an idea and the hard work to get something off the ground, and then this acceleration of success as companies needed you, and you did a good job serving them. But the first 10 years weren't all rosy. The latter part of this, you hit a very, very difficult period and probably even added more to the entrepreneurial culture. I'd like to hear you talk about--

R. Smith: Well, let me--

S. Smith: --the later stages.

R. Smith: Like all plans-- we had a plan to be a three-legged stool-- technology, commercial, and real estate, and we wanted one-third of the assets. What happened to us is the real estate people need cash.

Technology companies don't need a lot of loans. So we grew at one-third, one-third. The problem we had is the third in real estate became a very big third-- and then, cyclical nature. So we had a big write off in '92, the only time the bank has ever-- other than the first quarter, I think-- ever had a loss. So we took a big loss at that time.

S. Smith: And these were real estate loan losses?

R. Smith: These were real estate loan-- and the technology loan losses are way under banking average of loan losses. So the technology community is a good place to loan money. But we took a big loss, and the other mistake that I made, and I think it's a lesson that entrepreneurs should do-- I was so concentrated on the low cost that we really didn't build the infrastructure of the bank as we should have, and that wouldn't have kept us from getting in trouble with the cyclical nature of real estate, but that happened.

And we brought in John Dean, who was a good manager. I was a better entrepreneur than a big bank manager because that wasn't my experience at all. But the neat part, I think, that has really-- is that John then did a good job, and Wilcox did a good job, and then Greg Becker.

And so not only are we a company that continues. We've had now four CEOs, and I think that it says a lot for us. The other thing that-- when we had our loss, we were able to tell the financial community and the technology community, yes, we had a loss, but the next quarter, we're going to be profitable, and we were, because that was very important to people.

S. Smith: So I think it's very useful to dig in and think about the lessons learned when things didn't go so well. You mentioned one, you recognize that you didn't have all the infrastructure which you needed. What were other things you might have learned in that difficult period in the early '90s?

R. Smith: Well, I think one of the things that we did is we got bigger so we could make bigger loans. That was very helpful to us on the technology side but bit us in the butt on the real estate side. And we probably-- if we would have stayed within 45 minutes of downtown Palo Alto, we would have been in better shape. We wandered further out in San Francisco and some other places where we took some loan losses. And then, I think the other--

S. Smith: So the real estate underwriting probably tightened up a lot as part of this--

R. Smith: Well, sure, and the de-emphasis of the real estate-- but the other thing that I think is-- for entrepreneurs-- is you have a plan, but you should always question, does it still make sense? And I made the mistake that we kept one-third of our basket in real estate. That was too much because the total had gone higher.

But by the same token, earlier, the real estate helped us because they were borrowing money, and we made a lot of money. We lost some money, had a lot of loss, but we made a lot of money in the real estate area.

But I think the real lesson that I look back is that I think we all have strengths and weaknesses. Mine was entrepreneur, sales, PR, not management. And we should have filled in with more managerial talent, if you will-- staff people, which I always worried about staff people. Do they really add value? Well, they do, but we should have done that sooner.

And that's where John Dean brought to the party, amongst many other things-- that he really built out the managerial thing to take the company to the next level. So those are my thoughts. Bob?

Medearis: Of course, I'm out of the bank in '89, and--

S. Smith: Before this really happened.

Medearis: Before this happened. I do remember some conversations, and I cautioned the board to not go too heavily into real estate because I was a real estate guy, and I've seen that the cyclicals, and they were just too hard to manage. But in defense of the bank for going into real estate, they often went in because of the successes that many of the clients that we had had, and they wanted to buy, say, a winery in Napa. And now, that's working very well today, but it was a little bit premature at those times.

So I'm not going to say that I was critical of the real estate because I think you have to have the balance like Roger set up. I think that the mistake we made is you can't monitor and evaluate real estate the way you can other businesses.

Oftentimes, the purchase is so dependent-- and keep in mind the process of going into the late '80s and the early '90s, when the emergence of the environmentalists and the-- what I would call the extremist groups. You could have a beautiful piece of property, but you could get wiped out because of the regulatory impacts that a citizenry would have under those kind of periods.

R. Smith: And I think that as you look at-- we weren't alone, and I think that the cyclical nature of real estate is quite different than the technology business.

S. Smith: And if you put cyclicality on top of a highly-leveraged asset--

Medearis: Exactly right.

R. Smith: And as Bob said, real estate folks-- well, their whole thing is the leverage and stuff. So that was a mistake, and that was-- but I think the bank has done very well. And a number of banks didn't make it through that period, but Silicon Valley did because we had the engine--

Medearis: Of the other two stools.

R. Smith: --the other two stools. And I think that was--

S. Smith: And you were adequately financed. You didn't have to raise emergency capital to stay afloat.

R. Smith: And I think the other thing that I'm very proud of is that we worked very hard with our investors, and we'd go back to New York and Boston and talk to them. And they knew we were shooting straight with them. And like T. Rowe Price is, today, I think a 4% owner of the bank, and those were--

S. Smith: They're happy.

R. Smith: Well, yeah, they're happy. But those kind of relationships, I think, are really good.

S. Smith: Was there a temptation during that down cycle to sell the bank to somebody bigger?

R. Smith: Well, we flirted with merging with Plaza Bank, which was a very good bank in San Jose. And the theory there was that we had the technology. We had real estate. They had real estate. But they had really done a good job in what we call the commercial, the non-technical business. And so we thought that would make some sense, and so we got to the point where we were almost going to do that.

And then we, as a board listening to a lot of our shareholders, said that would probably take us out of the focus on the technology, so we mutually backed out of the deal. And then, they sold to Comerica Bank six months or a year later. But they were a very fine bank and a very fine-- they had done in the commercial area what we had done in the technology area. They were really top drawer there. But other than that-- and I don't know what has happened, but we never--

S. Smith: Well, looking back, I guarantee you your shareholdings are worth more today than they would have been as part of that merger.

R. Smith: But I think it was also-- we listened to our clients and our shareholders and said we did have something unique, and thank goodness we did not do that.

S. Smith: Well, let's summarize a bit here and get this back to a bit of a personal level. I'd like to ask each of you. Bob, I'll go first. What are some of the things you regard with the greatest pride about what you've been able to accomplish in your career? What parts of this Silicon Valley Bank story or other things are you most satisfied with?

Medearis: Well, interesting question. I have had a wonderful life. It's just been incredible. Because of this bank, I guess recognized is the best word to do it, and so there was a lot of opportunities that were opened up to me that never would have been, had we not done that bank. So from a personal nature-- and I've tried to be an individual who took that into perspective and made contributions to others as a result of it.

Certainly, the work that I ended up doing in Russia and Georgia stemmed directly from the bank, when they started that conversation that I told earlier. And that led to some of my most wonderful experiences that a guy like myself could ever have, working with people like George Shultz. And I spent a lot of time with him and Jim, and George, and some of the other faculty people. We made an investment in Georgia wineries, and we all lost our shirts, but as George Shultz told me one day-- he says, look, Bob. What we did through you was really help Georgia.

And I can say that I ended up putting the banking system, working with Coopers on the establishment of a banking system in the Republic of Georgia. And that banking system had-- I can well remember statistics. 86 offices were called banks, but they were really street vendors. And the fraud, the corruption, was unbelievable. But when Shevardnadze went down there, even though he was a bad communist, he helped get some of that under control, although he was kicked out because of corruption too.

But one of my students over there, Michael Saakashvilli, became president, and he really cracked down on corruption. That saved the banking system. So I can tell you that the banking system in Georgia is a direct result of the establishment of Silicon Valley Bank. What I learned out of here, we really put into work over there. That's one of them.

I'm now living in the People's Republic of Davis, and so I've become sort of immersed in a lot of activities around the University of California Davis. And it's been a really enlightening experience. And the things that I learned through all the people at Silicon Valley Bank, every single one of them, made a contribution in my nugget on how to behave and to operate in the future.

That's another legacy that I personally inherited, and that you can't get all the things that you think should go in. You got to moderate your positions. You've got to look at-- you've got to get into other people's head, and that was one of the takeaways that I had too.

And I've spent a lot of time in the last 10, 15 years, and I'm doing a project right now which is sort of interesting. It's the conversion of cow manure off of dairy farms, and we're basically pasteurizing it through a high-tech process. And so I'm still in the high tech business, only dealing with excrement instead of all the--

S. Smith: Have you hit up Silicon Valley Bank for a loan?

Medearis: I haven't yet, and I really don't intend to because it's so important to work in the valley over there to do things. But it's a very interesting process. And the dairy we started with right now is doing very, very well, and they're the only dairy in California that has been able to expand because we solved the environmental problems.

So the postscript to all this is the operations of Silicon Valley Bank have filtered into a lot of other industries and businesses. And I know of very few people who have not had good experience of the principles that to some extent I, but major to Roger-- that they set down in the operation of that bank.

And I think it's a postscript of how your policies, practices, and procedures will lead you to a conclusion that is really the betterment for all of mankind. And I don't know if that addresses your question, but that's the way I think of it.

S. Smith: Absolutely. Just one follow-up-- if you could change one decision, or one event, or something about your life, what would it be?

Medearis: Interesting question. I would say to have given more people the opportunities that I've had. I didn't start that process early enough-- that I believe that we all make-- no matter who you are, you are going to impress somebody, and the question you have to ask is, is that impression positive or negative? And the Silicon Valley Bank experience, to me, was a very positive experience. I haven't always had that. And that's the way I look at it.

S. Smith: Roger, we’ve got to hear from you.

R. Smith: Sure. No, the-- I think Bob's real typical of-- you're 83 now?

Medearis: Yeah.

R. Smith: 83 and still an entrepreneur, so I think that is good. Yeah, but no, it was-- I was blessed to, one, be in the banking business, and two, get to California. And it's the greatest place in the world to be. If I had to change one thing, I'd probably listen more. We started the bank. We had a director named Don Roller, who was in the life insurance business. And early on, he gave me a paperweight that said” Flow with it”, and it took me about 25 years to figure out what he was trying to tell me. But I probably would have listened more. But I've had an incredible life and have benefited greatly from the experience and the financial thing from Silicon Valley Bank.

And today, I'm the chairman of the Stanford Athletic Board, which is really fun. And we walk to the football games. We've formed two charities that I'm very proud of. Many people have heard of MADD, Mothers Against Drunk Driving. We formed a charity called MAM, Mothers Against Murder. And it's an awful, awful business, where we help families that have had somebody murdered in their family.

And then we formed a charity called Friends of the Palo Alto Parks, and we've redone a couple parks-- new parks-- in Palo Alto, one of which is an all-access park that we raised around $4 million for, and it's being built right now at Mitchell Park.

And the last thing that I'm very, very proud of-- in Palo Alto, we have had nine city council people, and all the other cities either have seven or five. So I worked hard and got it on the ballot, and so last Tuesday-- a week ago Tuesday-- I guess a week ago today-- that initiative passed. And so we'll have seven council people, which makes me feel very, very good.

S. Smith: Congratulations. And it's a great example of a businessman giving back, not only with your charities, but getting actively involved in local politics to make change that not everybody would worry about.

R. Smith: And I want to just also mention, I'm on the board of a company called Venture Lending and Leasing at Western Technology. And what has been very interesting to me is to see the things that we did a long time ago and how it's evolved on the debt side of the equation.

There's the expansion capital now, and it's become more institutionalized. And it's been fun to see not only the Valley grow, but how financing is able to do it. Silicon Valley Bank does some of that. I think they have a subsidiary that works on that too. But it's been fun for me to look back. As an old guy, we didn't have voicemail, for starters, and the whole internet--

Medearis: I worked on slide rules.

[LAUGHTER]

R. Smith: That's right. But it's been fun to see the financing-- not that we made it grow, but it showed that, I think, the risk-- I think Silicon Valley Bank probably proved that there was less risk than perceived risk in dealing with technology companies. And the rewards also are part of that.

S. Smith: Lower loan losses than other industries. Pretty amazing.

R. Smith: But also, I'm very proud, and I think we were a small part of seeing the Valley explode. And it's been fun to see people that we've known and helped do very successful work-- and recycling the money, not only angel investing, which I do a little bit of, but also in the charity area. And the other thing that I really like about the Valley-- in fact, I was quoted in a Fortune article in about 1974.

I think the quote was-- it said-- I was hoping it said "Roger Smith said." One banker says, "No one has million-dollar houses." But I think one of the neat part of the Valley is there's very little of flaunting the wealth that we have, and I think that is an important, also, part of the culture. And as Bob says, as we share information, we help people, and there isn't-- I've never seen, in all my days, a bribe in Silicon Valley-- never, ever. And I think that's part of just the great way we do business in the Valley.

S. Smith: Fascinating. Let me ask one open-ended question. What advice would you give to a young person just starting out today, somebody's who's just coming out of school, or grad school, or the military, or whatever? Judging from your experiences, what would you pass along?

R. Smith: See, I will jump into that first. God was very good to me. He gave me a job that fit my personality. I like analytical, but not all the time. I like sales, but not all the time. So the banking business was a combination of those. So I would say first of all, find a job that fits your personality, that then going to work is not something-- it's fun. So I think if you do that-- and then, be passionate about whatever you do. And then, I think there's no alternative than working hard and not only working hard, but try to work smart.

And so those are things that I would do, and always have a moral standard. We used to say at the bank, don't ever do anything that you wouldn't want to be on 60 Minutes, and I think that's an important thing. Bob?

Medearis: That 60 Minute quote is interesting because I can remember-- it was very early on. I think the quote that I heard was if you can tell any story and not be concerned about having it on the local news tonight, then you're OK. But to more specifically answer your question, I had the experience the other night-- as I mentioned, I'm fairly active in affairs at Davis, and I gave a lecture to a group of seniors.

First, let me give you the dynamics of the class, the group that I was talking to. This was an investment club of people that were at Davis. They all showed up in Silicon Valley casual wear, which is very unusual there. 95% Asian-- the makeup of the school is 35%, 38% Asian, 34% white, about 16% Chicano, and 1% black and mixture of others.

This group was one of the brightest groups I've ever talked to, to determine by the questions asked. And they were asking about careers, financing, banks. But underlying all of it was-- and Roger said something that was very, very true. I responded to a lot of their questions by saying do what you are most happy at doing, and don't worry about the money because it will come if you're doing that.

Secondly, lay out and be passionate about the plan that you're going to undertake, but never lose sight of taking care of those who got you there. And I think if people go in-- and you mentioned ethics and morality. I see a significant deterioration of that in what I pick up through daily and international news, and it's very disturbing to me.

And the world we're entering in is a world unlike any that we've had before, when people can have instant texting and talk all over the world. And one of the concerns I had there at that group was alleviated by the fact that nobody got on their phones while the lecture was going on. They have started to recognize that they're here to learn. But the discouraging thing was the 98% Asian in an environment where they are only about one-third. So it is very, very interesting to me.

And then, the responses and the questions asked were just marvelous and went far beyond financing. It went on what are our obligations in this life that we have? So we got into almost a philosophical and moral issue. And so I see a resurgence of that coming, and I'm hoping that that occurs, where there is more open discussion like-- the things we had that made Silicon Valley great I think can be applied to a lot of other things, and that's what I see happening.

So it was interesting, and my story to them would be, be who you are, be honest in your endeavors, be forthright in your presentation, and above all things, tell the truth and keep your moral and your integrity with you at all times.

R. Smith: Do you know-- maybe end on a sort of a humorous thing-- remember back-- I read as a kid, in the old days, in the saloons, the cowboys would go. They'd have to leave their guns at the front door. I'd really like to see everybody leave their cell phones at the front door-- restaurants and everything.

Medearis: That's pretty good.

S. Smith: Well, that backlash, I think, is happening in a few places.

R. Smith: We're all old enough to remember when, on Sundays, the stores were closed and stuff, and I really think for the good of the world that we ought to just unplug on Sundays.

Medearis: I want to say also to thank you to you and your activities here at this museum. I'm a new kid on the street down here today, and I'm most impressed with what little I know already about you.

S. Smith: Well, we love showing you more about what goes on here.

Medearis: I'm going to bring some grandkids down.

S. Smith: Please do. I have one final question. This is a question we like to ask a lot of the pioneers of the information age, of which you two are certainly well qualified, and we get answers all over the map. Doesn't really matter-- and most of us don't think about this too much, but maybe you have. So I think I'll start with you, Bob. What would you like your epitaph to read?

Medearis: Oh, dear.

[LAUGHTER]

I think that I would like to share with my grandkids one thing. This guy tried to do his very best, and though he failed in a number of endeavors, in the summation, mankind is better off because he was here.

S. Smith: Fantastic. Roger, your turn.

Medearis: That's a hard question, by the way.

S. Smith: Very hard question.

R. Smith: I would say maybe something-- work hard. Enjoy your life to the fullest. So that would probably be--

S. Smith: And you haven't?

R. Smith: Well, I have so far, and I'm lucky to be here.

S. Smith: Well, thank you very much.

R. Smith: Thank you.

Medearis: My pleasure.

S. Smith: This has been fascinating for me to listen to. And the whole process of learning about what you did to create a different kind of bank that helped create a whole industry and the ecosystem that supported it is a wonderful story and a major contribution probably will be told 100 and 1,000 years from now.

Medearis: Well, let me say one closing comment. And thank you for that. But we're here, able to say the things that we did say, because of a lot of people out there that really helped us.

R. Smith: Took a chance on us. And you know what I tell people? That every company, every product you buy, somebody started way back-- J. C. Penney or whoever. And there's a fascinating-- I haven't watched CNBC for a lot, but the Alibaba guy was on today, and if you don't--

S. Smith: Jack Ma

R. Smith: It's fascinating, some of the stuff he was talking about. It was very, very interesting. But thank you, Steve, and this has been fun for us.

S. Smith: Our pleasure.

Medearis: Thank you.

R. Smith: Thank you.

END OF INTERVIEW

