Pacific Community Ventures

Investments at Work

PACIFIC COMMUNITY • VENTURES

PCV Portfolio Companies*

Financed
- Howler Products (San Francisco)
- Just Desserts (Oakland)
- Latte Dah Café (East Palo Alto)
- Niman Ranch (Oakland)
- Now & Zen (San Francisco)
- Timbuk2 Designs (San Francisco)
- Vida (Brisbane)

Advised only
- BPS Technology (Santa Clara)
- Comet Skateboards (Oakland)
- First Light Destinations/Evergreen Lodge (San Francisco)
- Give Something Back (Oakland)
- Jeremiah's Pick Coffee Co. (San Francisco)
- Moving Solutions (San Jose)
- Pacific American Services (Oakland)
- Planet Organics (San Francisco)
- Ripple Effects (San Francisco)
- Rosenblum Cellars (Alameda)
- Sunrise Specialty Company (Oakland)

** As of December 31, 2002*

PCV Team

Penelope Douglas, *President*
Jacob Singer, *Director of Portfolio Management and Investment Development*
Eduardo Rallo, *Chief Operating Officer and Director of Portfolio Management*
David Rosen, *Director of Finance and Administration*
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Report and Executive Summary prepared by BTW Consultants.

In 1999, Pacific Community Ventures (formerly known as Silicon Valley Community Ventures) became the first community development venture capital organization in California. Pacific Community Ventures (PCV) seeks to strengthen companies in traditionally overlooked areas to help develop the communities around them. They do this primarily by working with companies that provide good jobs with marketable skills to residents of low- to moderate-income (LMI) communities. PCV provides its portfolio companies with business advisory services, workshops, and a resource network to help entrepreneurs gain access to existing knowledge and expertise within the business community. In addition, PCV provides equity investments to a subset of companies within its portfolio. As of December 2002, PCV has invested $3 million in 10 companies and provided advisory services to 47 businesses.[1]

In 2001, PCV refined its investing philosophy to strengthen its portfolio with respect to both social and financial returns. This change in philosophy resulted in a 2002 portfolio that is PCV's strongest group yet. Despite difficult economic times in the Bay Area, this portfolio of businesses continued to provide high quality jobs to residents of LMI communities.

PURPOSE OF THIS ASSESSMENT

PCV is a "double bottom line" investor, working to achieve social as well as financial returns on its investments. PCV measures the social return on its investments by determining the extent to which the businesses in its portfolio are providing high quality jobs to residents of LMI communities. While there are no "industry standards" for measuring and reporting on the social impact of double bottom line investments, PCV has developed its own standards and measures for assessing social return. For the past three years, PCV has engaged the services of BTW Consultants, a consulting firm specializing in evaluation and planning services for the non-profit and philanthropic sectors, to assist in developing an approach and measuring the social return on its investments. Together, PCV and BTW developed measures in the following areas: 1) job training and the cultivation of employee skills; 2) employee retention and advancement; 3) wages and benefits; 4) wealth creation mechanisms; 5) hiring practices; and 6) business location and market reach.

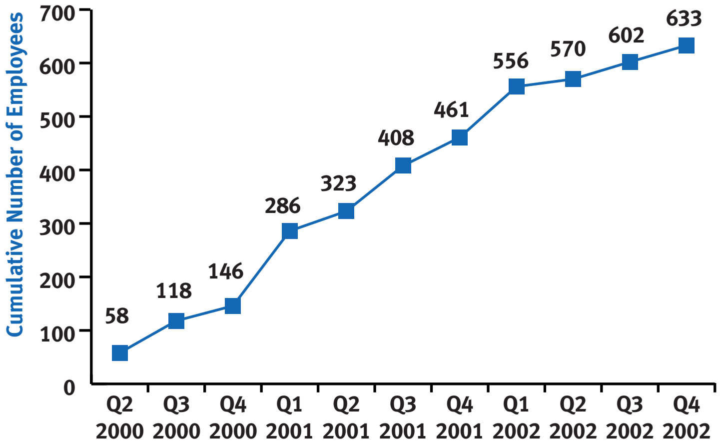
1 Through the first quarter of 2003, PCV has committed approximately $4.5 million to 11 businesses.

This assessment was made possible through generous support from The Mitchell Kapor Foundation.

EMPLOYMENT IN THE PCV PORTFOLIO

DESIGNATED EMPLOYEES WORKING IN PCV-FINANCED BUSINESSES

Cumulative Number of Designated Employees in Financed Businesses 2000-2002



Cumulatively, in the past three years, a total of 633 designated employees[2] have worked in PCV's financed companies.

PCV seeks to work with companies with strong business models that lend themselves to significant local hiring. Designated employees account for more than half of the workforce at almost all 2002 PCV portfolio companies. This is a substantial increase from 2001, when this was the case for only about half of the companies in the PCV portfolio.

WAGES AT FINANCED COMPANIES

PCV invests in and develops companies that invest in their employees. One of the primary ways companies can do this is by paying employees a living wage. Average hourly wages in PCV's financed portfolio have steadily increased over the past three years, from $10.54 in 2000 to $12.19 in 2002. This is a 16% overall increase in average hourly wages and translates into more designated employees earning a living wage. Seventy-one percent of 2002 financed companies pay average hourly wages above San Francisco's 2002 living wage of $10.25 an hour. This is an increase from 2001 when only 50% of financed businesses paid average hourly wages above San Francisco's living wage of $10.00 an hour.

Comparison of Overall Weighted Average Hourly Wage at Financed Companies, 2000-2002

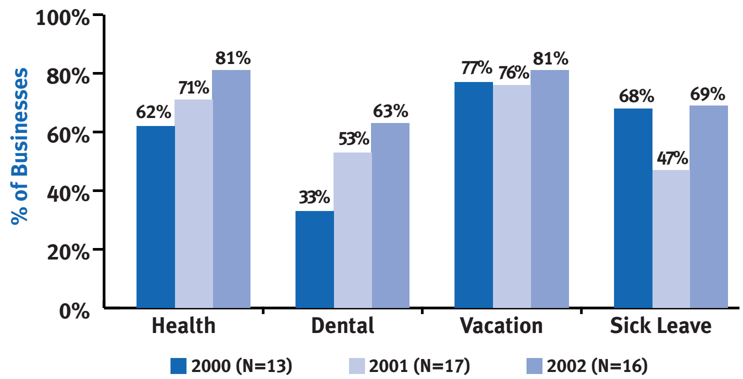
Year	Number of Companies	Number of Employees	Average Wage in 2002 Dollars[a]	San Francisco Living Wage[b]
2000	7	98	$10.54	$9.00
2001	8	380	$10.72	$10.00
2002	7	375	$12.19	$10.25

a. Calculated using the Bureau of Labor Statistics inflation calculator.
b. This is reflective of San Francisco's Minimum Compensation Ordinance. Hourly rate does not include benefits, although employers are required to participate in an additional health care accountability ordinance.

BENEFITS

In 2002, the proportion of PCV employers providing health and paid leave benefits is at its highest yet - overall, 81% of 2002 companies offer health insurance and vacation time to their designated employees, 69% provide sick leave, and 63% provide dental insurance. Delving further into the specific issue of health insurance, the data indicate that more designated employees enroll in company sponsored health insurance when the employers pay the majority of the cost. The proportion of employees enrolled in an insurance plan declines as employees become responsible for more of the cost of their health care coverage.

Percent of Financed and Advised Businesses Offering Health and Paid Leave Benefits to Designated Employees, 2000-2002



In 2002, 81% of portfolio employers offered some type of wealth creation benefit to stimulate asset accumulation for designated employees. The majority of companies offered either bonuses or participation in a 401(k)/IRA plan. Relatively few companies offered other types of wealth creation mechanisms such as stock options/ESOP, profit sharing and/or liquidity coverage.[3] PCV recognizes how challenging it is for small businesses to offer these types of benefits to their employees, especially during recessionary times.

CULTIVATING SKILLED EMPLOYEES

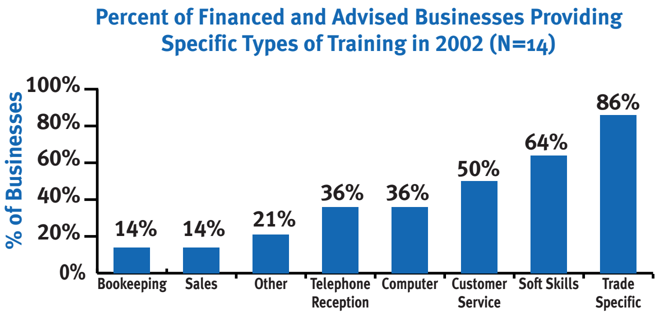
PCV wants to invest in companies that cultivate skilled employees and considers job training and skill building essential for the career development of entry-level employees.
There are three aspects to the question of skill cultivation:

Q: Do PCV portfolio companies provide training and if so, in what areas?

A: *All 2002 PCV portfolio employers provide some form of job training to their designated employees. The three most common types of training include: trade specific skills such as manufacturing techniques and equipment operation (86%); soft skills[4] (64%); and customer service (50%).*

Q: How much training do PCV portfolio companies provide?

A: *Overall, during the first year of employment, the typical designated employee receives 66 hours of training in the first quarter of employment and 55 hours of training in subsequent quarters.*



Q: Are PCV portfolio companies providing the training and skills most critical to success at their companies?

A: *2002 PCV portfolio employers have improved their ability to match training with the skills they identify for success at their companies. All 2002 employers who identified trade specific skills and customer service skills as important to succeed at their companies, train employees in these areas. However, while practically all employers identify "soft skills" as being critical to succeed at their companies, 64% of these employers actually provide soft skills training to their designated employees.*

EMPLOYEE RETENTION AND DURATION

Employee retention can be positive for both portfolio companies and their employees. An employee staying in a good job for a significant period of time accrues wages, benefits, and skills over time, and a company that is able to retain its employees cultivates a skilled workforce and saves on recruiting and training costs.

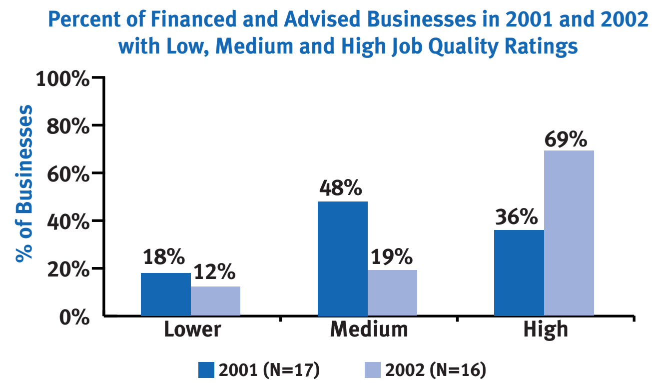
PCV's 2002 employee data seem to reflect changes in the local economy and labor market. More employees are staying longer at PCV portfolio companies, and those who are leaving are generally doing so as a result of layoffs.

✓ Sixty percent of PCV portfolio companies in 2002 estimate that, on average, designated employees are staying at their companies for more than two years - more than twice the percentage reporting such duration of employment in 2001.

✓ This year, 40% of designated employees working in PCV-financed companies left those companies, which is the lowest proportion to leave in three years. The majority (67%) of employees leaving did so as a result of lay-offs. Reasons other designated employees left in 2002 include: to seek other employment (15%); because they were fired (12%); and life circumstances such as illness, moving, pregnancy, etc. (7%).

JOB QUALITY INDEX

Although there is no accepted or validated metric for what constitutes a "high quality" job, PCV is setting high standards for the companies it chooses to invest in and develop. PCV and BTW Consultants created a job quality index wherein companies are assessed based on the types of benefits and wealth creation mechanisms offered to designated employees, available training opportunities, and the provision of a living wage.[5] In 2002, many more PCV portfolio companies are providing high quality jobs to their designated employees than were doing so in 2001: 69% of portfolio companies in 2002 as compared to only 36% in 2001.[6] This increase affirms PCV's new investment and growth strategy; more mature companies joining the PCV portfolio are providing higher quality jobs for designated employees.



CONNECTING WITH LOW- TO MODERATE-INCOME COMMUNITIES

PCV helps companies located in or near traditionally overlooked areas gain access to capital, business advice, and the resources they need to contribute to community vitality. In return, successful PCV portfolio companies can help to increase the local tax base and provide quality employment opportunities for individuals who live locally.

BUSINESS LOCATION

All 18 companies that received financing or advising services from PCV during 2002 are located in or near low- to moderate-income (LMI) areas in the Bay Area. More specifically, eight companies are located in San Francisco County; six are in Alameda County (all were in Oakland); three are in Santa Clara County (East Palo Alto and San Jose); and one is in San Mateo County. 2002 PCV portfolio companies chose their locations for three primary reasons: 1) market access, 2) employee access, and 3) affordable rents. While it is not noted as a primary reason for business location, 83% of PCV portfolio companies have taken advantage of tax savings available to companies that are located in and hiring from low-income communities.

2 Two criteria were used to identify designated employees: 1) employee resides in a low- to moderate-income zip code; or 2) employee was hired through a referral from a local non-profit organization, job training program, or welfare-to-work agency.

3 Liquidity coverage refers to pre-determined severance in the event of a company sale.

4 "Soft skills" refer to a broad range of interpersonal or social skills, and include such things as attendance, punctuality, and professional appearance.

5 The scoring system used is as follows: 2 points for health insurance, 1 point for dental insurance, 1 point for vacation and/or sick leave, 1 point for at least one wealth creation mechanism (bonuses, stock options/ESOP, profit sharing, and/or liquidity coverage), 1 point for having a 401(k)/IRA plan in place, 1 point for soft skills training, 1 point for trade-specific training, 1 point for training in at least one functional skills area (computers, customer service, sales, phone reception, bookkeeping, and/or other skills), and 2 points for providing an average wage equal to or higher than San Francisco's 2002 minimum compensation ordinance of $10.25 per hour.

6 Note that the 2002 job quality index is slightly different from the one used in 2001. The 2001 index did not include living wage data because at the time they were not available for advised businesses.

Pacific Community Ventures (PCV) – Financed Portfolio 2002

Number of Designated Employees by Zip Code

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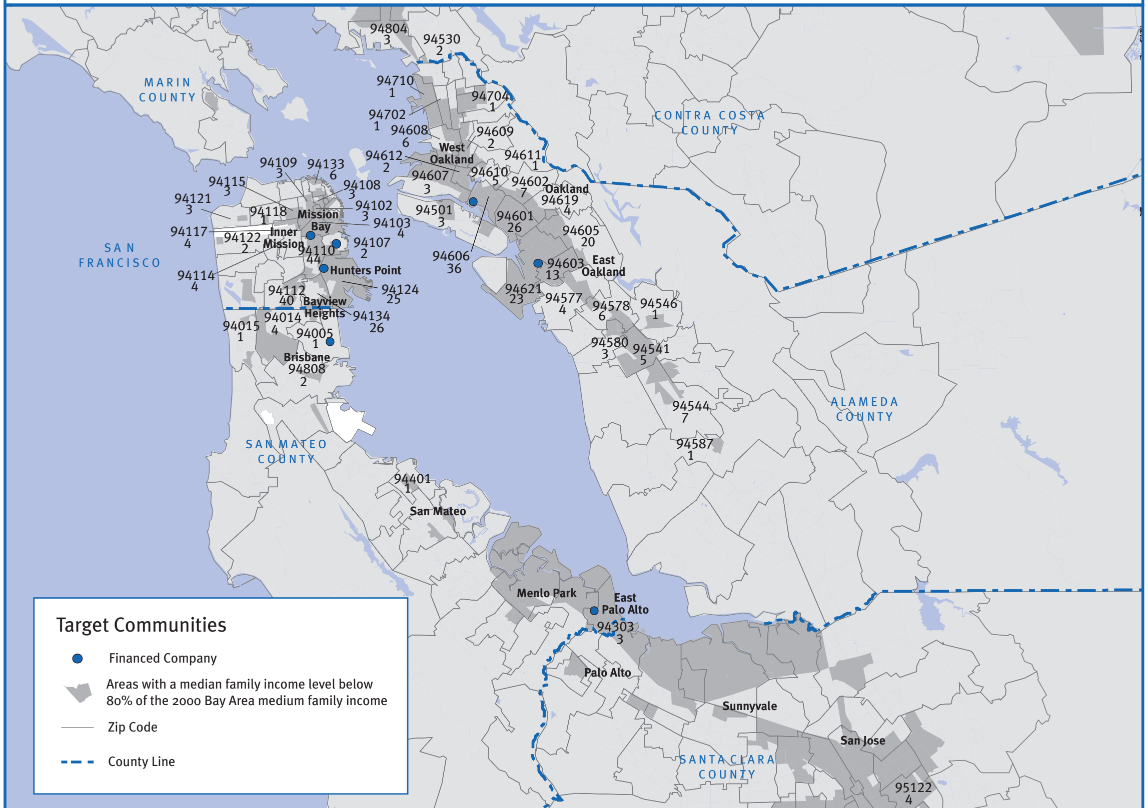

Source: Census 2000, Long Form

Map Created by GreenInfo Network • www.greeninfo.org • February 2003

Figure 1
During 2002, financed companies employed 375 individuals from low- to moderate-income zip codes in the San Francisco Bay Area.

HIRING

Figure 1 displays the zip code of residence for the 375 designated employees who worked in PCV-financed companies in 2002. Almost all designated employees reside in LMI zip codes in Alameda or San Francisco Counties (94%), with the largest proportion in Alameda coming from East Oakland (36 employees) and the largest proportion in San Francisco coming from the Mission (44 employees) and the Excelsior (40 employees).

In 2002:

✓ 48% of designated employees live within 3.5 miles of the companies for which they work(ed).

✓ 67% of PCV portfolio employers partnered with job training programs to hire employees. To date, this is the largest proportion of PCV employers to use these programs.

CONCLUSION

In 2002, PCV and its portfolio businesses have made progress in the face of challenging economic conditions. While there were substantial layoffs in these companies in 2002, there were also tangible improvements in the quality of jobs provided to the workers. More companies are offering living wages and most are providing benefits packages and many hours of training to their employees. Not surprisingly, workers are staying at their jobs longer, probably in part due to the lack of options elsewhere, but also because of the high quality of the jobs they are in.

A few years ago, PCV was a start-up organization, with experienced people at the helm, but also learning and evolving as it went, refining its approach and practice. Over the past four years, PCV has accomplished a great deal. It has built a stronger portfolio of companies, and a solid foundation upon which to build and learn, and extend its own market and community reach statewide.