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Report and Executive Summary prepared by BTW - informing change

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2006 Social Return Executive Summary

Expanding Reach, Increasing Social Return

Pacific Community Ventures Background

Small- and medium-sized, “brick and mortar” businesses,¹ are critical to the development of underserved communities in California. These companies are significant employers and job creators that have deep connections to local economies and are a source of entrepreneurial role models. Pacific Community Ventures

(PCV) invests in these businesses to spur economic growth in California’s lower-income communities. PCV invests equity capital in a select group of companies, its Financed Portfolio. PCV builds business capacity for a much larger group, its Advised Portfolio, by connecting companies with one-on-one advisory services, leadership workshops and asset-building programs for lower-income workers.

PCV PORTFOLIO COMPANIES AS OF DECEMBER 31, 2006

FINANCED²

- Beacon Fire and Safety (San Jose)*
- Bentek Corporation (San Jose)
- Evergreen Lodge (San Francisco/Groveland)
- Moving Solutions (San Jose)
- New Key Financial (Los Alamitos)
- New Vine Logistics (American Canyon)
- Niman Ranch (Oakland)
- Radiovisa Corporation (Sherman Oaks)*

CENTRAL VALLEY ADVISED

- APPL, Inc. (Fresno)
- Eagle Medical Services (Fresno)
- Gemini Duplication (Visalia)
- Gems Women’s Fitness (Clovis)
- Summit Software (Clovis)
- Unlimited Energy (Fresno)

LOS ANGELES ADVISED

- Artcraft Bedding and Draperies (Commerce)
- blik Surface Graphics (Venice)
- CP-MFG (Van Nuys)
- DeVoll’s Rubber Products (Santa Fe Springs)
- Design Guild Moulding (Van Nuys)
- Dura Flooring, Inc. (Commerce)
- El Classificado (East Los Angeles)
- Foam Matrix (Inglewood)
- Industrial Glass Products (Los Angeles)
- LAX TACOS (Inglewood)
- RJ’s Demolition & Disposal (Inglewood)
- Titan Hardware (Santa Fe Springs)
- Value Finders (Culver City)
- Wonderland Treatment Center (Los Angeles)

*Sold in 2006

BAY AREA ADVISED

- Crunchy Foods (Oakland)
- Dawson Custom Workroom (San Francisco)
- East Bay Cash Register Systems (Oakland)
- Extreme Pizza (San Francisco)
- Feeney Wire Rope & Rigging (Oakland)
- Give Something Back (Oakland)
- Heath Ceramics (Sausalito)
- Home Health Advocates (San Francisco)
- iPrint n’ Mail (San Francisco)
- Jeremiah’s Pick Coffee Company (San Francisco)
- John Lewis Glass (Oakland)
- Laura + Kiran (Berkeley)
- Melissa Joy Manning, Inc. (Oakland)
- Pyramid, Inc. (San Francisco)
- Rhythm & Motion Dance Center (San Francisco)
- Silver Shield Security (San Jose)
- Siteler Wash (Mountain View)
- SunMan Engineering (San Jose)

SAN DIEGO ADVISED

- Chua Chocolate (Carlsbad)
- Elan Organic Coffees (San Diego)
- Hi-Tech Electronic Manufacturing (San Diego)
- Lyon Technologies (Chula Vista)
- NLP Furniture Industries (San Diego)
- Northwest Circuits Corp (San Diego)
- O.A.P. Packaging, Inc. (San Diego)
- Pacific Gyre (Oceanside)
- Paws for Thought (San Diego)
- Reynolds Mason Industries (San Diego)
- Source of Health (Chula Vista)
- Vigotron (San Diego)

1. Small- and medium-sized companies have annual revenues between \$500,000 and \$30 million and have 10 to 100 employees. “Brick and mortar” refers to companies that are not technology driven, such as manufacturing, service and food companies.

2. This list does not include one additional business in which PCV made an equity investment in late 2006. This company will participate in PCV’s social return data collection process starting in 2007.

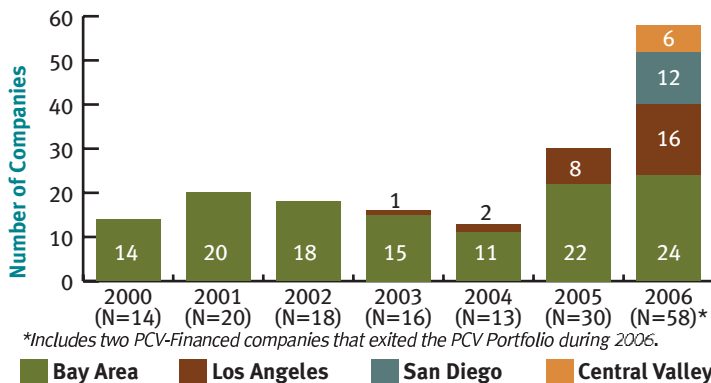
Purpose of Social Outcome Assessment

PCV seeks both financial and social returns on its investments. Ongoing measurement is critical to articulating the outcomes of PCV's work. Since the spring of 2000, PCV has worked with BTW-*informing change* (BTW), an independent research and strategic consulting firm, to design and implement an approach for social return measurement and interpretation. Data for measuring relevant indicators are systematically gathered through an end-of-year employer survey of all Portfolio companies and from quarterly employment reports from Financed Companies.

Portfolio Growth & Diversification

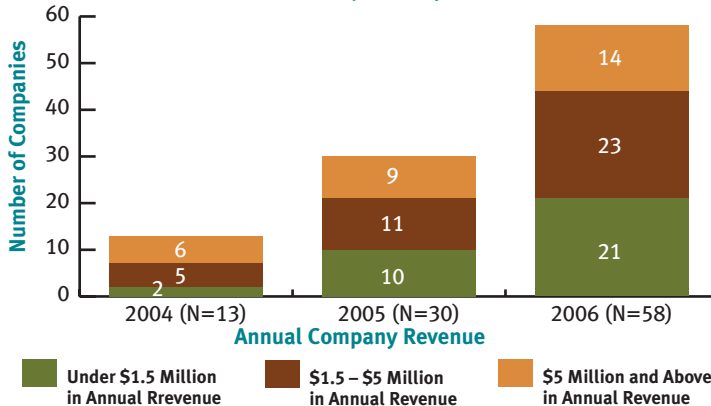
As of the end of 2006, PCV's Portfolio spanned four geographic markets in California (Bay Area, Los Angeles, San Diego, and the Central Valley) and consisted of 58 companies, representing roughly twice the size and footprint of PCV's 2005 Portfolio. Advised companies constitute 86% of the 2006 Portfolio, compared to 70% in 2005 and 39% in 2004. Financed companies constitute 14% of PCV's 2006 Portfolio.

Number of PCV Portfolio Companies by Region, 2000 – 2006



Compared to PCV-Financed companies, PCV-Advised companies tend to be earlier stage with lower annual revenues. PCV's growth strategy is to reach more small companies and companies from a more diverse set of industries than PCV has worked with in the past. As of the end of 2006, 76% of Portfolio companies have annual revenues

Number of PCV Portfolio Companies by Revenue, 2004 – 2006

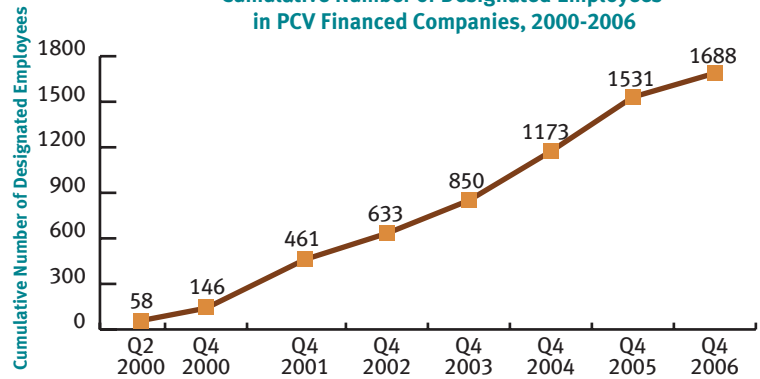


under \$5M, compared to 70% in 2005 and 53% in 2004. PCV Portfolio companies fall into four industry sectors including services (46%), general manufacturing (35%), technology-related manufacturing³ (11%) and wholesale trade (8%).

Designated Employees at PCV Portfolio Companies

Designated (lower-income) employees make up the majority of the workforce at most PCV Portfolio companies.⁴ At the end of 2006, there were 947 designated employees working at 46 Advised companies. Throughout the course of 2006, 531 designated employees worked at PCV's eight Financed companies and, on average, 92% worked on a full-time basis each quarter. Between April 2000 and December 2006, PCV's Financed Portfolio employed a cumulative total of 1,688 designated employees.

Cumulative Number of Designated Employees in PCV Financed Companies, 2000-2006

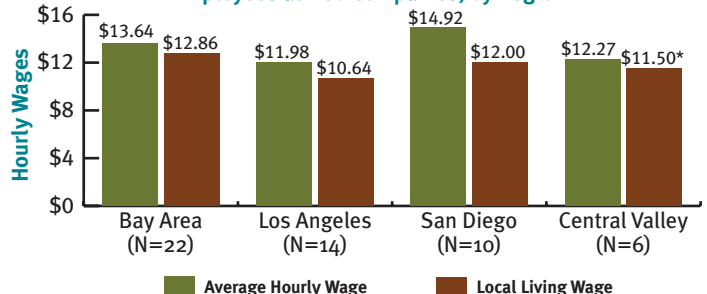


Since 2003, 64% of designated employees at PCV-Financed companies have been male and 36% female; 41% are Latino/a, 31% white, 14% Asian/Pacific Islander, 8% African-American, 3% Multiracial, and 3% not disclosed.

Wages

In each of PCV's four geographic markets, designated employees working at PCV 2006 Portfolio companies earn average hourly wages that exceed the local living wage ordinance.⁵ Designated employees earn, on average, \$13.33 per hour. Financed Portfolio companies tend to pay higher average hourly wages to designated employees than Advised Portfolio companies (\$13.56 and \$13.06 in 2006, respectively). PCV's technology-related manufacturing companies (all located in the Bay Area and San Diego) pay the highest average hourly wages of the industries in PCV's Portfolio (\$15.62).

Average 2006 Weighted Hourly Wage Among Designated Employees at PCV Companies, by Region

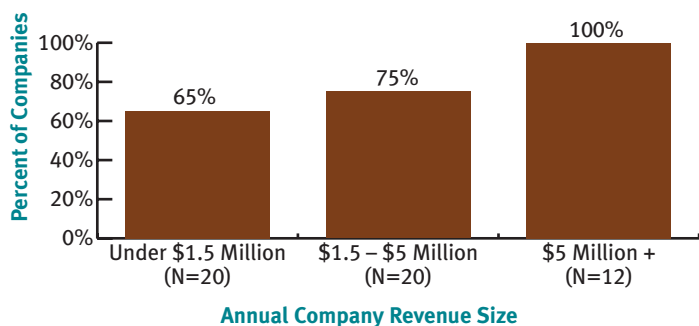


*Fresno does not have a living wage ordinance. This is the amount called for by the Fresno Living Wage Campaign.

Benefits

Firm size and stage of development play a role in a company's ability to offer health benefits to designated employees. In 2006, 100% of Financed companies and 74% of Advised companies offer health benefits to eligible designated employees. This exceeds the proportion of firms in the U.S. (61%) and California (71%) providing health insurance in 2006.⁶ All PCV Portfolio companies with annual revenues of \$5M or more offer health benefits to designated employees, compared to 75% of companies with \$1.5M to \$5M in annual revenues, and 65% of companies with annual revenues of \$1.5M or less.

Percent of 2006 PCV Portfolio Companies Offering Health Benefits to Designated Employees, by Annual Revenue Size



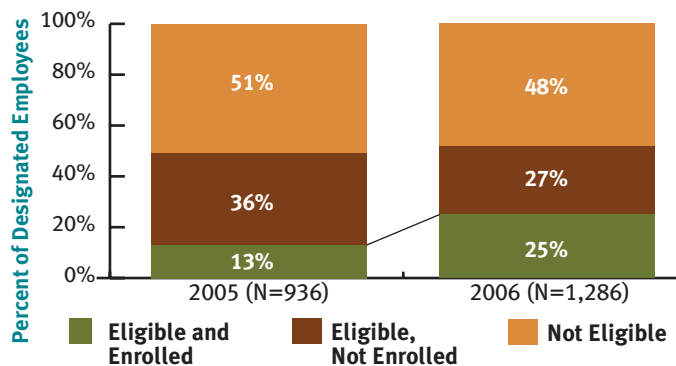
Within the PCV Portfolio, average enrollment rates are higher for designated employees eligible for health benefits at smaller companies. Eighty-four percent of eligible designated employees are enrolled in company health plans at smaller businesses (annual sales under \$5M), compared to 74% at larger companies (over \$5M in annual sales). It is possible that more frequent interaction between senior management and designated employees, often found at smaller-sized firms, is positively influencing enrollment rates in employer-sponsored benefits plans.

Almost all 2006 PCV Portfolio companies (96%) offer designated employees paid vacation and 60% offer paid sick leave.

Wealth Creation

Nearly half (48%) of PCV's 2006 Portfolio companies offer wealth building programs to designated employees. Approximately the same proportion of PCV Portfolio companies offer company-sponsored retirement plans (401(k)s and IRAs) in 2006 as did in 2005 (44% and 47%, respectively). However, slightly more designated employees are eligible for these plans in 2006 and a much higher proportion are choosing to enroll. Twenty-five percent of PCV designated employees were eligible for and enrolled in company retirement plans in 2006, compared to 13% in 2005. The data reveal a trend of higher retirement plan enrollment rates at PCV's smallest Portfolio companies (those with less than \$1.5M in annual revenues). At these companies, 64% of eligible designated employees were enrolled, compared to only 46% of eligible designated employees at companies with annual revenues of \$5M or more.

Percent of PCV Portfolio Designated Employees Eligible and Enrolled in Retirement Plans, 2005 and 2006



Seventeen percent of 2006 PCV Portfolio companies offer profit sharing plans to designated employees. Nine PCV Portfolio companies offered profit-sharing plans in 2006, compared to two companies in 2005.

Since 2004, PCV has partnered with Lenders for Community Develop to open 56 Individual Development Accounts (IDAs)—special matched savings accounts—for designated employees in the PCV Portfolio. IDA participants have an average, annual household income of approximately \$27,000 and are saving, on average, between \$68 and \$73 per month—or roughly 3% of their gross monthly income—towards their goal of first-time home purchase, education or retirement. Cumulatively, PCV IDA savers have built up \$114,994 in individual savings and accrued match.

Training, Retention & Advancement

PCV Portfolio companies help designated employees build valuable job skills. Almost all (96%) 2006 PCV Portfolio companies provide informal training and 44% provide formal training programs (i.e., classroom instruction, certification programs, apprenticeships, etc.) to designated employees during their first three months of employment. In addition, 73% of PCV companies provide job rotation or cross-training, which helps designated employees build an even broader skill set.

Overall, 43% of Portfolio designated employees have been with their company for two or more years, 33% for seven months to two years and 24% for six months or less.

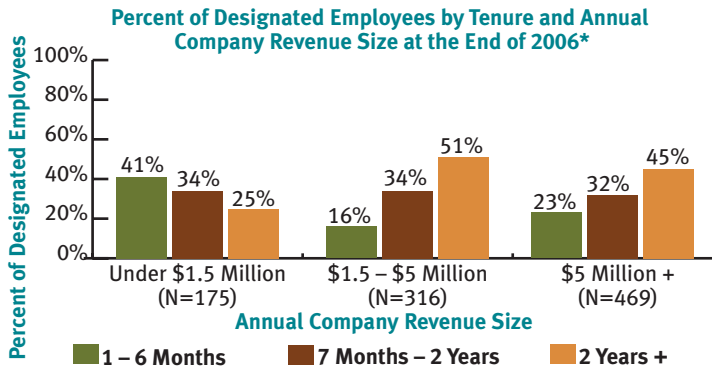
3. Technology-related manufacturing companies produce and supply equipment and parts to the technology sector.

4. Designated employees are those who: 1) were hired earning a starting hourly wage, or comparable annual salary, equal to or less than the regional self-sufficiency wage for a two-parent, two-child family with one parent working full-time: \$22.56 in the Bay Area, \$20.77 in San Diego, \$20.67 in Los Angeles and \$17.71 in the Central Valley (Source: California Budget Project, Making Ends Meet, Nov., 2005); AND 2) live in a low/moderate income (LMI) area or were hired from a job-training program. Zip code information is collected for employees at PCV-Financed companies quarterly to determine LMI residence, while company location and local hiring information collected at the end of the year are used as a proxy for employee residence at PCV-Advised companies.

5. Living wages refer to a minimum amount government workers and/or those who work for government contractors must be paid according to local ordinances.

6. Proportions are for firms of all sizes. Source: California Healthcare Foundation, California Employer Health Benefits Survey, 2006.

At the end of 2006, approximately half of the designated employees working at PCV Portfolio companies with annual revenues over \$1.5M had been with their companies for more than two years. Higher tenure rates at larger companies can partly be explained by the fact that larger firms tend to have been in business longer. This trend may also be due to larger companies having more robust internal advancement paths, allowing designated employees to stay on and move up as their skills develop. On average, 18% of designated employees at Financed companies held supervisory positions during each quarter of 2006.



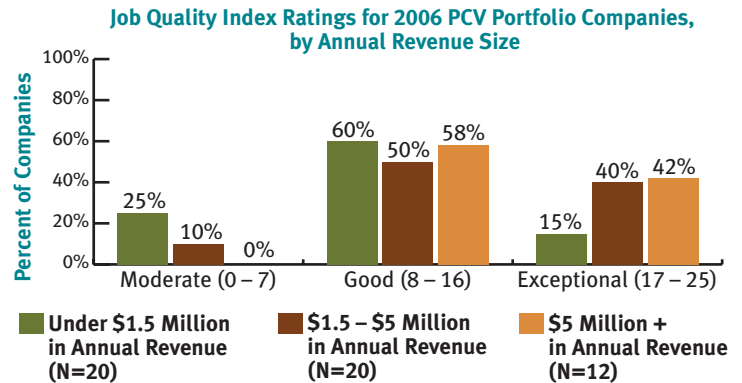
*Data available on 960 Designated Employees at 46 of the 52 companies surveyed.

Overall Job Quality

As a way to assess PCV Portfolio companies' overall social return, PCV and BTW created an integrated job quality index (JQI) in 2002.⁷ Over the last five years, PCV's JQI standards have functioned as a de facto screen, often precluding PCV from working with companies (mostly smaller firms and firms operating in lower-margin industries) unable to offer comprehensive benefits plans, but that provide valuable benefits to lower-income workers in other forms such as alternative health care solutions, broader training programs and wealth building plans. With this realization, PCV revised its JQI in 2006 and continues to pursue a growth strategy to reach a larger universe of companies delivering important outcomes to designated employees, while still reserving the highest JQI scores for those businesses that excel in all aspects of job quality.

PCV's 2006 JQI shows that 31% of PCV Portfolio companies provide exceptional quality jobs, 55% provide good quality jobs and 14% provide moderate quality jobs.⁸ Higher quality jobs tend to be in technology-related manufacturing and wholesale trade industries.

In 2006, 100% of PCV Portfolio companies with annual revenues over \$5M provide exceptional or good quality jobs to designated employees, compared to 90% of companies with revenues between \$1.5-\$5M and 75% of companies with revenues under \$1.5M.



Connection to Community

Over half (59%) of PCV's 2006 Portfolio companies are located outside of the Bay Area, a substantial increase from 29% in 2005 and 15% in 2004. To be part of PCV's Portfolio, a business must hire from low/moderate-income communities. Additionally, many PCV companies hire from their immediately surrounding communities. In 2006, 83% of PCV Portfolio companies hired designated employees from within four miles of their company location. In 2006, the top three reasons PCV Portfolio Companies selected their locations include facility needs, access to employees, and access to markets.

Concluding Thoughts

PCV's Portfolio represents a diverse set of small- and medium-sized, California-based companies that vary in revenue size, stage of development, industry and geographic location. This 2006 assessment validates that PCV's Portfolio is providing important benefits to residents of California's low/moderate-income communities.

7. As of 2006, the JQI is a scale from 0 to 25 that weights key employment features by company (including wage, employer share of health premiums, provision of alternative health care solutions, paid time off, types of training and training hours and provision of wealth building opportunities) into a single score.

8. It is important to note that the JQI was specifically designed to assess the relative level of job quality at companies in PCV's Portfolio. The JQI is not scaled to include lower quality jobs that provide only the minimum wage with little to no benefits or advancement opportunities.

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