We are pleased to report that Pacific Community Ventures had a very good year in 2005. We celebrated an outstanding Double Bottom Line success of our equity investment model. We experienced tremendous growth in both the scope and reach of our Business Advisory Service. And we expanded significantly our Workforce Development programs. In summary, 2005 was a year of growth and high impact.

At the same time, we feel compelled to articulate some stark economic facts about California. While total employment grew by 2% in 2005, fewer than half of the jobs in California provided full-time, year-round wages sufficient to support an adequate standard of living. With unemployment, underemployment, and poverty increasingly concentrated in pockets of California’s cities, the need for good jobs in these underserved areas is apparent. PCV was established to support the small businesses that provide such jobs.

At PCV, our focus is on investment. By investment, we mean not only capital, but also our non-financial resources: intellectual capital and innovation, workforce development initiatives, high level strategic business advising, and the deployment of our business networks. In 2005, PCV actively invested through:

**Equity Investments**: PCV deployed more than $3 million in capital, ending the year with more than $10 million invested in nine companies. We also successfully exited Timbuk2Designs from our portfolio, returning a significant multiple of our investment and triggering an innovative equity-sharing payout to Timbuk2’s workers totaling more than $1 million.

**Business Capacity Building**: PCV deployed volunteer business advisors to two dozen companies from low/moderate income (LMI) communities of San Francisco, Oakland, San Jose, and Los Angeles (new in 2005).

**Workforce Development**: PCV provided financial literacy training and/or Individual Development Accounts to workers at four portfolio companies.

In the process, we have positioned ourselves for an ambitious 2006. We’re on track to launch a third investment fund (a target of $30 million), to open Business Advisory offices in both San Diego and Fresno, and to triple the number of participants in our IDA program.

We look ahead to 2006 with renewed conviction in the vision of investment capital and resources throughout all of California’s communities. Thanks to all of you who have tirelessly and gracefully invested your time and financial resources to help PCV pursue its mission and its vision.

Penelope Douglas  
Bud Colligan
Defining Investment

There are two primary ways by which PCV and its equity funds invest in promising businesses in California's LMI communities: by providing services and by deploying capital. Among other resources, PCV invests strategic support and project level assistance to small businesses by organizing and administering our Business Advisory Service. In addition, PCV's funds provide equity capital to a subset of these businesses. Whether financed or advised, PCV's portfolio companies help to stimulate their local economies through their own growth, by employing residents of low income communities and by adding economic vitality to neighborhoods that have lacked significant business activity.

Defining the Double Bottom Line

In making our investments, PCV seeks both competitive financial returns (measured in terms of Internal Rate of Return) as well as measurable “social returns,” specifically the number and quality of jobs (measured in wages, benefits, wealth creation vehicles and job training) for residents of lower-income neighborhoods.

“In my experience, PCV is unique in its ability to combine a disciplined venture capital approach to investing with a focus on employment-related goals, including job creation in depressed communities and promotion of progressive labor practices and policies”

– Lee Zimmerman, CEO, Evergreen Lodge
Pacific Community Ventures is the managing member of two Double Bottom Line, for-profit funds that invest in growing, profitable private companies that will produce financial returns and also provide Social Return on Investment through good jobs with marketable skills to residents of low/moderate income (LMI) communities. Through PCV Investment Partners I and II, LLC, PCV invests equity capital in companies that are driving growth and innovation in traditional industries and hire a large percentage of their workforce from LMI communities.

Pacific Community Ventures uses the tools and strategies of the venture capital industry to support entrepreneurs, the companies they run, and the people they employ to create wealth in underserved communities. PCV's investment funds infuse capital alongside expertise – such as management assistance, mentoring, access to business networks and strategic advice – into these communities. In addition to providing these services to the companies it finances, PCV also provides them, free of charge, to other small businesses located in or near and hiring from economically disadvantaged areas of California.

PCV FUND I INVESTORS (1999)
$6.3 MILLION
- Cathay Bank
- Greater Bay Bank Corp
- Provenex (The Rockefeller Foundation)
- Silicon Valley Bank
- Wells Fargo Bank

PCV FUND II INVESTORS (2000)
$13.7 MILLION
- California Public Employees’ Retirement System (CalPERS)
- Citigroup
- The Community Development Financial Institutions Fund of the US Dept. of Treasury (CDFI)
- Private Investors
- United Commercial Bank
With equity investment, PCV-financed businesses are able to grow and attract additional financing. PCV frequently holds board seats in its portfolio businesses and is actively involved with board and management team development. Also, through PCV's business advisory service and our other programs, these businesses gain access to expertise and networks generally not available to those outside the mainstream market for private equity financing.

Investment Activity
In 2005, PCV Investment Partners I and II closed new and follow-on funding for four companies totaling $3.1 million, and participated in the successful exit of one company from our portfolio. Current funding of the investment portfolio, at cost, totals $10.1 million.

Equity Investment Criteria
Companies must meet the following criteria to be considered for equity investment by PCV:

- Located in or near and hiring from LMI communities
- $5-$30 million in annual revenue
- At least 2 years' operating history and demonstrated success in the marketplace
- Employ at least 10 people from LMI communities in jobs that pay living wages
- Provide a combination of living wages, health benefits, skill development, and wealth-creation vehicles (such as company stock options or 401k programs)

PCV's impact on financed companies is exemplified by our work with Timbuk2 Designs, the bicycle messenger bag manufacturer based in San Francisco’s Mission District. After an initial investment in 2000, PCV led the company’s 2002 recapitalization necessary for the company’s long-term success. Along the way, the company expanded its product lines and distribution with the addition of over 30 new items – from computer carrying cases to luggage to daypacks. Over the life of PCV’s investment, Timbuk2 grew its San Francisco workforce while increasing both wages and benefits for its front-line workers. Over the same period, Timbuk2’s revenue grew more than four times.

With Timbuk2’s sale from the portfolio in 2005, PCV’s investment funds realized a substantial return multiple. In addition, the sale triggered an equity-based Wealth Sharing Mechanism - negotiated by PCV at the time of our investment - that produced payouts of up to 2 times annual salary (more than $1 million total) for the 40 factory and warehouse employees of the company.

“Based on the precedent we set under the terms of the PCV investment, and the positive outcome we achieved, I was able to negotiate a similar Employee Wealth Creation program with our new investors. As a result, the next major liquidity event in 3 to 5 years will trigger another bonus payout for the employees of Timbuk2 – provided, of course, we are successful achieving our growth objectives.”

– Timbuk2 CEO Mark Dwight
In the mainstream business community, small businesses rely heavily on traditional business networks to gain access to high-level strategic advice and other non-financial resources required for growth. By contrast, the business climate of California’s lower-income communities is characterized by a lack of access to established networks and strategic support, with a direct impact on businesses’ capacity to grow. Since 1999, PCV’s Business Advisory Service has filled this void, investing directly in the management capacity of high potential businesses through the deployment of strategic expertise and through the extension of powerful business networks. In addition to creating valuable connections between communities, these efforts bolster the business climates of underserved communities and ultimately lead to the creation and retention of quality jobs for their residents.
In Q4 2005, working with BTW Consultants, we completed a comprehensive assessment and evaluation of PCV’s Business Advisory Service.

One-on-One Business Advising
PCV links senior, experienced business professionals with portfolio company managers to help guide companies through the business development process. Business advisors volunteer their time and expertise to provide ongoing guidance on key issues related to a company’s growth and development. Advisors have expertise in marketing, finance, general management and operations, and are matched with companies based on their skill set and company needs. Each advisor works one-on-one with a single company over a 6-12 month period on a specific strategic area, such as: business plan development, financing strategy, sales and marketing strategy, operations management, accessing bank financing, or organizational development. Since 1999, PCV has matched over 90 volunteer advisors with 80 small businesses.

CEO Forums
The chief executives of PCV’s portfolio companies participate in semi-annual workshops that focus on developing leadership and management capacity at the highest level. These capacity-building workshops – led by top Business School professors and business leaders – provide new insights and frameworks for addressing key business challenges. Forums also serve as a setting for portfolio executives to receive support, feedback, and advice from their peers within the PCV network. CEO Forum topics in 2005 included: cash planning, relationship-based selling, and understanding private equity.

Business Roundtable
These quarterly forums are facilitated discussions in which a single portfolio company receives practical input and problem-solving strategies from a diverse group of business executives, lawyers and financiers. Presenting companies seek advice on a specific business challenge, such as: accessing a key customer, launching a new product, or planning for and financing growth.

Company: Value Finders Appraisal Service
Advisee: Joe Williams, CEO
Advisor: Brian Garrett, Palomar Ventures

Advising Project: To assist Value Finders in the launch of AppraiserConnect.com – an online technology solution for mortgage brokers, appraisers, and their clients – PCV introduced Brian Garrett, an active venture capitalist with a background in internet technology. Brian’s strategic advice guided the design of a beta test process and accompanying marketing strategy to support the launch.

Joe Williams, CEO, Value Finders

“PCV matched us with Brian Garrett of Palomar Ventures, who had the experience and skill set necessary to meet our strategic needs. We wanted to roll out the product in first quarter of 2006. Brian clearly understood the critical timelines based on our aggressive goals. The advisory schedule allowed both parties to work in concert resulting in the successful rollout of our new product line 30 days ahead of schedule.”

Brian Garrett, Principal, Palomar Ventures

“Working with Joe and his team has been a great experience for me. They have been appreciative of my input, respectful of my time, and quite responsive to executing the next steps of our project timeline. In the period that we have been working together, the company has built and validated the demand for a new application in the property appraisal/mortgage industry and they are now ready to take this product offering to market.”
PCV measures Social Return on Investment in terms of the number and quality of jobs for residents of low/moderate income (LMI) communities at portfolio businesses. These returns represent the indirect benefits to workers of PCV’s direct capital and resource investments in qualified small businesses. In addition, PCV capitalizes on its unique relationship with companies to deliver services directly to employees in our portfolio. These Workforce Development Programs directly assist the LMI employees of PCV portfolio companies in their efforts to build valuable assets and achieve economic self-sufficiency.

**Individual Development Account Program**

In partnership with Lenders for Community Development (LCD) and the Assets for All Alliance, PCV helps portfolio company employees gain financial knowledge and build assets through our Individual Development Account (IDA) program. In this matched savings program, participants complete a financial literacy training course while saving up to $2,000 over two to three years toward a specific asset goal (first home purchase, retirement, or post-secondary education for themselves or their dependents). Each dollar participants save is matched two-to-one by PCV and LCD from philanthropic sources, resulting in up to $6,000 in total savings. PCV has opened 33 IDA accounts for employees at three portfolio companies since the program’s inception in late 2004, and will expand the program to additional employees and portfolio companies in 2006, to achieve the program goal of opening 100 accounts in three years.

**Equity/Wealth-Sharing Programs**

PCV works with our portfolio businesses to develop wealth building programs for portfolio company employees. When possible, PCV’s investment term sheets include requirements that a percentage of company equity be set aside for non-management employees (e.g., factory or warehouse personnel). PCV also works with its financed and advised portfolio businesses to structure stock option or phantom stock programs. These equity sharing programs allow portfolio company employees to share in the “culture of ownership,” and participate in the company upside they are helping to create. When distributions occur, PCV organizes workshops to educate employees on the asset building and investment opportunities available to them.
As a double bottom line investor, PCV tracks and reports both financial and non-financial returns on its investments in portfolio businesses. At PCV's inception, we developed Social Return on Investment (SROI) measurement methodology that we have been employing for six years.

Today, PCV continues to be a leader in the field of measuring SROI and is a frequent participant in industry groups that support other funds in developing their own SROI practices. Beginning in 2005, PCV began offering its SROI expertise on a consulting basis to other institutional investors.

In partnership with BTW Consultants, PCV collects quarterly employment and job quality data from its investment portfolio and conducts detailed annual surveys and interviews with managers of both its financed and advised portfolio companies. PCV has also conducted Employee Surveys and Focus Groups designed to uncover employee perspectives on employment and job-related issues. The findings from these combined efforts are published annually in PCV's Executive Summary of Social Return on Investment.

**Employment**
Since 2000, PCV-financed companies have employed 1,531 residents of LMI communities.

**Wages**

**Medical Benefits**
100% of PCV-financed businesses offered medical benefits in 2005, with 78% of LMI employees eligible and 81% of those eligible enrolled. 62% of PCV-advised companies offered medical benefits.

**Paid Time Off**
100% of PCV-financed businesses offered paid vacation in 2005 and 89% offered paid sick leave. 86% of PCV-advised businesses offered paid time off.

**Wealth Creation**
67% of PCV-financed companies provide 401(k)/IRA plans to LMI employees. 33% of PCV-financed companies provide stock options, phantom stock, or profit sharing plans. 43% of PCV-advised companies offered either retirement or profit sharing plans.

**Training**
100% of PCV portfolio companies (financed or advised) provided skill-based, trade-specific training to LMI employees in 2005.

### IDA Profile

**Company Description:**
Give Something Back Business Products is an innovative office supply company headquartered in Oakland that donates a portion of its after-tax profits to community-based nonprofit organizations. To date, the Company has donated nearly $3 million, making Give Something Back (GSB) one of Northern California’s largest corporate donors. Since 2001, GSB has worked with several PCV Business Advisors.

**Project:**
Through several on-site meetings in July 2005, PCV’s IDA Program Manager recruited 15 low/moderate income Give Something Back employees for the company’s first IDA program cohort. By September, all 15 participants completed the program’s six-week financial literacy training course (covering budgeting, credit and the importance of asset building) and began saving. Additional asset specific workshops (e.g. how to buy a house and how to save for retirement) were provided in partnership with financial service organizations and other community development agencies. On average, each participating employee is now saving $51.12 per month towards an improved financial future.

**IDA Saver Profile:**
Paloma Rivera is a 24 year-old single mother of a five year-old living in East Oakland. She is a Human Resources Assistant at Give Something Back. Paloma is putting $56/month (for 36 months) into her IDA account toward a first home purchase. Before the IDA program, Paloma did not have a savings plan:

> Saving was not my priority. Since I didn’t have a goal, I felt I had no reason to save. I am glad the IDA program came my way now I know that there are programs that will give me education, support, structure and guidance. Now I am excited for the future.
Supporting Individuals & Groups

Key Contributors of Resources & Time

Individual Contributors:

- Anonymous - In honor of the PCV team
- Nadir Ali
- Aptekar Family
- Mike and Lorna Boich
- Mary Ann Byrnes and Kirk Wampler
- Ralph Clark
- Jeff and Amy Crowe
- Donna Davidson
- John Dean
- Mark Dwight
- Claude Ganz
- John and Lois Harding
- Jaqueline Khor
- Paul and Catherine Lego
- David Leventhal and Sandra Kahn
- Janet and Iqbal Paroo
- Michael and Ellen Rose
- Joseph and Nancy Schoendorf
- Kathleen Schumacher
- Tomas and Gabriela Tovar

Institutional Contributors:

- Adaptec Foundation
- Accel Partners
- Citibank
- Community Development Venture Capital
- Conway Family Foundation
- Fenwick & West
- Kleiner Perkins Caufield and Byers
- Meyer Family Fund
- Morrison & Foerster
- Opportunity Capital Partners
- RHJ Champion Ventures
- Rustic Canyon Management LLC
- Tallwood Venture Capital
- Timbuk2 Designs
- Trinet, Inc.
- Wells Fargo Bank

and many more... Thank you!

PCV Team
- Penelope Douglas, President & Co-Founder
- Gabby Culver, Oﬃce Manager & Marketing Associate
- Tracewell Hanrahan, Manager, Central Valley Services
- Stephanie Jasbi, Program Manager
- Heidi Krauel, Associate Director, Business Services
- Kate Miller, Director, Statewide Business Advising
- Pete November, Managing Director, Business Services
- Eduardo Rello, Managing Director
- Mari Riddle, Manager, Los Angeles Services
- David Rosen, Chief Financial Oﬃcer
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- Beth Sivull, Associate Fellow
- Trevor Smith, Associate Portfolio Manager
- Darren Solomon, Manager, San Diego Services
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- James Ellis, Stanford Graduate School of Business
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- Mark Jones
- Carla Lamarzochi
- Andrea Lin, Pareto Strategy, Inc.
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- Nancy Miller, Harris Nesbett Food Group
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- Mitch Posada, Samsung Solutions Group
- Erin Possey, Tea Collection
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- Morrison & Foerster
- Opportunity Capital Partners
- Rustic Canyon Partners
- Silicon Valley Bank
- Tallwood Venture Capital
- United Commercial Bank
- Wells Fargo Bank

Team Members
- Bud Colligan, Accel Partners (PCV Chairman and Co-Founder)
- Ralph Clark, Guardian Edge Technologies
- Gordon Davidson, Fenwick & West
- Penelope Douglas, Pacific Community Ventures
- Sunil Paul, Entrepreneur
- Anita Stephens Graham, Opportunity Capital Partners
- Tom Unterman, Rustic Canyon Partners
- Eric Weaver, Lenders for Community Development
- Ron Yosa, Tallwood Venture Capital
Take Action!
Join Our Growing Network

- Become a Financial Partner by investing in Pacific Community Ventures’ next Investment Fund
- Support Pacific Community Ventures’ Service Investments by contributing to Pacific Community Ventures’ Nonprofit Organization
- Become a Business Advisor and develop new networks while guiding a portfolio company through the business development process
- Become a Corporate Partner by providing services or products to Pacific Community Ventures and/or its portfolio companies
- Become a Community Partner by providing company or advisor referrals
- Join the portfolio as an Entrepreneur growing a company in one of Pacific Community Ventures’ target communities

To learn more or to find out how you can join the Pacific Community Ventures network please visit our website at www.pacificcommunityventures.org or contact us at info@pcvmail.org

Support Pacific Community Ventures’ Portfolio Companies And Their Employees

Purchase products and services from PCV’s incredible portfolio of companies and encourage friends, family and colleagues to do the same. You can enjoy the product even more knowing that you’re supporting good jobs and great companies in California’s lower-income areas.

Artcraft Bedspreads International, Commerce
Beacon Fire & Safety, San Jose
Bentek, San Jose
blik Surface Graphics, Venice
Chichen Itza, Los Angeles
Crunchy Foods, Oakland
Dawson Custom Workroom, San Francisco
DeVoll’s Rubber Products, Santa Fe Springs
El Clasificado, Los Angeles
Employers Consulting Group, Glendale
Evergreen Lodge, Groveland
Extreme Pizza, San Francisco
Give Something Back Business Products, Oakland
Heath Ceramics, Sausalito
Home Health Advocates, San Francisco
I print n mail, San Francisco
Jeremiah’s Pick Coffee Company, San Francisco
John Lewis Glass, Oakland
Laura + Kiran, Berkeley
Melissa Joy Manning, Oakland
Moving Solutions, San Jose
Niman Ranch, Oakland
New Key Financial, Los Alamitos
New Vine Logistics, Napa
On the Move Staffing, San Francisco
Planet Organics, South San Francisco
RadioVisa, Sherman Oaks
Revival Mercantile, San Francisco
Rhythm & Motion Dance Center, San Francisco
See Jane Run Sports, San Francisco
Timbuk2 Designs, San Francisco (SOLD in 2005)
Value Finders, Culver City

Companies that have received Equity Investment marked in bold.