To Our Stakeholders

“No one could ask for more business activity than the country has seen in the last eight years, and yet lower-income people are not any better off. In fact, most are actually worse. The most recent available data show that both financial wealth and wages for the lower segments of society have fallen since 1989.”

While the Bay Area economy has flourished over the last decade, many communities have failed to truly benefit from this wave of prosperity. By continuing to draw from the region’s best business practices and its business network, SVCV is bringing capital and resources to entrepreneurs building high-potential enterprises in these communities.

The year 2000 was a year of significant accomplishments for our organization, as we completed our own successful transition from start-up phase to full-scale investing, advising and networking services.

During the course of the year we made investments in 6 portfolio companies and saw our invested portfolio provide a total of 146 jobs to low-income individuals to date.

We continue to advise and invest in a broad range of industries. Companies must meet our screening for both financial and social return objectives. Most importantly, we seek teams with strong management potential.

As has been true since our inception, our business advisory services are a cornerstone of our unique model. Our business advisor group grew substantially during the year. We added several new services, including our Business Roundtables, which are quarterly sessions that provide one of our portfolio companies a chance to present a specific business issue to a group of seasoned executives, entrepreneurs, lawyers, and venture capitalists.

We see a tremendous amount of interest in SVCV and our unique services model. There is considerable attention at the state, national, and global levels, on the factors for success in community economic development. We have shared information during the past several months with groups from several parts of the country, the UK and France.

As we send out this report, we see 2001 as a year of continued growth for SVCV. We are actively raising additional capital for our venture fund and adding key team members, while at the same time we continue to attract talented members to our advisory group and expand our network to include more partners.

We will make several new investments, and work closely with our existing portfolio of advised and financed companies, several of which will be raising additional capital this year. At a higher level, our job is to continue to ask questions of ourselves, test our models, and maintain a high level of integrity and thoroughness in our work.

We want to thank the numbers of individuals who, through their leadership as portfolio entrepreneurs, business advisors, business partners, or financial contributors, are helping SVCV realize its vision. Through our double bottom line investing approach, together with our networking and advisory services, we hope to create a vital new business network which reaches across all our communities.

\[\textit{Pebuzia Douglas} \]
President

\[\textit{Brad Callip} \]
Chairman of the Board

\(^1\) Capital to People/Resources for Human Development; Summer 2000
Silicon Valley Community Ventures
Fueling Business Growth and Economic Opportunity Across Communities

Towards the end of the last decade, many residents of the Bay Area experienced an economic boom unlike any they had seen in recent years. However, in this time of prosperity, other individuals in California’s low-income communities found only increased disparity. While the Bay Area developed into a rich vault of venture capital and business networks, entrepreneurs in these communities still found themselves challenged in gaining access to these valuable business and financial resources.

Silicon Valley Community Ventures (SVCV) was founded in late 1998 to address these inequities, by providing targeted venture capital, business advice, and critical business resources to businesses in low-income communities throughout the Bay Area. Founders Bud Colligan, a venture capitalist and former CEO, and Penelope Douglas, a business executive with a history of involvement in community-based organizations, recognized the untapped opportunities for financially prudent investments in low-income communities. They also shared the belief that California’s economic boom would be undermined and short-lived if these segments continued to be overlooked and excluded from the mainstream business networks.

Colligan and Douglas envisioned a working model of business without barriers: offering early-stage and mid-stage companies in low-income communities access to business tools, information, capital, and an entree to the region’s vibrant business network. From their extensive business, legal, and financial networks, Colligan, Douglas and the SVCV team have recruited a robust group of business and community leaders and corporate partners to provide a complete array of services and resources to support SVCV’s portfolio entrepreneurs.

In addition to making capital available, a key component of SVCV’s success has been its Business Advisory Services. SVCV utilizes the vast experience and enthusiasm of experienced Bay Area professionals looking for meaningful, effective ways to contribute their own skills and resources to actively shape enterprises and strengthen low-income communities in the Bay Area.

SVCV is quickly becoming the Bay Area’s most effective vehicle for directing resources and capital to businesses that have the potential to bring strong and lasting economic benefits to low-income communities in the Bay Area. Since its first days of operation in January 1999, SVCV has successfully accelerated both economic and social development for the whole community, through direct investment, business development expertise and the application of best business practices to businesses in underserved communities.

**SVCV Milestones**

**Mission:** Silicon Valley Community Ventures invests in and develops businesses which provide substantial economic benefits to low-income communities.

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1 SVCV, a 501(c)(3) non-profit organization, was incorporated in late 1998 and currently manages SVCV Investment Partners I, a Limited Liability Corporation. The purpose of this investment fund is to attract and channel institutional commercial investment money into private companies that will provide economic opportunities, jobs, role models, and on the job training in low income Bay Area communities.
Creating A Vital New Business Network Across Communities

Silicon Valley Community Ventures: 1999 - 2000

As of December 31, 2000, SVCV has:

- Developed business-to-business partnerships with 13 corporations, including Morrison & Foerster, Fenwick & West, Accel Partners, Microsoft and Silicon Valley Bank.
- Raised $8.6 million into Silicon Valley Community Ventures, 501c3 and $6.25 million in capital for SVCV Investment Partners I, LLC


Three Business Advisors have transitioned on to either the Board of Directors or management team of their advised business.

Entrepreneur Showcase Forum

On February 9th, 2000, Silicon Valley Community Ventures hosted the Entrepreneur Showcase Forum at Filoli Gardens in Woodside, CA. The breakfast event brought together SVCV entrepreneurs, business advisors, board members, and stakeholders to hear about SVCV’s impact on developing businesses.

The Forum presented an exciting opportunity to celebrate the milestones from SVCV’s first year and expanded the growing network of committed individuals that continue to be an integral part of the SVCV community. It introduced SVCV entrepreneurs to members of the community and illustrated ways in which the SVCV model is bridging the gap between businesses benefiting low-income communities and the resources they need in order to prosper.

In 2001, SVCV Will...

- Maintain a location and community-centric focus, targeting business growth in/near low-income communities.
- Target investment in and growth of businesses and entrepreneurial role models through long-term provision of its advisory services and network along with capital.
- In measuring social return on investment, maintain a high priority on the creation of good jobs.
- Offer guiding principles to companies, enabling them to be good employers with strong human resources practices.
- With a bias towards employee participation in the business, work with companies to achieve this goal.
- Focus on high potential early to mid stage companies with $1 - $10 million in revenues and potential to create substantial numbers of good jobs, with a secondary focus on smaller companies with high potential in their communities.
SVCV's Initial Investments & Assessment of Social Return

Since its launch in January 1999, SVCV has developed a portfolio of businesses located in low-income areas in target communities of the San Francisco Bay Area. Beyond location, SVCV screens businesses for the potential to stimulate economic growth, job creation and asset building opportunities for low-income individuals.

In keeping with the principles of venture capital, through which investors maintain a strong relationship with investees and require substantial data with regard to financial return on investment, SVCV’s Board of Directors and staff agreed early on to also develop a system for measuring the social return on investment.

In 2000, SVCV engaged the services of BTW Consultants, a consulting firm specializing in evaluation and planning services for the nonprofit and philanthropic sectors, to assist in measuring SVCV's social return on investment.

Through quarterly employment reports and an employer survey, BTW worked to help SVCV quantitatively measure its progress against its three primary social return benchmarks: developing and sustaining high quality employment opportunities in low-income communities, supporting businesses that are strategically located to fuel community development, and investing in entrepreneurs who are community role models.

The following data are excerpted from “Fueling Community Development, One Business at a Time: An Assessment of SVCV’s Initial Investments”:

Between April 1 and December 31, 2000, a total of 146 designated employees were employed in SVCV-financed businesses.1

Among the nine financed businesses, 57% of the total number of employees who were employed between Q2 and Q4 2000, were hired from surrounding low-income neighborhoods. All of the financed businesses that have designated employees have hired from surrounding neighborhoods and 80% of non-financed businesses are often able to hire from the local community.

Through bonuses, stock options, profit sharing and ESOPs, a significant proportion of the businesses are offering managers and entry-level workers the opportunity to share in the profits of the company for which they work. 77% of the businesses offer stock options, profit sharing or ESOPs to managers; 15% of businesses offer all three. 31% of businesses offer stock options, profit sharing or ESOPs to entry-level employees. More businesses plan to offer these options to employees within the next 12 months.

SVCV portfolio businesses have a high level of commitment to employee training and development, with many of the businesses providing soft and hard skills training, providing a significant amount of training hours and assigning staff to provide this training.

SVCV portfolio businesses are providing goods & services to communities within and beyond the low-income neighborhoods in which they are located. 100% have a market reach that includes areas outside their immediate neighborhood; 54% have a market reach that includes areas outside of the San Francisco Bay Area.

46% of the entrepreneurs SVCV has invested in either grew up in or are currently living in the target communities where their businesses are located. Additionally, a majority of the entrepreneurs SVCV has invested in show a strong commitment to the area in which their businesses are located by participating in voluntary civic activities to benefit their communities.

1 “Designated employees” refers to individuals from low-income backgrounds and communities who are working in the business.

2 Employee Stock Ownership Plan
**Social Impact**

Located in an industrial neighborhood in Brisbane along the Bayshore corridor, Vida draws many of its manufacturing employees from low-income neighborhoods in San Francisco and Alameda counties, including The Mission, Bayview Hunters Point, Visitacion Valley, and various neighborhoods in Oakland. The Company's annual wages are in the upper quartile for the industry, and a gain-sharing plan provides opportunities for employee teams to earn additional compensation based on performance. All full-time employees receive a comprehensive benefits plan, including a 401K and profit-sharing plan. In response to challenges associated with finding skilled labor, the Company recently developed an on-site vocational training program to train and employ additional lower-skilled workers, and increase opportunities for cross-training and advancement.

**SVVCV Involvement**

Vida was introduced to Silicon Valley Community Ventures in Summer 2000. At the time, the Company was struggling with a number of issues related to financing its growth, and putting new systems in place to increase manufacturing efficiencies. SVVCV linked Vida's management team with two business advisors—both senior business professionals with combined experience in finance, business planning and supply chain management—to address these key challenges. These advisory relationships resulted in a number of tangible successes, including:

- The reduction of manufacturing costs and order fulfillment cycle times
- The implementation of an on-site training program
- Development and launch of a standard product line
- An equity investment from Silicon Valley Community Ventures
- A new Chief Operating Officer—formerly one of Vida's two business advisors

SVVCV continues to provide active support and guidance to Vida through board involvement and business-to-business connections through its network.

**TIMBUK2**

Timbuk2 Designs is a manufacturer of custom configured sewn goods headquartered in San Francisco’s Mission District. Founded in 1989 by Rob Honeycutt, a former bike messenger, the Company launched its initial product—customized messenger bags—for the retail and wholesale market in 1996. Since its founding, Timbuk2 has grown from a home-based enterprise (operated out of Rob’s apartment) into a leader in mass custom manufacturing, with distribution throughout the United States, Canada, Western Europe and Southeast Asia.
The Company has continued to refine its manufacturing processes in order to reduce production time and increase cost efficiencies—evolving from an average production time of 144 minutes per bag to a current 16 minutes per bag. Due to the strong interest in strategies to increase efficiency and enable custom configuration, the Company launched a “Build Your Own Bag” e-commerce web site in mid-2000. The site enables consumers to design individual bags over the Internet, selecting from a range of variables, including size, color, material and add-ons. Timbuk2 is in the process of launching its next major product line.

Social Impact

Timbuk2 draws its 25 factory workers from nearby San Francisco neighborhoods. As the company grows, so will its hiring needs—an anticipated 30 new jobs will be created for factory workers in 2001. The Company has worked with SVCV to develop some creative strategies to build assets and opportunities for employees in the business, including a gain-sharing program which links productivity and profitability in each manufacturing cell with incentive bonuses, and an agreement to set aside 5% of its common stock to be distributed upon sale or relocation of the company. Timbuk2 is committed to maintaining an environment that fosters productivity, high morale and team-based work through a system in which employees participate in the entire spectrum of the manufacturing process.

SVCV Involvement

Timbuk2 and Silicon Valley Community Ventures came together in Summer 2000. The Company approached SVCV with an interest in both advisory and financial resources to support its growth plans, including technology development and new product development. A business advisor with an extensive background in building and growing companies worked with the Timbuk2 team to accomplish:

• The development and launch of the Company’s e-commerce strategy
• The development and implementation of employee gain-sharing and stock option agreement plans
• Improvement upon key operations and management issues
• An equity investment from Silicon Valley Community Ventures as part of the Company’s first round of equity financing

SVCV continues to work with Timbuk2 on several aspects of the Company’s development as well as provide support to the Company through its Business Advisory Services.

SVCV Portfolio

Silicon Valley Community Ventures’ portfolio businesses are companies under advisement through the SVCV Business Advisory Program. These entrepreneurs work one-on-one with an SVCV advisor or team of advisors to address key business development objectives. Silicon Valley Community Ventures’ portfolio businesses are located in and hire a significant number of employees from low-income Bay Area communities. They represent a wide range of industries including consumer products, manufacturing, service and retail. SVCV has made equity investments in several of its portfolio businesses.

AllState Insurance (East Menlo Park)*
Apple-10 Products (San Jose)*
Blackboard Entertainment (Oakland)
Brothers Brewing Company (Oakland)
Everett & Jones Barbecue (Oakland)+
Frederick Douglass Designs (Oakland)*
Give Something Back (Oakland)+
Howler Products (San Francisco)
Imhotec (San Francisco)
Juma Ventures (San Francisco)
Just Desserts (Oakland)+
Latte Dah Café (East Palo Alto)
Now and Zen (San Francisco)
Onnie Pie Company (San Francisco)
OpNet (San Francisco)*
Planet Organics (San Francisco)
RealEco.com (San Francisco)*
Ripple Effects (San Francisco)
South Bay Quality Foods (San Jose)*
Springboard (Palo Alto)
Teltec Corporation (San Jose)+
Timbuk2 Designs (San Francisco)
Total Concept Catering (Oakland)*
T-Shirtguys.com (San Jose)*
Vida (Brisbane)

* As of March 2001, no longer a member of the SVCV portfolio
+ New member to SVCV portfolio as of March 2001
# Silicon Valley Community Ventures Boards, Staff & Investors

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- **Mary Ann Byrnes**  
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  San Mateo, CA
- **Ralph Clark**  
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  S3 and Chips & Technologies  
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*Member(s), SVCV Investment Committee

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- **Sharon Williams**  
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## SVCV Staff

- **Penelope Douglas**  
  President
- **Julie Rosenthal**  
  Manager, Business Advisory Services
- **Jacob Singer**  
  Senior Portfolio Manager
- **Lauren Sudeall**  
  Operations & Marketing Manager

## SVCV Investment Partners, Investors

- **General Bank**
- **The Rockefeller Foundation**
- **San Jose National Bank**
- **Silicon Valley Bank**
- **Wells Fargo Bank**

Corporate Partners

Several corporations have generously contributed products and services to support SVCV’s efforts. Our corporate partners include:

- Accel Partners
- DigitalThink
- Ernst & Young
- Fenwick & West
- The Industry Standard
- Kleiner Perkins Caufield & Byers
- Microsoft
- Morgan Stanley Dean Witter
- Morrison & Foerster
- Red Herrings
- Silicon Valley Bank
- Upside Media, Inc.
- Verge Design

Community Partners

SVCV’s community partnerships create strong ties in target areas and facilitate the sharing of learning and knowledge across communities. Our partners include:

- Community Economic Development
- Lending Initiative
- Hispanic Chamber of Commerce
- Lenders for Community Development
- Oakland Advisors
- Oakland Chamber of Commerce
- Oakland Office of Economic Development
- Oakland One Stop Capital Shop
- Port of Oakland
- Private Industry Council
- Renaissance Entrepreneurship Center
- Roberts Enterprise Development Fund
- SBA-Cisco Systems-San Jose Entrepreneur Center
- San Francisco Chamber of Commerce
- San Francisco Mayor’s Office of Community and Economic Development
- San Jose Office of Economic Development
- Small Business Administration
- TMC Development

BusinessLINC and Silicon Valley Community Ventures

On June 5, 1998 Vice President Gore announced the BusinessLINC initiative to encourage private sector business-to-business linkages that enhance the economic vitality and competitive capacity of small businesses, particularly those located in economically distressed urban and rural areas. The name conveys the full range of business-to-business assistance programs. The LINC acronym stands for “Learning, Information, Networking, Collaboration.”

Silicon Valley Community Ventures—one of eight BusinessLINC coalitions throughout the country—was selected in January of 2000 to lead the local BusinessLINC effort in the Bay Area. This initiative presents an exciting opportunity for SVCV to promote partnerships between portfolio companies and Bay Area corporations that create commerce and stimulate business growth.

Contributors 1998-2000

Silicon Valley Community Ventures would like to thank the various individual and institutional donors who have supported our efforts since SVCV’s conception in 1998. The contributions provided by our donors allow us to efficiently and effectively pursue our organizational objectives.

- Accel Partners
- Randy and Nicole Adams
- Anonymous
-Anonymous
- Greg & Anne Avis
- Dado Banatoo
- Mike & Lorna Boich
- Jim & Susan Breyer
- Shelby Bonnie
- Stan Christensen
- Bill Cleary
- Bud & Rebecca Colligan
- Ed & Lisa Colligan
- Kevin Compton
- Ron & Gayle Conway
- Gordon Davidson
- Farzad & Rhonda Dibachi
- John & Ann Doer
- Penelope Douglas & Jack Munson
- Donna Dubinsky
- James E. Emerson
- Steve Eskenazi
- Charlie Finnie
- Jim Flach
- Tom & Susan Ford
- Rob Glaser
- Greater Bay Bancorp Foundation
- Greg Gretsch
- Eric & Elaine Hahn
- Eric Hautemont
- Wally Hawley
- Jay C. Hoag
- Mike & Kristina Homer
- Imperial Bank
- Mitch Kapor & Frieda Klein
- Eva and Oif Kedar
- Carrie A. Kehring
- Mitchell & Julie Kertzman
- Neeru & Vinod Khosla
- Davé Kleinberg
- Jim Labe
- John and Liz Laing
- Joseph and Suzanne Lavine
- Dan Lynch
- Doug & Shawn Mackenzie
- Ef  Martin

The Mayfield Fund Foundation
- Microsoft
- Halsey Minor
- Mitchell Kapor Foundation
- Morgan Stanley Dean Witter
- Gib & Susan Myers
- Parker V. Page
- Arthur Patterson
- Sunil Paul
- Peninsula Community Foundation
- Penney Family Fund
- Thomas & Barbara Proulx
- Russell Pyne
- Philip Rosedale
- Sapling Foundation
- Stephen Scheier
- Joe & Nancy Schoendorf
- Silicon Valley Bank
- Robert Simon
- Jacob Singer
- Jim & Sue Swartz
- Thomas Weisel Partners LLC
- Peter Weck
- Margaret Eaton & Ronald Yara
- The Eaton-Yara Fund
- Linda Yates & Paul Holland

SVCV Business Advisors

SVCV would like to thank the following individuals for adding considerable value to the SVCV Portfolio in 2000 by volunteering their time and offering coaching, advice and functional expertise to SVCV’s portfolio companies.

- Joel Bean, Bank of America
- Ralph Clark, blue mako
- Cullen Coates, Coates Myer and Company
- Edward Colby, Viventures
- Mike Cottle, HearMe
- Farzad Dibachi, Niku Corporation
- Joe Fantuzzi, Kana Communications
- Stewart Fisher, Hewlett Packard
- Norman Hairston, Gemfire Corporation
- Seth Halio, Spectra-Physics
- Anne Hector, Integral
- Liz Kalodner, SocialNet, Inc
- Alan King, Volterra
- Kerri Kraft, The z44 Group
- James Long, Ripoport.com
- Jen McPhee, Ariba
- Kate Miller, Vida (formerly of Sapient)
- Umberto Millietti, DigitalThink
- James Nicholson, CNET
- Deeprak Purii, Bank of America
- Stephanie Schweizer, Crosswise
- Bob Serata, The Peeksen Valleys Group
- Jan Sherman, ImprovNet, Inc.
- Ron Spector, SideCar One LLC
- Matt Strain, blue mako
- Lauren Tanny, Achieva College Prep
- Sutanto Widjaja, WineShopper.com
- Ron Yara, S3 & Chips and Technologies, Inc.

Silicon Valley Community Ventures Partners & Contributors
Silicon Valley Community Ventures (SVCV) was incorporated as a 501(c)(3) non-profit organization in late 1998, and began operation in January 1999. SVCV is a venture assistance firm that provides business advisory services, a resource network, loans, and equity financing. SVCV raises funds that support the organization's operations as well as its loan program. Funds are principally raised from individuals and selected foundations.

Only companies involved in business advisory services are eligible for consideration for financing. SVCV provides loans to businesses that create jobs and economic growth in low-income Bay Area communities.

Sources of funds are available to select entrepreneurs with a demonstrated potential for stable growth and a commitment to meeting SVCV’s social criteria. Qualifying businesses must meet several eligibility requirements that include location in a low-income community or employment of residents from a low-income community, and a successful history with an SVCV business advisor. Loan applications are assessed for several factors, including data and projections that indicate an ability to repay the loan, and a good business and personal credit rating.
SVVC Investment Partners 1, LLC

SVVC, a 501(c)(3) non-profit organization, manages SVVC Investment Partners I, a Limited Liability Corporation.

The purpose of this fund is to attract and channel institutional commercial investment money into private companies that provide economic opportunities, jobs, role models, and on the job training for low-income people and that are located in disadvantaged communities in the Bay Area. The fund seeks financial return on its investments, but exclusively through investments in companies that meet the social objectives described above for disadvantaged communities, which is the principal goal of the fund. SVVC actively seeks investments into the fund from financial institutions and other investment firms. SVVC collects a fee for managing the fund.

The fund invests through equity and debt securities that are customary for venture capital transactions, including preferred shares and subordinated convertible debentures. SVVC seeks to have a balanced portfolio of companies within its target communities. Results are measured on a double bottom line basis, measuring both economic and social return. SVVC welcomes referrals of new companies that may be candidates for its portfolio.

As of December 31, 2000, SVVC Investment Partners I has made equity investments in the following advised businesses:

- Blackboard Entertainment
- Howler Products
- Imhotech
- Now and Zen
- Springboard
- Timbuk2 Designs
- Vida