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PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS: COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Eduardo Rallo, better known to his colleagues and friends as Edo [pronounced ED-oh], ran up to a row of turnstiles at the Powell Street Bay Area Rapid Transit (BART) station as he heard the screeching of his train arriving. His portfolio company's quarterly budget meeting had just run 75 minutes over schedule, so he was in a hurry as he anxiously fumbled through his wallet in search of his ticket to open the turnstile's gates, raced down the stairs, and stepped onto the lower platform only to see the train pull away. For the next 12 minutes, he would be stranded without Internet access or cell reception. His thoughts drifted toward his latest investment opportunity, Galaxy Desserts, Inc. (Galaxy), a San Francisco Bay Area-based manufacturer of premium baked goods.

As managing partner of Pacific Community Ventures (PCV), a San Francisco-based private equity fund, Rallo had until the end of the week to decide if he wanted to invest in Galaxy. PCV was a private equity firm that took a "double-bottom-line" approach, a two-pronged objective of delivering both financial and social returns. Rallo had broad experience working and investing in the food service industry and had an extensive network of individuals that eventually led to his introduction to Galaxy.

Drawing from his prior experiences, he certainly understood the difficulties associated with the industry, and he therefore had concerns regarding investing in Galaxy. He knew Galaxy shared PCV's interest in impact investing and appreciated the importance of social returns, but he needed to further investigate whether the changes his team had identified would exceed its social-rate-of-return hurdle. Galaxy recently had experienced both financial successes and challenges, and Rallo wanted to better evaluate whether it would be able to meet projected growth. He removed the strap of his Timbuk2 messenger bag and placed the bag on the platform as he began to process his hesitations, waiting patiently for his train.

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Creation of Pacific Community Ventures

Pacific Community Ventures provided capital and resources to California businesses with the potential to create significant economic gains for low- to moderate-income communities. Through its "double-bottom-line" approach, PCV had been a pioneer in the community development venture capital (CDVC) industry and saw competitive financial returns and hundreds of jobs created.[1]

In the fall of 1998, through a marriage of interest, Bud Colligan, a successful venture capitalist in Silicon Valley, had approached Penelope Douglas, eventual cofounder and partner at PCV, with the notion of starting a community development investment fund (**Exhibit 1**). Their goal was to address the increasing number of Californians living below the poverty line and to alleviate the decreasing real wages in California, which had depleted purchasing power to its lowest levels in over two decades. Douglas described the beginning in the following way:

> Concerned about this growing disparity, a small group of committed business leaders developed a new approach to community development that focused on using the tools of venture capital to support traditional, small- and medium-sized businesses as important tools for reducing poverty and ensuring a stable economic future for California. Over time, this work evolved into PCV's current program model for implementing its double-bottom-line investment strategy.[2]

Through his venture capital network, Colligan was able to initially raise $8 million of investment capital for PCV. Douglas was a natural fit to lead the new organization considering her leadership experience in socially conscious roles at Odwalla, a fresh juice company that operated under three key principles: make great juice, do good things for the community, and build a business with heart. She had also worked in leadership positions with other related nonprofits. Finally, she shared Colligan's passion for community development venture capital (**Exhibit 1**). During the first few years of the fund, PCV struggled with the evolution of the business model as they tried to determine whether equity or debt was the better form of financing for their purposes. Eventually they settled upon equity as the best investment vehicle because it allowed them to be more involved and to offer additional support to their portfolio businesses. It also was a struggle to determine an optimal investment size and target industry. A few unsuccessful investments were made in businesses that were too young and too small to achieve the social-rate-of-return hurdle. Entrepreneurs of small portfolio companies were receiving needed support and achieving success, but the businesses were too early in their life cycles to create the necessary job growth. PCV altered its target investment parameters to include larger businesses that could achieve both job creation and community wealth development.

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[1] "About Us," http://www.pacificcommunityventures.org/about-us/ (accessed April 28, 2011).
[2] http://www.pacificcommunityventures.org/about-us/.

PCV's fund, led by Rallo, had over $60 million of assets under management. An affiliated nonprofit organization provided several social impact services (Business Advance, Employee Onramp, and Insight) to portfolio companies as well as other businesses throughout California (**Exhibit 2**). These services were offered as either fee-based or as an annual subscription. Beth Sirull, director of Insight, described the nonprofit services as "providing infrastructure, intellectual capital, and credibility by measuring social performance and due diligence after investment."[3]

PCV was a high-level innovator and provided high-impact services to third-party organizations while also implementing the overall double-bottom-line investment approach by purchasing and advising portfolio companies. PCV's strategy led University of California faculty to vote PCV as one of the 25 most brilliant ideas in California in the previous quarter-century.[4]

PCV's Innovative Approach to Private Equity

PCV had a typical fee structure consisting of a 2.75% management fee and a 20% carried interest.[5] In 2000, PCV Fund I was able to raise $6.25 million from Wells Fargo, the Rockefeller Foundation, and other investors. The first fund targeted businesses with $250,000 to $3 million in annual revenues. "We realized equity was not right for these kinds of companies," said Douglas. After learning important lessons from fund one, PCV decided to increase their investment size in Fund II. Based upon the success of Fund I and increased interest, PCV Fund II was able to raise approximately $15 million and invest in businesses with $1 million to $5 million in annual revenue. Rallo explained:

> Operating a small business is difficult; obviously they need to make payroll, they need to reach a certain scale before they can afford these [social] benefits, so we are not investing in businesses less than $3 million in sales. They cannot focus on these other things. They're concentrated on day-to-day issues.

PCV Fund III raised $40 million targeting investment opportunities of $1 million to $4 million in $5 million- to $50 million companies, with an eye toward a three- to five-year exit horizon.[6] Each sequential fund provided important lessons for PCV.

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[3] Case writer interview with Beth Sirull, San Francisco, CA, November 1, 2010. Unless otherwise noted, all subsequent quotations attributed to Sirull derive from this interview.

[4] "About Us."

[5] Case writer interview with Eduardo Rallo, San Francisco, CA, November 1, 2010. Unless otherwise noted, all subsequent quotations attributed to Rallo derive from this interview.

[6] "Investment Criteria," Pacific Community Ventures, http://www.pcvfund.com/investment_criteria.asp (accessed September 6, 2011).

PCV targeted investment opportunities with an IRR that would place it in the top quartile of venture funds.[7] Typical financial transactions included growth equity, management-led buyouts, liquidity for family-owned or closely held companies, wealth creation for next-generation managers/owners, recapitalization/restructuring to enable growth, and venture capital. PCV was seeking to invest Fund III in businesses that met specific investment criteria outlined by its investment philosophy, "to build wealth for all of the stakeholders in a transaction—owners, management, and employees."[8] PCV's typical investment profile included the following parameters:

- $1 million to $5 million equity investment
- California businesses, with focus on the San Francisco Bay Area, Los Angeles, San Diego, and/or Central Valley
- A seasoned and proven management team
- Strong revenue growth, near or beyond profitability
- Substantial gross margins
- Defensible competitive advantages
- Portion of work force from low- or moderate-income communities
- Primary industry focus on food products and distribution
- Low-capital-intensive manufacturing
- Consumer and business services
- Other high-growth sectors, including sustainable and green businesses, alternative energy, health and wellness, trade schools, and for-profit education

Private equity was already a very competitive industry even without the extra constraint of achieving a social return. Rallo found it challenging to accurately predict a tradeoff between financial and social return while evaluating potential investments. He understood that the long-term success of PCV depended upon, first and foremost, delivering a competitive financial return. At times, he even questioned whether a tradeoff existed between attaining financial returns and achieving healthy social returns. He pondered whether consumer demands were shifting toward products and services offered by socially conscious businesses. Was advancement in social responsibility becoming a necessary cost of doing business? Or was it not a cost at all but a pure boost to brand value? The social return remained a very important component of PCV's value proposition, and achieving the right balance was of utmost importance to investors. Rallo put it this way, "PCV has a track record of working with our

[7] Case writer interview with Eduardo Rallo.
[8] "About Us."

portfolio companies to implement innovative employee ownership programs that increase productivity, retention, and morale, which translates to better economic results for all parties."

PCV required portfolio companies to set aside 1% to 5% of total equity for employees. Timbuk2, the messenger bag business and a former PCV portfolio company, was an example of the success of employee stock ownership. At the time of PCV's exit, Timbuk2 employees received $1 million overall, which equaled roughly two years' salary, 70% of which was invested in managed retirement accounts. This was significant compensation for low-income employees, many of whom did not even have checking accounts prior to employment. PCV also offered portfolio company employees training and development classes (e.g., English as a second language) and other employee benefits (e.g., health care). As of the end of 2007, PCV's social returns were reported to limited partners using the following metrics about their portfolio businesses: They employed 2,430 hourly workers; 100% hired hourly workers from low- to moderate-income communities and paid an average hourly wage of $12.56; 89% offered health insurance to hourly workers; 67% provided retirement plans (e.g., 401(k) accounts, IRAs) or profit-sharing programs to hourly workers; and 100% offered skills-based training.

PCV Considers a Potential Investment

With PCV Fund III recently closed, Rallo was considering a $2.7 million equity investment opportunity in Galaxy Desserts. But he was apprehensive about whether the position would satisfy PCV's double-bottom-line hurdle rate and align with PCV's culture.

Galaxy's Beginnings

Galaxy Desserts developed, manufactured, and marketed all-natural, gourmet desserts and pastries for retail, food service, and catalog customers throughout the United States.[9] Paul Levitan, president and CEO, and Jean-Yves Charon, master pastry chef, cofounded the company in 1998 through a merger of their previously existing businesses. Upon graduating from Stanford Graduate School of Business in 1991, Levitan bought a dessert company. "I started looking for a company to buy, and I had a distant cousin who was married to this woman who was the Cheesecake Lady, and we negotiated, and I bought it," Levitan said.[10]

Charon grew up in France, where he worked as a manager for Brioche Dorée/Paris Croissant, opening stores in London, Paris, Canada, and New York. He subsequently moved to San Francisco in 1984, where he served as pastry chef at Harris' Restaurant for several years before starting his own pastry company called Paris Delights. His new firm leased space in a

[9] Galaxy Desserts Final Investment Committee Report.

[10] Case writer interview with Paul Levitan, Richmond, CA, November 2, 2010. Unless otherwise noted, all subsequent quotations attributed to Levitan derive from this interview.

commercial kitchen and provided local law firms and companies with fresh cakes, pastries, and breakfast items.

Levitan and Charon connected at the National Association for the Specialty Food Trade Fancy Food Show, a renowned trade show, and decided to combine their businesses, resulting in the formation of Galaxy Desserts.[11] In 1999, Galaxy's revenues were $1.5 million, and by 2006, revenue grew to approximately $8.5 million. Their largest customers included some of the largest retailers in the United States.

Evolution of Galaxy Desserts

Galaxy's products included mousse cakes, tartes, crème brûlée, croissants, and cheesecakes. Located approximately 18 miles outside San Francisco in Richmond, California, Galaxy's neighborhood was considered a low-income community, with a median household income of $41,600, compared with California's statewide median of $47,500; it was also recognized as the most dangerous city in California and the eighth-most dangerous city in the country in 2004 (**Exhibits 3** and **4**).[12] Rallo understood that operating a business in a violent neighborhood would have challenges, and he was uncertain if it would be worth the additional risk. The business employed a total of 125 people, 105 in production and 20 in management and administration.

The company's product and customer sales mix changed as it grew and added more customers. Its largest customer, representing 21.9% of total sales in 2005, switched dessert suppliers the following year, leaving a large gap in Galaxy's revenue and a surplus in production capacity. Rallo recognized this was a potential reoccurring risk of small businesses (**Exhibit 5**).

Galaxy marketed its products through three channels: Retail, Foodservice, and Catalog/Direct. The company's products could be found in over 3,000 retail locations across the United States. A majority of its products were sold as private-label and marketed under the retailer's brand. Approximately one-third of the company's products were sold under the Galaxy brand. Products were normally priced from $2.99 to $3.99 and targeted in-store bakery margins of at least 50%.[13] Rallo, initially impressed by these high figures, was concerned that margins would decrease as the market began to become oversaturated with high-end baked goods. Also, it would be difficult to overcome consumer allegiance to local bakeries, which priced their products lower and whose products were at times fresher than Galaxy's.

Levitan and Charon co-led Galaxy's sales efforts. They focused their sales attention on generating relationships with high-level customers, responding to customer requests for new

[11] Case writer interview with Paul Levitan.
[12] "Richmond, California," http://www.city-data.com/city/Richmond-California.html.
[13] Galaxy Desserts Final Investment Committee Report.

product development, and negotiating pricing and supply agreements. Outside the prior management of their own small businesses, neither of them had management or sales experience at a large corporation. Galaxy anticipated using some of the financing proceeds to hire a sales executive. Rallo worried that they might not find the right individual and successfully scale the sales department in an effective way that would not dilute his return. He wanted to verify the revenue growth projections provided by the management team by investigating the sales growth drivers more carefully.

Galaxy relocated its manufacturing to a 36,000-square-foot facility in 2005 and was making use of only 15,600 square feet of it. The facility was separated into dedicated areas including a cold room for mousse cakes and other refrigerated products, an area for croissant preparation, a baking area, a sanitation room, a freezer section, an R&D test kitchen lab, and a quality assurance office and lab. Rallo understood the benefits of Galaxy's ability to increase capacity without the costly requirements of moving facilities; however, he was more concerned about the larger overhead expenses' deteriorating profits if revenue growth targets were not achieved.

With an extensive background in the food service industry, Rallo understood the tradeoffs of pursuing a branded or a private-label product strategy. He knew that successfully investing in the development of a recognizable brand would increase his exit multiple but would come at the cost of short-term profits and was risky. Pursuing private-label would satisfy capacity but would limit Galaxy's differentiation among commodity bakeries and would hinder long-term brand appreciation. Rallo decided to consider these scenarios in his valuation analysis.

It was no surprise that Galaxy's largest expense was its cost of goods sold, which required expensive chocolate and dairy products. Galaxy entered into annual contracts with its chocolate supplier to avoid the price volatility in the cocoa market and to provide a slightly more predictable gross margin. But it chose to buy dairy on the open market, which represented 13% of COGS and left Galaxy vulnerable to increases in dairy prices that could adversely affect gross margins by up to 4.0%. This issue did not escape Rallo, but he also understood that dairy prices could also potentially decrease. He predicted the probability of dairy prices increasing double that of an event of decreasing prices.

PCV Looks Closely at the Deal Terms

The proposed deal structure was a $2.7 million participating preferred equity offering, and Rallo expected a post-money valuation to be in the range of $6 million to $9 million. The proceeds would be used to purchase new automated production equipment, build out storage space, hire sales and marketing personnel, fund working capital, pay off existing debt and banking fees, and repurchase all outstanding Series B Preferred Stock of the previous third-party institutional investors. Galaxy provided PCV with financial projections to 2012 (**Exhibit 6**). Galaxy's corporate tax rate had historically been 34%, and it was prudent to expect it would remain unchanged for the foreseeable future. Rallo gathered valuation multiples on public

company comparables (**Exhibit 8**). He expected Galaxy would not need any additional rounds of financing and would exit the investment in five years at an EBITDA multiple comparable to recent market transactions (**Exhibit 7**).

A few recent market transactions included:

- Inventure Group acquired Rader Farms in May 2007 for $21 million. Inventure Group was a marketer and manufacturer of specialty food brands in the indulgent and healthy food snack categories. Rader Farms was a grower, processor, and marketer of premium frozen berries. As a strategic buyer, Inventure was able to evaluate potential synergies and cost savings opportunities. Inventure viewed Rader Farms as a growth platform in the better-for-you and natural/organic specialty food category.[14]
- Treehouse Foods acquired DeGraffenreid, LLC, in May 2007 for $10 million. Treehouse was a food manufacturer primarily serving the retail grocery and food service channels and was the largest U.S. manufacturer of pickles and liquid nondairy creamer. DeGraffenreid was a processor and distributor of pickles and related products to the food service industry. It was particularly strong in the Midwest and southern states.
- Generation Equity Partners acquired Dancing Deer Baking Company in February 2007 for $7 million. Generation was a private equity firm providing capital and management assistance to small businesses. Dancing Deer Baking Company was a manufacturer and marketer of gift baskets, baked goods, and desserts.

PCV Considers the Social Return of Galaxy Desserts

"First of all, the entrepreneur must be aligned with PCV's social philosophy before we will even consider an investment," Rallo explained. Social impact was indeed important to Levitan and Charon. PCV conducted Galaxy's social return due diligence survey, which resulted in a passing score of 37 out of a maximum of 60 (**Exhibit 9**). The business performed well in the following five areas:

- Employing a predominantly full-time work force and improving the sales mix to avoid wild volatility of seasonal labor needs
- Setting aside a small percentage of equity for low-income employees to be paid in the event of a liquidity event
- Hiring from within and providing advancement opportunities for hourly employees

[14] "The Inventure Group Acquires Rader Farms," The Inventure Group, Inc., Inventure Group press release, May 17, 2007.

- Providing health and retirement benefits to all employees after a six-month employment period
- Donating imperfect products to the local food bank

Rallo identified three key areas for social return improvements and hoped that Levitan and Charon would agree to all his suggestions:

- *Increase the average hourly wage.* Galaxy paid an average wage of $9.39 per hour, which was lower than the community average living wage and also below the average wage of PCV-financed companies of $13.56 per hour.
- *Increase payment of health care premiums.* Enrollment rates for health care were low because Galaxy only covered 75% of health premiums. The uncovered portion translated to $200 to $300 in out-of-pocket expenses—20% of average gross monthly wages—to enroll.
- *Provide more training services for employees.* Little training was provided to employees with the exception of on-the-job shadowing. No professional or ongoing training was provided.

If Rallo were successful in convincing Galaxy it should make these social improvements, he was worried that the social advances it made would be erased upon PCV's exit. The subsequent financial or strategic buyer would, most likely, be solely less socially focused. He needed to spend more time considering ways to avoid this potential outcome.

The Train Arrives

As Rallo stood on the BART platform and processed these considerations, the train arrived. He was reminded of his full schedule for the remainder of the week and appreciated the time he had just spent formulating questions regarding his potential investment in Galaxy. He had only a few days to find the answers. Would Galaxy surpass both the social and financial rate-of-return hurdle? Would Galaxy agree to make the necessary social improvements, and were the identified opportunities enough? Were management's financial projections reasonable? Were Levitan and Charon prepared to lead the company through the next stages and manage through unexpected difficulties? Rallo picked up his messenger bag, stepped onto the train, and wondered if his next quarterly budget meeting would take him to Galaxy's offices to talk with PCV's newest portfolio company.

Exhibit 1

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

PCV Profiles

Bud Colligan, Cofounder[1]

Bud Colligan focuses on software, digital media, and Internet investments at Accel Partners, which he joined in 1998. Colligan sits on the board of directors of Metacafe, Yodlee, and lynda.com and comanages Accel's investment in Webroot. Colligan was an investor and board member at CNET Networks, acquired by CBS, Brightmail, acquired by Symantec, SocialNet, acquired by Spark Networks, and S3 Corporation, acquired by Via Technologies.

Prior to Accel, Colligan cofounded Macromedia in 1992 through a merger of Authorware and Macromind-Paracomp. Colligan headed Authorware as president and CEO from 1989 to 1992. At Macromedia, Colligan served as CEO from 1992 to 1997 (taking the company public on NASDAQ in December 1993), and as chairman until July, 1998. During Colligan's tenure, Macromedia grew from a start-up to over $100 million in revenue. In 1996, Colligan was named Software Entrepreneur of the Year by Ernst and Young. In 2005, Macromedia was acquired by Adobe Systems for $3.4 billion.

Prior to Macromedia, Colligan worked at Apple Computer's Macintosh Division from 1983 to 1985, where he assisted in the launch and development of the groundbreaking Macintosh personal computer. From 1985 to 1988, Colligan headed Apple's higher education marketing and grew this strategic market for Apple to more than a half-billion dollars in three years.

Colligan is cofounder and board member of Pacific Community Ventures, an organization focused on providing capital and venture services to entrepreneurs in low-income areas throughout California. Colligan is also a member of the board of directors (and past chairman of the board) of JobTrain, a community-based job training center, the board of trustees of Universal Giving, which connects volunteers and donors with international nongovernmental organizations, and a past member of the board of directors of the Menlo Park Atherton Education Foundation. Colligan spearheaded the Computers for Our Schools Initiative (COSI) for the Menlo Park public schools in 1998–99 (establishing computers in the classroom, labs, a districtwide network, software, teacher training, and a reliable service function), for which he received the PTA's Honorary Service Award.

[1] "Bud Colligan," http://www.accel.com/bio/budcolligan.php (accessed September 7, 2011).

Exhibit 1 (continued)

Colligan graduated cum laude Phi Beta Kappa from Georgetown University in 1976 with a bachelor of science degree in international economics, served six years on the board of regents of Georgetown University (2003–09), and currently sits on the board of visitors for Georgetown's School of Foreign Service. In 2008, Colligan cofounded and is president of the Georgetown Technology Alliance, which connects Georgetown alumni and parents around technology and biotech issues in Silicon Valley, California. In 1983, Colligan received his MBA from the Stanford Graduate School of Business.

Penelope Douglas, Cofounder[2]

Penelope Douglas is cofounder of Pacific Community Ventures, a hybrid organization that stimulates economic development in California's low-income communities. Pacific Community Ventures manages three socially responsible investment funds and provides innovative resources to emerging businesses and their low-income workers. In addition Penelope Douglas is also a Partner in Pacific Community Ventures, LLC.

Douglas has significant experience in business as well as a track record of leadership in community-based organizations. Douglas has a strong reputation for leadership that is focused on creativity and human resources in conjunction with bottom line results. As cofounder of the first West Coast community venture fund, Douglas is a pioneer and thought leader in the area of community development investment. She has served on the board of directors of the Community Development Venture Capital Association (CDVCA) and is a frequent presenter at industry conferences. Currently, Douglas serves on the boards of New Mexico Community Capital (NMCC), New Vine Logistics, and Evergreen Lodge.

Before founding PCV, Douglas was senior vice president at Odwalla, Inc., Chief Administrative Officer at Morrison & Foerster, and chair of the Morrison & Foerster Foundation. Douglas has also held senior management positions at Ernst & Young and Wells Fargo Bank. Douglas has been involved with community-based nonprofit organizations throughout her career, serving as chair of Larkin Street Youth Center, the Children's Television Education and Resource Center, and San Francisco Friends of the Urban Forest, and founding chair of Juma Ventures.

Douglas is a California native and her education includes a B.A. from Smith College. She is also an artist and an athlete who has competed in four Ironman distance triathlons and numerous long-distance races.

[2] "Our Team," http://www.pacificcommunityventures.org/about-us/team/ (accessed April 28, 2011).

Exhibit 1 (continued)

Eduardo Rallo, Managing Partner[3]

Eduardo Rallo is managing partner of Pacific Community Ventures (PCV), a community-focused venture capital fund. Rallo serves on the boards of several PCV portfolio companies including Pacific Pharmacy Group and Freshology. Rallo is the chairman and cofounder of Resmex Group, Inc., which manages seven different restaurant concepts in the Bay Area and has over 400 employees. He is also chairman and cofounder of Farmacias Remedios, a pharmacy chain focused on the Hispanic market. Prior to PCV, Rallo cofounded World Wrapps Restaurants, a Nation's Restaurant News Hot Concept Winner, in 1994. He oversaw the growth of the company to a 26-store chain of gourmet, innovative, quick-service restaurants and raised growth capital from top-tier venture firms. In 1999, Rallo cofounded and served as managing director of BrainStorm Ventures of San Francisco, a seed capital and early-stage investment fund that has invested in 24 companies across the e-commerce and software sectors including companies like Opentable.com (public), Zappos.com (sold to Amazon) and Me.com (sold to Apple computers). Rallo received an MBA from Harvard University in 1993 and graduated with a BA in economics from the University of California, San Diego, in 1989.

Beth Sirull, Director of InSight[4]

Beth Sirull is the founding director of Insight, PCV's research and analysis practice that increases the flow of capital to lower income communities, by providing knowledge to investors and policymakers to enable them to successfully deploy capital in these areas. As director of InSight, Sirull is responsible for developing and managing consulting relationships, providing social return on investment research and analytical services to external institutional investors. Prior to joining PCV, Sirull spent over 15 years consulting in market research and strategy, working with such clients as AT&T, Morgan Stanley/Dean Witter, and Deloitte and Touche. In the past several years, her work has focused increasingly on corporate social responsibility and socially responsible investing. Sirull is the author of *Creating Your Life Collage: Strategies for Solving the Work/Life Dilemma* (New York: Random House, 2000) and has written and spoken extensively on work/life issues. She has held academic appointments in marketing and management at Depaul University and Dominican University.

Over the past 15 years, Sirull has also been involved as a volunteer in a number of nonprofit organizations, including serving as board chair for the Jewish Community Center of the East Bay. Sirull earned a BA in political science at Brandeis University, an MBA at Boston University, and a master of public policy degree at the University of California, Berkeley.

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[3] "Meet Our Team," http://www.pcvfund.com/our_team_detail.asp?id=1059 (accessed April 28, 2011).
[4] http://www.pcvfund.com/our_team_detail.asp?id=1059.

Exhibit 2

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

PCV Services

Business Advance serves small to medium sized enterprises (SME) with a suite of resources enabling them to grow. Fee based membership includes a year-long program that provides strategic advice, practical business education and access to PCV's professional network. Two hour long strategy roundtables are frequently held where a single company will present to a team of advisors including business executives, financiers and lawyers where advice is given regarding the direction and strategy of their business. Business Advance membership also includes expert advisor consultants with industry experience and Insight Forums where prestigious business school professors and corporate leaders offer their perspective. Business Advance also allows for a community of entrepreneurs to trade best practices, new ideas, and professional contacts. Impact Projects are set up to solve deeper business issues such as increasing revenue, reducing costs, building a stable foundation for growth and improving their ability to raise capital. Business Advance advisors lead these special projects that typically last three months to one year and are subject to an additional fee based on the scope and duration. Over the past nine years, Business Advance has advised over 160 companies, creating or retaining over 3,800 jobs across low to moderate income communities in California.

Employee Onramp is a basket of services for low-income employees to help them achieve economic self-sufficiency. It offers Individual Development Accounts, Equity/Wealth-Sharing programs and Access to Financial Services. Individual Development Accounts are a combined financial education and matched savings program, which is a proven plan for helping the poor save enough for retirement, post-secondary education or a home purchase. Employees of companies advised by PCV who participate currently save 3% of their gross income compared to the negative savings rate of the average American. Equity/Wealth-Sharing programs require that all PCV's investments set aside a percentage of equity (typically 5%) for all non-management so that it will empower employees in a "culture of ownership," and [so employees] will participate in the growth they are helping to create. Providing access to financial services allows portfolio company employees to attend financial education workshops on-site and arranges for third party tax consultants to show strategies on how to maximize after-tax income. PCV also provides affordable healthcare options to SME owners and employees.

Exhibit 2 (continued)

Insight is the center for thought leadership at PCV and provides research, knowledge and tools to PCV portfolio companies, policy makers, socially conscious investors, foundations and endowments. The purpose of Insight is to discover and communicate the merits of social impact investing while highlighting the competitive financial and social returns, and thus encouraging greater allocation of capital to the industry. Ben Thornley, director of Insight, thinks this can be accomplished by arming industry leaders with knowledge and building a replicable infrastructure. Insight measures social return through a thoughtfully developed survey sent annually to investment companies. Scores fall upon a grading scale with a maximum of 60 points and a passing score of 30 points. PCV will assess the social impact of over $1 billion in capital stemming from pension funds, foundation endowments, banks, insurance companies and other institutions.

Source: Pacific Community Ventures annual report, 2009.

Exhibit 3

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Richmond, California, Crime Rate

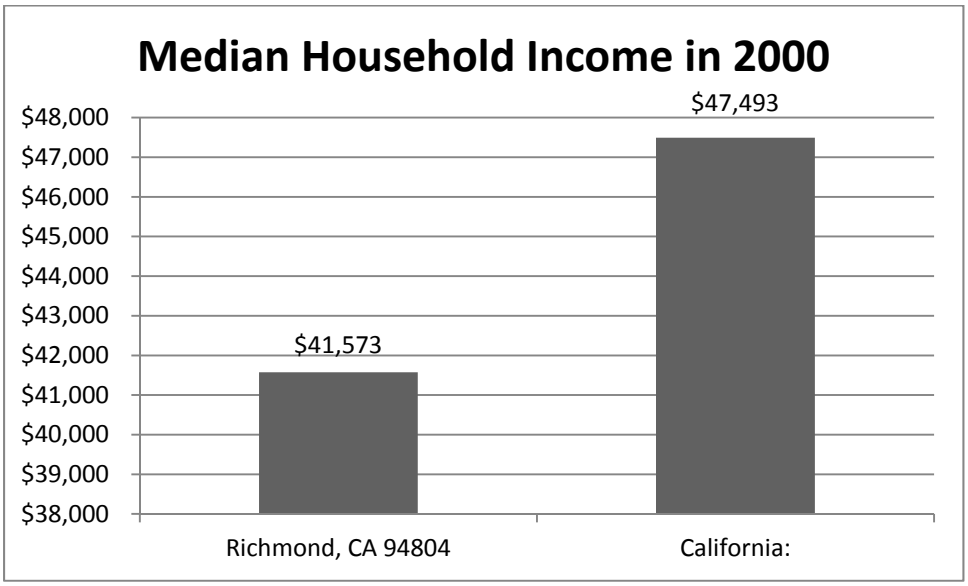
	2003	2004	2005	2006	2007	2008	2009
Murders	38	35	40	42	47	27	47
(per 100,000)	(36.7)	(33.8)	(38.8)	(40.7)	(45.9)	(26.6)	(45.8)
Rapes	50	36	35	41	31	37	44
(per 100,000)	(48.2)	(34.8)	(34.0)	(39.8)	(30.3)	(36.4)	(42.9)
Robberies	482	500	526	504	492	523	407
(per 100,000)	(465.1)	(483.1)	(510.7)	(488.8)	(480.1)	(514.4)	(396.8)
Assaults	508	509	573	637	650	506	597
(per 100,000)	(490.2)	(491.8)	(556.3)	(617.8)	(634.3)	(497.6)	(582.1)
Burglaries	1,102	1,038	1,062	1,031	1,265	1,222	1,486
(per 100,000)	(1,063.4)	(1,002.8)	(1,031.1)	(999.9)	(1,234.5)	(1,201.8)	(1,448.8)
Thefts	3,470	2,765	2,350	2,211	1,933	1,844	1,533
(per 100,000)	(3,348.5)	(2,671.3)	(2,281.6)	(2,144.4)	(1,886.4)	(1,813.5)	(1,494.6)
Auto thefts	2,452	2,377	2,396	2,253	2,309	1,895	1,421
(per 100,000)	(2,366.1)	(2,296.5)	(2,326.3)	(2,185.1)	(2,253.3)	(1,863.7)	(1,385.4)
Arson	66	48	46	30	45	38	42
(per 100,000)	(63.7)	(46.4)	(44.7)	(29.1)	(43.9)	(37.4)	(40.9)
City-data.com crime index (higher means more crime, U.S. average = 315.5)	785.2	735.1	755.4	750.4	766.0	674.5	665.7

Data source: "Richmond, California," http://www.city-data.com/city/Richmond-California.html (accessed April 28, 2011).

Exhibit 4

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Richmond, California, Demographics



Data source: "94804 Zip Code Detailed Profile," http://factfinder.census.gov/ (accessed April 28, 2011).

Exhibit 5

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Sales by High-Volume Customer

Sales by High Volume Customer (%)	2005(A)	2006(A)	2007(E)	2008(E)	2009(E)
Customer A	21.9%	0.0%	0.0%	0.0%	0.0%
Customer B	20.0%	6.8%	7.5%	9.6%	10.2%
Customer C	0.0%	0.0%	15.2%	30.6%	28.5%
High Volume Total	**41.9%**	**6.8%**	**22.7%**	**40.2%**	**38.7%**

Source: Galaxy Desserts Final Investment Committee Report.

Exhibit 6

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Galaxy Financial Projections

	Actual FYE Jun-30					Projected FYE Jun-30				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues	4,184	7,901	10,012	8,438	11,183	13,680	16,292	18,071	20,057	22,275
COGS	2,658	5,200	6,908	5,527	7,009	9,024	10,603	11,483	12,453	13,524
Gross Profit	1,526	2,701	3,104	2,911	4,174	4,656	5,689	6,588	7,604	8,751
EBITDA	(375)	314	161	41	705	471	1,001	1,558	2,202	2,948
CapEx	-	-	-	-	-	518	259	298	343	394
Changes in net working capital	-	13	20	16	21	24	30	34	36	39
Total Sr Debt					2,483	2,011	1,741	1,486	757	-
Total Debt					3,581	3,109	2,839	2,583	1,855	1,098
Revolver Availability					1,475	1,839	1,976	1,976	2,473	2,905
Revenue Growth		88.8%	26.7%	-15.7%	32.5%	22.3%	19.1%	10.9%	11.0%	11.1%
Gross margin	36.5%	34.2%	31.0%	34.5%	37.3%	34.0%	34.9%	36.5%	37.9%	39.3%
EBITDA - % of sales	-9.0%	4.0%	1.6%	0.5%	6.3%	3.4%	6.1%	8.6%	11.0%	13.2%

Source: Galaxy Desserts Final Investment Committee Report.

Exhibit 7

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Recent Food Industry M&A Activity

				Target - LTM		Enterprise Value /	
Date	Target	Acquirer	Enterprise Value	Sales	EBITDA	Sales	EBITDA
May-07	Rader Farms	Inventure Group	$ 21.0	$ 27.0	$ 2.50	0.8	8.4
May-07	DeGraffenreid, LLC	TreeHouse Foods	$ 10.0	$ 23.0	$ 1.41	0.4	7.1
Apr-07	San Antonio Farms	TreeHouse Foods	$ 88.5	$ 45.3	$ 11.35	2.0	7.8
Mar-07	Bloomfield Bakers	Ralcorp Holdings	$ 139.6	$ 188.0	$ 15.69	0.7	8.9
Feb-07	Dancing Deer Baking Company	Generation Equity Partners	$ 7.0	$ 7.0	$ 1.00	1.0	7.0
Dec-06	CoolBrands Dairy, Inc	Healthy Food Holdings, Inc.	$ 50.0	$ 71.4	$ 6.94	0.7	7.2
Nov-06	Northern Foods Specialty Baked Goods	Vision Capital	$ 304.0	$ 253.3	$ 49.03	1.2	6.2
Nov-06	Cottage Bakery, Inc.	Ralcorp Holdings Inc.	$ 171.0	$ 213.8	$ 22.80	0.8	7.5
Oct-06	Dagoba Organic Chocolate LLC	Hershey Foods Corp	$ 12.0	$ 9.0	$ 1.33	1.3	9.0
Oct-06	Otis Spunkmeyer Holdings, Inc.	IAWS Group PLC	$ 561.0	$ 391.0	$ 59.0	1.4	9.5
Aug-06	Laura Chenel Chevre	Rians	$ 12.5	$ 10.0	$ 1.21	1.3	10.3
Jul-06	CGI Desserts	CSM	$ 75.0	$ 70.0	$ 8.43	1.1	8.9
Jan-04	Horizon Organic	Dean Foods Company	$ 288.3	$ 197.1	$ 10.3	1.5	28.0

Source: Galaxy Desserts Final Investment Committee Report.

Exhibit 8

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

Publicly Traded Food Industry Comparable Companies

					Enterprise Value/TTM			
Name	Enterprise Value	Equity Value	TTM Revenue	TTM EBITDA	Revenue	EBITDA	TTM P/E	Employees
Armanino Foods of Distinction	$ 14.0	$ 14.0	$ 17.0	n/a	0.8	n/a	21.3	n/a
Cuisine Solutions	$ 107.8	$ 100.5	$ 76.3	$ 5.0	1.4	21.4	9.7	302
J&J Snack Foods Corp.	$ 654.3	$ 708.2	$ 538.4	$ 75.8	1.2	8.6	22.9	2,300
Lance, Inc.	$ 816.6	$ 768.9	$ 731.8	$ 71.6	1.1	11.4	30.3	4,800
Overhill Farms, Inc.	$ 128.9	$ 88.7	$ 171.6	$ 16.5	0.8	7.8	15.9	860
Tasty Baking Company	$ 116.4	$ 89.7	$ 169.1	$ 11.7	0.7	10.0	21.7	845
Flowers Foods, Inc.	$ 2,100.0	$ 2,050.0	$ 1,930.0	$ 203.2	1.1	10.3	24.0	7,800
Ralcorp	$ 2,250.0	$ 1,510.0	$ 1,990.0	$ 240.7	1.1	9.3	28.8	6,500

Source: Galaxy Desserts.

Exhibit 9

PACIFIC COMMUNITY VENTURES AND GALAXY DESSERTS
COMMUNITY DEVELOPMENT THROUGH PRIVATE EQUITY INVESTING

PCV's Social Return Due Diligence Survey

PCV Social Return Due Dilligence

2. Company Information

1. Company Name

2. Company Headquarters Address

Number and Street
City
State
Zip code

3. Total number of employees

4. Number of operating locations/facilities EXCLUDING headquarters.

If headquarters location is the only operating location, please enter 0.

5. Please provide the full address for each operating location ***(include number, street, city, state and zip code)***

Facility 1
Facility 2
Facility 3
Facility 4
Facility 5

3. Employee Benefits

6. Does the company provide health coverage to:

	Yes	No
Salaried workers		
Hourly workers		

7. If your company provides health coverage, what percent of the premium does your company pay?

0 | 1% to 50% | 51% to 99% | 100%

8. Does the company provide a 401(K)plan to:

	Yes	No
Salaried workers		
Hourly workers		

9. If your company offers a 401(K) plan, does the company match employee contributions?

Yes
No

Exhibit 9 (continued)

4. Employee Training

Please describe the type of training that you provide to **HOURLY** workers.

Note: please differentiate between formal training (classroom instruction, certification programs, apprenticeships) and informal training (on-the-job training,observation, shadowing)programs.

10. Please describe training typically provided in the first quarter following employee hire.

Note: this question requires a response. If no training is provided, please enter "none" in the space below.

11. Please describe any ongoing training (provided following initial quarter of employment)

Note: this question requires a response. If no training is provided, please enter "none" in the space below.

12. What percentage of HOURLY workers are eligible for company training programs?

	Formal training	Informal training
Less than 30%	○	○
30%-49%	○	○
50%-89%	○	○
90%-100%	○	○

13. If you provide different types of training programs to salaried workers who earn less than $50,000 per year, please describe below.

Note: this question requires a response. If no training is provided, please enter "none" in the space below.

14. Do you offer job-rotation or cross-training opportunities to HOURLY workers?

○ Yes ○ No

Exhibit 9 (continued)

5. Community and the Environment

15. Please describe any green programs or practices put in place by the company to reduce energy usage.

16. Does the Company make or offer a "green" or environmentally friendly product or service? If so, please describe the product or service.

17. Does the company have a community service or corporate philanthropy program in place that specifically benefits economically underserved communities/workers? If so, please describe the program.

18. Does the company have a community service or corporate philanthropy program in place but it doesn't specifically target economically underserved communities/workers? If so, please describe the program.

Source: Pacific Community Ventures.