PRIVATE EQUITY INVESTMENT AND THE SOCIAL RETURNS OF PRIVATE COMPANIES:

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A Case Study Analysis of the Banc of America Capital Access Funds

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DEDICATION

This report is dedicated to my maternal grandmother, Joyce Fortenberry Smith Batson, who, through her own lifelong pursuit of knowledge and higher education, instilled within me a passion for learning. She was and remains the source of my intellectual curiosity.
EXECUTIVE SUMMARY

This report seeks to discover the types of companies that use private equity investment as a tool for economic development, providing benefits to society, both on the macro and micro level. These social implications are especially relevant today, when private companies and equity investors are increasing the importance they place on being good stewards in the world. With an increase in focus on issues of equity and inequality with regard to people and the environment, the notion of double and triple bottom line investing has become a hot topic in today’s business world. Increasingly, the nation’s leading investors and largest companies are seeking the positive impacts these investments bring to both the investor and society. Although the goal of this report is to fill a void in research regarding companies that provide double bottom line returns, the results of this report are far from what would be expected. The very image of an underserved company or a company located in a low- and moderate-income area is not necessarily one of hope of prosperity. Nevertheless, this report offers just that—hope and prosperity for underserved markets by analyzing private companies that provide social returns to these underserved areas. What makes these companies unique, however, is that they provide social returns without making the provision of such a part of their mission. In fact, each of these companies operates as a profit-motivated company, and because they meet certain underserved criteria, the results of their financial success are societal benefits. As a demonstration of this commitment, the following analysis of sixty companies in the Banc of America Capital Access Funds (BACAF) portfolio and an in-depth look at two successful BACAF portfolio companies, showed that:

- Underserved companies have the capability and the means to produce financial results in excess of their not underserved counterparts. During the time period studied in this research, “underserved” and “LMI” companies exceeded “not underserved” and “non LMI” companies in year-on-year revenue growth.

- On average, underserved companies create higher levels of certain social benefits than not underserved companies. These benefits include management opportunities for females, ownership and employment opportunities for minorities and females, and certain employee benefits, like health insurance and retirement plans.

- Early indications suggest that companies using private equity as a source of capital are producing positive financial returns to their investors while generating positive social returns for their communities. These companies are using private equity to grow their businesses and increase their impact on the local economies and the neighboring communities.

Although the results of this report are at times significant, they come with limitations. First, the companies studied represent a very small percentage of companies that receive private equity as a source of capital. Second, the time period studied was only a snapshot in time—in some cases only a year—which limits accurate trends in the marketplace. Finally, the companies are part of a heterogeneous mix of companies that differ on many levels, including industry sector, geographic location, company size, and stage of growth, among others. These limitations present opportunities for future studies and analyses on the social implications of private equity.
INTRODUCTION

In general, private equity is an asset classification that consists of equity securities in privately held companies. In most cases, private equity is used either to invest in or acquire a private company, or one that is not publicly traded on a stock exchange. Private equity capital is typically raised from institutional investors, including large pension funds and other institutional sources that are able to commit large sums of money for long time periods. Private equity investments often demand long holding periods to allow for the turnaround of a distressed company or to capitalize on the anticipated growth of an existing company. The most common forms of private equity include venture capital, leveraged buyouts, growth capital, distressed investments, and mezzanine capital.

Venture capital is generally categorized as equity investment in less mature companies that capitalize the launch, early development, or expansion of a business. Leveraged buyouts use private equity to purchase shares from current shareholders of mature companies that typically produce the majority of their returns from operating cash flows. Growth capital is invested in mature companies to finance acquisition, the expansion of existing operations, or the entrance into new markets, without sacrificing control of the business. Distressed investments are made in financially strapped companies with the aim of benefitting from the turnaround or restructure of the company. Finally, mezzanine capital is made to bridge the gap in a company’s financial plan, and often is a subordinate form of capital to other, larger investments.

Historically, companies located in underserved markets have had limited access to venture capital and other forms of private equity when compared to other, high-tech companies. Since most private equity funds’ primary objective is to maximize profits for their investors, fund managers have primarily looked to industries with a history of growth potential when selecting companies in which to invest. As a result, private equity has traditionally been invested in high-growth industries, the majority of which have clustered in California’s Silicon Valley, Texas, and the New England states of Massachusetts and Pennsylvania.¹

While the revenue trend for companies in high-tech industries has been positive, other sectors with a history of positive returns are often overlooked by private equity funds due to the more conventional, staid nature of their business model. Although these overlooked companies do not necessarily fit the mold of traditional private equity-backed companies in terms of the sector in which they fall, when vetted properly through a thorough due diligence process, they can provide returns on par with that of their more traditional counterparts.

Perhaps of more importance, these non-traditional companies tend to be located outside the geographies normally associated with high-tech industries. As a result, the impact that these companies have on their respective geographic locations is much more dispersed than their traditional counterparts. Many times, these non-traditional companies are located in underserved areas, produce products or provide services that target underserved populations, and/or provide employment and ownership opportunities for minorities and/or females, thus

providing benefits to society that this report will refer to as “social returns.”

Since the majority of private equity is invested in high-growth, high-tech industries, the majority of the research on the effectiveness of venture capital and private equity as an economic development tool focuses on companies that fall into these categories. In an effort to fill a void in research regarding non-traditional, non-high-tech industries, the purpose of this project is to determine the effect of venture capital and private equity investment on the financial and social returns of companies in underserved markets. To accomplish this goal, this report will analyze data collected by the Banc of America Capital Access Funds (BACAF) since 2005.

**Economic Development and Venture Capital**

In most communities, economic development is associated with the creation of new jobs. Economic development agencies exist in most communities, from small towns to large cities, with the primary goal of recruiting new businesses to town that will bring high-paying jobs, thus reducing the community’s unemployment rate and increasing the quality of life in the area. Other function of economic development agencies include promoting the start-up of new businesses, forming small business incubators, establishing micro loan funds, offering advisory services for would-be entrepreneurs, and establishing small business development centers.

Often overlooked, however, is the potential for existing, established companies to expand their business model to increase both production and the number of employees required to carry out their expanded operations. Through expanded production, start-up and existing companies with the capacity for growth have the potential to make a calculable contribution to economic development in American towns and cities. This is where private equity capital becomes a significant tool for economic development.

By investing in companies with a proven track record for success and/or the potential for high growth, venture capital serves as a means for rapid expansion of new and existing businesses, often requiring the hiring of additional employees at all levels of the company’s job chain. As a result, companies that receive venture capital provide the very benefits that economic developers hope to achieve, but often within the confines of an existing business or a promising new company.

It is important to note that the creation of jobs is an extension of financial success in any company. First and foremost, the majority of companies are primarily concerned with their ability to make a profit and to provide financial returns to their investors, both institutional and private-party. The idea of social returns is closely connected to the notion of the double bottom line. The term “double bottom line” is used to describe the benefits of socially responsible investing, whereby the social impacts (second bottom line) of an investment are measured in addition to fiscal performance (first bottom line). Using this double bottom line approach, there is a strong correlation between the benefits a company has on its community and its ability to remain financial sustainable.

In the double bottom line model, fiscal performance is always seen as the conventional first bottom line, with social returns seen as a secondary bottom line. Because the existence of any business is contingent on producing positive financial returns,
It is important to make the distinction between the companies in which BACAF invests and CDVCs in that the purpose of this research is to show that regular companies can have similar social returns without sacrificing financial returns to investors. Since BACAF is not considered a CDVC fund, they must first provide sustainable financial returns to their investors, with social returns serving as a side benefit of the investment.

**OPPORTUNITIES FOR INVESTING IN UNDERSERVED MARKETS**

Since the end of World War II, venture capital and other forms of private equity has been an important tool utilized by immature companies with the potential for high growth. In many cases, growing businesses require infusions of working capital in amounts and forms that banks do not have the capacity to provide. Since most young companies with the potential for growth have a limited track record and few assets that would serve as collateral for traditional forms of debt and equity, private equity fills the gap by offering large amounts of capital to companies in exchange for large returns and an ownership stake in the company.

There is, however, an imbalance in the types of companies that receive this much-coveted—and often expensive—patient equity capital. Historically, the majority of private equity is invested in just a few, high-growth sectors of our nation’s industries. In fact, according to a previous report produced by Janneke Ratcliffe at the Center for Community Capital, a full sixty percent of American venture capital is invested in just four industries: software, biotech, medical services, and
telecommunications. In contrast, there is an evolving asset class often referred to as “underserved” or emerging domestic markets (EDM) that is providing capital to a more diverse set of business types. This class of businesses is proving to be not only financially sustainable, but also a great tool for providing positive returns for society at large.

In general, social returns can be broadly defined as benefits provided to underserved populations and underserved markets. Underserved populations include ethnic and gender minorities, such as African-Americans, Hispanics, Latinos, and women. Underserved markets are defined by certain demographic characteristics, such as area median income, the percent of the population that falls under the poverty line, and the percent of the population that qualifies as minority. The benefits to these groups come in the form of increased employment, ownership, and management opportunities, among others.

Despite their underserved characteristics, emerging domestic markets tend to fall into less-targeted business sectors, including retail, financial services, consumer products, business services, and computer hardware. Since these sectors combined receive only ten percent of venture capital, they present opportunities for investors looking to exploit this market imperfection. For example, according to Ratcliffe:

- Although racial minorities own eight percent of employer firms in this country, minority-owned companies receive less than two percent of venture capital.
- Latinos will soon own ten percent of American businesses. Growth rates in the number of minority-owned ventures are three to four times higher than for white-owned businesses.
- Population trends project that minority-purchasing power will reach one-third of total purchasing power by 2020. This dramatic growth is creating new, untapped markets.
- Businesses located in rural areas account for nineteen percent of all businesses, but receive less than two percent of venture capital.

Furthermore, these underserved markets offer a higher level of potential social returns than the high-growth firms that receive the majority of private equity. As Ratcliffe notes in her report:

- According to the U.S. Census Bureau, minority-owned employer firms have created more than 4.7 million jobs.
- Black-owned businesses are much more likely to hire minorities than white-owned businesses.
- According to ICIC, urban and inner-city companies create jobs where they are most needed.

As such, the case for double bottom line results for these underserved businesses in emerging domestic markets has been made on their potential for growth and their lack of relative competition in the marketplace.

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2 Figures for 2006, see PricewaterhouseCoopers and National Venture Capital Alliance 2007, 3.
3 Ratcliffe, 23.
4 Ibid.


**BACAF and Social Returns**

Although value creation is traditionally the top priority for the majority of venture capital investors, the effects of private equity on job creation in underserved markets and other forms of social returns has become increasingly popular for investors who value the double bottom line model. As mentioned, the top priority for for-profit companies remains financial success, with social returns serving as an added benefit. For-profit companies, including those in the BACAF portfolio, do not trade social returns for financial returns. This financial priority is fitting in that social benefits are not realized without financial sustainability. Nevertheless, private equity funds like the Banc of America Capital Access Fund (BACAF) have placed increased importance on measuring the social benefits of their existing investments as an added benefit for investors.

The term “social returns” as it relates to financial investments has been defined in various ways. For example, the notion of providing employment for low income residents can come in the form of a living wage, health benefits (insurance, disability, wellness plan), skill development (higher education, on the job training), and/or wealth creation vehicles (retirement plan, pension plan, 401k). Another form of social return comes in the form of positively impacting the natural environment. This could come in the form of producing beneficial products and services, preventing pollution, recycling materials and waste, using and producing alternative forms of energy, and utilizing energy-efficient building design. These are just a few examples of social return objectives.

When then Banc of America Capital Access Funds (BACAF) was created in 2005, they realized that the majority of private equity investors were consistently overlooking an entire market segment in favor of traditional, high-tech sectors. Due to the promising outlook of potential growth in these underserved markets, Bank of America formed BACAF to “invest in venture capital and private equity funds that are both return-driven and focused on creating opportunities for people and places that have traditionally lacked access to capital.”

BACAF’s primary investors are two pension funds, the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTERS). Tessa Hebb of the Labor and Worklife Program within the Harvard Law School cites CalPERS’ mission for targeted investing. She states, “Fiduciary duty requires public sector pension funds to put financial obligations at the forefront of their decision-making. However these funds also have a vested interest in ensuring vibrant, healthy communities that in turn underpin employer contributions to the fund.” Acting as a “fund of funds,” BACAF channels these targeted investments into venture capital funds that generate “positive financial and social returns by prudently using capital to strengthen underserved markets.” To date, BACAF has invested in a total of 23 funds, which in turn are currently invested in 112 private companies.

BACAF hopes to prove that investing in underserved markets will not only meet the threshold of required financial returns for their investors, but will also provide benefits to society outside of the financial realm. There are many metrics used to

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7 Center for Community Capital. As of 10/27/2008.
measure social returns, and some are easier to measure than others. Since BACAF has stated that one of their goals is “to create profitable, long-term relationships with our investors by targeting underserved markets opportunities that achieve sustainable market returns,” it is assumed that BACAF is a good consortium of return-driven, socially oriented funds and private companies.

Although the necessity of financial returns for companies is widely recognized and well documented, perhaps the most important measurement in terms of economic development is the benefit that the financial success has on society. To increase the understanding of the relationship between financial and social returns, this report seeks to determine to what degree BACAF’s investments have improved the companies in which they have invested and whether those companies are, in turn, providing benefits to society. Although the idea of social returns is vague and can be defined in number of ways, this report looks at the following social attributes:

- Job creation—generally, and for minorities and females
- Company location in low- and moderate-income areas
- Ownership and management opportunities for minority and female populations
- Employee benefits provided by the employer
- Wealth creation through payroll increases

With fund-level data provided by BACAF and a case study analysis of two private companies, this report seeks to determine the effectiveness of and mechanisms through which return-driven venture capital investment can be an economic development tool in underserved markets.
LITERATURE REVIEW

The following review of existing research on venture capital investment as a means for economic development establishes both what is known in this specific field and the gaps in research that this report aims to fill. While some information exists on the benefits of minority venture capital investment, the metric for defining underserved market investment has not been defined in the manner in which this report defines underserved markets. Although much information follows regarding the metric used to define social returns in this report, the following is an analysis of three leading resources on the effectiveness of venture capital and private equity as an economic development tool.

FAIRLIE AND ROBB: RACE AND ENTREPRENEURIAL SUCCESS

Economists Robert Fairlie and Alicia Robb’s book, *Race and Entrepreneurial Success*, adds to the understanding of the many factors that have suppressed minority-owned businesses in recent history. Although the Fairlie and Robb distinguish the socioeconomic differences between African Americans, Asian Americans, and whites, there is significant attention paid to the impact that access to capital has on the eventual success of businesses. Further, their exploration of the limitations that African Americans have with regard to capital and financing, including the historical discriminative lending practices that exist in our nation, sheds light on the barriers that minority-owned ventures must overcome.

In their assessment, Fairlie and Robb indicate that access to financial capital, human capital, and expertise provided by family business backgrounds plays a major role in the business success of certain racial demographics. Throughout the book, they seek to determine why African Americans and Latinos are less likely to own a business than their white and Asian American counterparts. Of the businesses studied, they report that black-owned businesses have lower revenues, hire fewer employees, and have higher rates of closure than businesses with white owners.

Of most relevance to this study, Fairlie and Robb report that there is a strong correlation between startup capital and business success. For example, Fairlie and Robb state that “Under capitalization likely leads to lower survivability, profits, employment, and sales” (107). Since companies with higher amounts of startup capital are less susceptible to closure, the fact that black-owned businesses start with lower levels of capital than white-owned businesses is a concern for the outcomes presented in this report. The capitalization that Fairlie and Robb speak about includes personal wealth, family wealth, debt financing, and startup capital, among others. Their research shows that African Americans have lower personal wealth, family wealth, face discriminatory lending practices, and are less successful at attaining startup capital than whites.

To build on the findings presented by Fairlie and Robb, this report shows how private equity can be invested in underserved businesses, including those that are minority-owned, and achieve positive financial returns. Specifically, the research presented in the following pages shows that minority-owned businesses and other companies with underserved characteristics not only show early indications of performing on par with more traditional ventures, but these businesses are also more likely to provide jobs and employee benefits for
minorities. The growth achieved by companies in underserved markets translates into social returns in the double-bottom line approach, which is the primary subject of this report.

**Bates and Bradford: Minorities and Venture Capital**

A study funded by the Ewing Marion Kauffman Foundation and conducted by Professors Timothy Bates and William Bradford has already shown that minority enterprise venture capital has a track record of profitability and success on par with or even better than traditional venture capital. This study also determined that minority-owned companies that received venture capital investment tended to be classified as something other than a high-tech firm, creating more diversity in terms of the business sectors receiving venture capital. The specific subset of minority-owned companies studied by Bates and Bradford provides insight into the performance of minority-owned businesses, but it does little to account for social returns other than the creation of wealth for investors in private companies.

The key difference in the Bates and Bradford study and the one reported herein is the specific attention given to minority-owned businesses that receive venture capital in the Bates and Bradford study. Conversely, this report identifies companies as underserved based on a metric that includes minority ownership, but expands well beyond that single identifying factor to include a variety of other measurable identifiers. Moreover, this study focuses more on local economic impact—job creation—than on the entrepreneur. In addition, very little information exists that quantifies and qualifies the social returns of companies that receive venture capital, specifically with regard to the creation of jobs in underserved markets and low- and moderate-income areas.

The Bates and Bradford report has become the seminal research on the subject of minority enterprise. Their finding that venture capital investment in minority-owned firms is profitable to investors is vital to this research, in that it presents a hurdle that the companies studied in this report must overcome. In other words, because Bates and Bradford showed that at least one of the categories of underserved businesses studied in this report (those owned by ethnic minorities) produce positive financial results when provided private equity, the bar is raised in terms of the results this report hopes to show. Additionally, Bates and Bradford report that venture capital funds that target minorities tend to invest in non-traditional, non-high-tech firms. In parallel, our research shows the same to be true with BACAF. Bates and Bradford also reported that pension funds tend to be the primary investors for venture capital funds that target minority owned businesses. Similarly, BACAF’s two primary investors are large pension funds in the State of California.

While there are many parallels between the Bates and Bradford report and this report, the key difference is that the Bates and Bradford study does little to probe beyond venture capital’s effect on wealth creation for investors and ownership opportunities for ethnic minorities. To be sure, the findings in the Bates and Bradford report are quite significant with respect to the specific subset of the population on which they chose to focus. As it specifically relates to this study, however, the Bates and Bradford report does little to address one of the key measures of economic development—job creation in underserved markets.
SCOTT SHANE: THE ILLUSIONS OF ENTREPRENEURSHIP

In his *Illusions of Entrepreneurship*, Scott Shane makes a point that strikes at the very heart of the research presented in this report. In the excerpt reviewed for this publication, Shane makes the argument that small business start-ups are not a good means for economic development because they are not the primary source of economic vitality in America. As such, he claims that start-ups do not foster economic growth or the creation of jobs. Instead, he points to existing companies as the primary sources of economic expansion in America.

In this way, Shane strengthens the argument for the expansion of existing businesses. For example, Shane emphasizes that firm productivity increases with age, implying that existing companies make better use of their resources than new firms. This supports his argument for the economic benefits of expanding existing companies. In addition, he notes “the typical start-up is dead in five years,” which has ramifications for job loss for those start-up employees. He strengthens his argument by noting that the number of jobs lost by failed start-up companies exceeds the number of jobs added by the expansion of existing businesses. This point indicates the potential for job creation by expanding existing businesses.

Unfortunately, as it relates to this research, denying start-up companies their role in economic development is contrary to the findings presented here. Shane fails to recognize that existing businesses—the ones he claims to be the engine behind economic growth in America—were once start-up companies. Although young companies are less likely to offer employee benefits as older companies, they remain a vital part of the country’s economic engine. Furthermore, even though these start-up companies may not make it past year five, as Shane has suggested the majority of them do not, they do provide temporary employment for the people that work for those companies during their short life span. If for this reason alone, the impact of start-up companies on job creation, although short-lived, cannot be overlooked.

While Shane’s arguments in favor of existing businesses over start-up companies have implications for the research presented in this report, his results are not watertight. As this report looks at how venture capital enables both start-up and growth-stage businesses to expand their business and increase their productivity, the case for investing in non-traditional companies with high growth potential will be made. While the results of this report do not promote investment in specific companies, regardless of circumstance, it does seek to explore the financial and social returns that are achieved through venture capital and private equity investment in well-researched businesses.
**FINANCIAL RETURNS**

In examining the societal benefits that companies in the BACAF portfolio provide, it is first critical to demonstrate their financial feasibility. As discussed above, the double bottom line approach to investment is contingent on a company’s ability to realize its first bottom line—financial returns. Without remaining financially solvent, a company will cease to exist, and social returns will not be realized in any capacity. As such, this section will define the BACAF portfolio using two different metrics as a means to determine how underserved companies relate to their non-underserved counterparts.

The subjects examined in this report consist of 60 private companies that first received private equity from one of BACAF’s funds in either 2005 or 2006. These companies were selected for their length of investment, which, at a minimum of two years, provides information on trends in financial and social data. In order to distinguish between underserved and traditional companies, the portfolio of funds was divided into two groups that defined “underserved” differently. Once divided, the data for traditional companies within the BACAF portfolio was used as a benchmark for those defined as either “underserved” or “LMI” companies.

**UNDERSERVED VS. NOT UNDERSERVED COMPANIES**

Companies were first categorized as either “underserved” or “not underserved,” based on each company’s ability or inability to meet certain underserved criteria (Exhibit 1). Data reported by the company was first reported to BACAF, which then provided the data to the Center for Community Capital for further analysis. As mentioned in the Introduction, BACAF operates as a “fund of funds,” channeling its investments into some 26 funds that have some record of commitment to funding underserved companies. Exhibit 1 reveals the wide range of underserved criteria that these funds use when targeting underserved companies. These criteria are the byproduct of a “best efforts” approach that affords each fund some flexibility in the types of companies they target, while resulting in a high level of funding for underserved companies.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Minority owns &gt; 50% of company</td>
<td>Reported by Company</td>
</tr>
<tr>
<td>2 Female owns &gt; 50% of company</td>
<td>Reported by Company</td>
</tr>
<tr>
<td>3 Minority has ever served as CEO</td>
<td>Reported by Company</td>
</tr>
<tr>
<td>4 Female has ever served as CEO</td>
<td>Reported by Company</td>
</tr>
<tr>
<td>5 Company is located in inner city</td>
<td>Provided by ICIC</td>
</tr>
<tr>
<td>6 Company is located in LMI area</td>
<td>Provided by FFIEC</td>
</tr>
<tr>
<td>7 Company is located in rural area</td>
<td>Obtained from USDA</td>
</tr>
<tr>
<td>8 Company targets underserved market</td>
<td>Reported by Company</td>
</tr>
</tbody>
</table>

Note: ICIC = Initiative for a Competitive Inner City; FFIEC = Federal Financial Institutions Examination Council; USDA = United States Department of Agriculture.

Companies that meet at least one of the criteria presented in Exhibit 1 were classified as “underserved.” All remaining companies were classified as “not underserved.” In sum, 45 companies were classified as “underserved” while fifteen were classified as “not underserved.” The fact that three times as many companies in the BACAF portfolio meet at least one of these underserved criteria as those that do not speaks volumes to the commitment that BACAF has to investing in companies with underserved features. Of the 45 “underserved” companies, fifteen first received private equity in 2005 while 30 received equity capital in 2006. Of the fifteen companies
that were classified as “not underserved,” four received private equity in 2005 and the remaining eleven companies received equity infusion in 2006. Exhibit 2 displays comparative statistics for the combined set of companies (both 2005- and 2006-invested companies) for the period 2006-2007.

**Exhibit 2: Statistics for All Companies: 2006-2007**

<table>
<thead>
<tr>
<th></th>
<th>Underserved</th>
<th>Not Underserved</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Annual Revenue</td>
<td>$29,790,707</td>
<td>$16,494,929</td>
<td>$26,291,818</td>
</tr>
<tr>
<td>Average No. of Employees</td>
<td>292</td>
<td>172</td>
<td>258</td>
</tr>
</tbody>
</table>

To measure financial performance, average year-on-year revenue growth was calculated for two groups of companies using the underserved criteria. First, 2005 to 2006 growth was calculated for just the companies that received private equity in 2005, with a sample size of fifteen. Secondly, 2006 to 2007 growth was calculated for the combined set of companies (those that received private equity in 2005 and 2006). The sample size for the combined set of companies was reduced from 60 to 46, due to incomplete data from fourteen companies. One additional company was removed from the sample due to its extremely high financial growth. By removing this statistical outlier, the sample size for the combined group was reduced further from 46 to 45. Exhibit 3 shows the results of this analysis.

Exhibit 3: Percent Increase in Revenue: Underserved

In the group of fourteen companies that first received private equity investment in 2005, revenue growth for the period 2005-2006 was much higher for the four companies that were classified as “not underserved” than the eleven companies that were classified as “underserved.” Although this finding is quite interesting, the variation could be attributed to a relatively small sample size. Once the sample size increases from eleven to 45 (which includes both the 2005- and 2006-invested companies), the variation between the groups is smaller and the results are reversed. In the analysis of the combined group of companies, revenue growth for the period 2006-2007 is higher among the 31 companies classified as “underserved” than among the fourteen companies classified as “not underserved” by a margin of three to one. This analysis shows that the “underserved” companies within the BACAF portfolio meet and exceed the financial performance standards of their “not underserved” counterparts.
LOW AND MODERATE INCOME AREA COMPANIES

As an alternate method of classifying companies as underserved, the portfolio was divided based on their low and moderate income area (LMI) classification. The reasoning for providing this alternate method of classification is based on the general idea that financial returns realized by companies located in an LMI area would have broader social implications for underserved populations than those realized by companies not located in LMI areas. These social implications are the result of job creation and other ancillary benefits produced by “LMI” companies in these underserved markets. This criterion is based on several determining characteristics that are applicable to the Census tract in which the company’s headquarters are located. Exhibit 4 details the characteristics used to determine LMI status.

Exhibit 4: Criteria for "LMI" Companies

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Underserved or Distressed Tract</td>
<td>FFIEC</td>
</tr>
<tr>
<td>2. &gt; 20% of Population Below Poverty Line</td>
<td>FFIEC</td>
</tr>
<tr>
<td>3. &lt; 80% Median Family Income</td>
<td>FFIEC</td>
</tr>
</tbody>
</table>

Note: FFIEC = Federal Financial Institutions Examination Council.

Using this metric for differentiation, companies that met one of these criteria were classified as “LMI” companies. All other companies were classified as “non LMI” companies. With this in mind, the combined set of companies contained 21 “LMI” companies and 29 “non LMI” companies. Using this method, there were slightly fewer companies located in LMI areas than not. Of the companies located in LMI areas, eight companies first received private equity in 2005, with the remaining thirteen receiving equity capital in 2006. Of those not located in LMI areas, eleven received capital in 2005, and 28 received capital in 2006.

Once categorized, the same revenue growth calculations were conducted as with the “underserved” and “not underserved” companies. In this calculation, five companies were removed from the list of 21 “LMI” companies due to incomplete data, leaving a total of 16 “LMI” companies. Similarly, nine companies were removed from the list of 39 “non LMI” companies, with an additional company removed due to its standing as a statistical outlier. This resulted in a list of 29 “non LMI” companies for a total sample size of 45 companies. The results of this analysis are presented in Exhibit 5.

Exhibit 5: Percent Increase in Revenue: LMI Area

As was true in the previous underserved calculation, the financial analysis of LMI companies shifted tremendously with
an increase in sample size. In calculating 2005 to 2006 revenue growth for companies that first received capital in 2005, “non LMI” companies had a higher percent increase than those designated as “LMI” companies. Once the sample was increased to include all companies, the results changed to favor “non-LMI” companies. Again, this analysis underscores the financial feasibility of companies located in underserved markets, regardless of the metric used to define it as such.

**FINDINGS**

Based on the analyses conducted above it can be concluded that the BACAF portfolio companies classified as “underserved” and those located in LMI areas tend to experience higher levels of financial growth than those classified as “not underserved” and not located in an LMI area. This has far-reaching significance in terms of proving the financial stability for companies that tend to provide benefits to society through job growth where it is most needed. By establishing their financial sustainability, the stage is set to explore the returns that these underserved companies provide to society. Had the underserved companies been found to underperform, the implications of their returns to society would have been considerably weakened. Although the integrity of the analysis is limited by the small sample size of the data set, this initial analysis appears to be of significance. As more companies are added to the sample and as those companies that currently exist within the sample report additional financial data, greater accuracy will be obtained.
SOCIAL RETURNS

At the heart of this report is the ability of companies to provide benefits to society. Although societal benefits can be measured in a number of ways, several specific social returns were measured as a means for providing a broad view of various types of social returns typically provided by companies. The financial analysis showed the ability of underserved and LMI companies to provide financial returns in excess of what are expected by investors. Building on this knowledge, the second bottom line in the double bottom line approach to investing can now be explored. Exhibit 6 details the list of social returns examined in this report.

Exhibit 6: Social Returns Examined by BACAF

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Minority and Female Ownership</td>
</tr>
<tr>
<td>2</td>
<td>Minority and/or Female CEO</td>
</tr>
<tr>
<td>3</td>
<td>Employment Growth</td>
</tr>
<tr>
<td>4</td>
<td>Minority Employment Growth</td>
</tr>
<tr>
<td>5</td>
<td>Female Employment Growth</td>
</tr>
<tr>
<td>6</td>
<td>Percentage of Employees with Health Benefits</td>
</tr>
<tr>
<td>7</td>
<td>Percentage of Employees with Retirement Benefits</td>
</tr>
<tr>
<td>8</td>
<td>Percentage of Employees with Disability Benefits</td>
</tr>
<tr>
<td>9</td>
<td>Average Payroll per Employee</td>
</tr>
<tr>
<td>10</td>
<td>Percent Increase in Payroll per Employee</td>
</tr>
</tbody>
</table>

Using the same group of companies whose financial returns were examined earlier, an examination of social returns was conducted. In the following analyses, the sample size was often reduced due to incomplete data. Although every effort was made to maximize the sample size in these analyses, when necessary, companies with incomplete data were removed from the analysis. The following results are based on the best available data as of this report.

UNDERSERVED VS. NOT UNDERSERVED COMPANIES

In this analysis of social returns, companies were once again differentiated based on their ability to meet the “underserved” criteria presented in Exhibit 1. This definition is less restrictive than the LMI criteria used previously in that more companies qualify as “underserved” than qualify as “LMI” companies. In defining the companies that qualify as “underserved,” the characteristics of those that qualify and those that do not are presented separately for companies that received private equity in 2005 and 2006 (Exhibits 7 and 8).

Exhibit 7: 2005 Census Tract Characteristics: Underserved

![2005 Census Tract Characteristics](chart)

It is clear from Exhibits 7 and 8 that a difference exists in the socioeconomic characteristics of the communities where “underserved” and “not underserved” companies are located. First, the average percent of the population living below the poverty line is higher among “underserved” companies, as is
the percentage of the population classified as minority. In addition, “not underserved” companies are located in areas with a higher median income percent of area median income (AMI) than their “underserved” counterparts. These criteria provide background information as to how these two categories of companies were defined.

**Exhibit 8:** 2006 Census Tract Characteristics: Underserved

![2006 Census Tract Characteristics](image)

Exhibit 9 shows the comparative social statistics for the combined set of companies (both 2005- and 2006-invested companies) for the period 2006-2007.

<table>
<thead>
<tr>
<th></th>
<th>Underserved</th>
<th>Not Underserved</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership - Females</td>
<td>3.3%</td>
<td>2.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Ownership - Minorities</td>
<td>39.3%</td>
<td>5.8%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Average Percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment - Females</td>
<td>34.5%</td>
<td>29.8%</td>
<td>33.2%</td>
</tr>
<tr>
<td>Employment - Minorities</td>
<td>43.7%</td>
<td>18.8%</td>
<td>36.7%</td>
</tr>
<tr>
<td>Average Payroll Per Employee</td>
<td>$66,955</td>
<td>$72,138</td>
<td>$68,415</td>
</tr>
</tbody>
</table>

**Exhibit 10:** CEO by Gender and Ethnicity

![CEO by Gender and Ethnicity](image)

Exhibits 10 and 11 show the difference between “underserved” and “not underserved” companies in terms of their provision of both management and ownership opportunities for females and minorities. Exhibit 10 shows that no females or minorities are
employed as CEO at “underserved” companies. In addition, companies that qualify as “underserved” have higher percentages of both female and minority CEOs and female and minority ownership. Although by definition, a company would not be qualified as “not underserved” if it offered management and ownership opportunities for females and/or minorities, this distinction shows one of the social returns provided by underserved companies.

Exhibit 11: Ownership by Gender and Ethnicity

![Ownership by Gender and Ethnicity](chart)

Another measure of social returns is employment growth. Exhibit 12 shows how “underserved” companies compare to “not underserved” companies in terms of percent change in employment between 2006 and 2007.

Exhibit 12: Percent Change in Employment: 2006 to 2007

![Percent Change in Employment](chart)

Although each category experienced setbacks in terms of employment growth, with most of the categories experiencing negative growth between 2006 and 2007, “underserved” companies experienced negative growth at higher levels than “non underserved” companies. This may be due to broader economic conditions at play during that cycle. Nevertheless, this analysis reveals definite concerns for “underserved” companies in terms of employment growth. Specifically, the negative growth in minority and female employees is opposite from what one would expect from a company meeting underserved criteria.

In addition to employment growth, the percentage of total employment that is comprised of minorities and females is of value, due to the underserved nature of these two populations. Exhibit 13 highlights how “underserved” companies compare to “not underserved” companies in terms of employment
opportunities for these two categories of employees. The resulting observation is that “underserved” companies employ a greater share of both minorities and women than “not underserved” companies do.

**Exhibit 13: Percentage of Employment: Ethnicity and Gender**

Employee benefits are another social benefit that can be determined using the data provided by BACAF. Exhibit 14 shows the parity between companies categorized as both “underserved” and “not underserved” in terms of the percentage of employees that received health, retirement, and disability benefits from their employers.

Based on these data, it can be determined that “underserved” companies provide a similar level of benefits to “not underserved” companies. In fact, on all three accounts, “underserved” companies either surpassed or came within ten percent of matching their “not underserved” counterparts. The most disparity was found in the percentage of employment that received disability benefits. In this case, “not underserved” companies surpassed “underserved” companies by the highest margin. On the other hand, “underserved” companies exceeded “not underserved” companies in their provision of retirement benefits for both years and in their provision of health benefits in 2007. This analysis suggests that in terms of providing social returns, “underserved” companies could increase their impact on society by increasing the percent of their employees to whom they offer both health and disability benefits.
Total payroll per employee is yet another social benefit that can be measured using the existing data. By looking at how payroll in “underserved” companies compares to “not underserved” companies, distinctions can be made to the relative benefits provided by companies in each category. Exhibit 15 shows the comparison of average payroll per employee.

Exhibit 15: Average Payroll Per Employee: 2006 to 2007

As can be determined, “underserved” companies fall slightly behind “not underserved” companies in terms of average payroll per employee, but the difference is negligible. Both categories of companies provide an average wage higher than the nation’s median household income⁸ and both realized an increase in payroll per employee from 2006 to 2007. This speaks to the ability of “underserved” companies to compete with “not underserved” companies in terms of average payroll per employee.

Finally, year-on-year growth in payroll per employee showcases the potential for personal income growth for employees working for “underserved companies.” Exhibit 16 highlights the comparison between employee growth for both “underserved” and “not underserved” companies.

Exhibit 16: Percent Change in Payroll: 2006 to 2007

This graph reveals the growth in average payroll per employee that “underserved” companies experienced compared to that experienced by “not underserved employees. While “underserved” companies experienced higher positive growth than “not underserved “ companies, the fact that both categories provided growth in excess of 35% is promising.

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⁸ The median household income in the United States was $50,007 as of the U.S. Census Bureau’s 2005-2007 American Community Survey.
LOW AND MODERATE INCOME AREA COMPANIES

As with the financial analysis, companies were once again divided based on their application to the LMI characteristics defined in Exhibit 4. By separating companies using this metric, the social benefits provided in traditionally distressed areas can be determined. Since companies located in LMI Census tracts are likely to provide jobs for people living in the same tract, underserved populations benefit from all aspects of success experienced by these companies.

Again, companies that met one of these criteria were classified as “LMI” companies and all other companies were classified as “non-LMI” companies. The combined set of companies contained 21 “LMI” companies and 39 “non-LMI” companies. Of those located in LMI areas, eight companies first received private equity in 2005, with the remaining thirteen receiving equity capital in 2006. Of those not located in LMI areas, eleven received capital in 2005 and 28 received capital in 2006.

In conducting the analysis of social returns, several companies reported incomplete data, making the inclusion of all companies impossible. These social analyses were made using the most complete data available at the time of this report. By definition, the characteristics that define LMI companies are related to the lower income of the Census tract in which the company is located. Thus, companies headquartered in LMI areas were located in Census tracts with a higher percentage of the population living below the poverty line, a higher percentage of the population qualifying as minority, and a much lower median family income than their “non LMI” counterparts.
Analyzing management and ownership opportunities for females and minorities provided by the portfolio companies sheds light on a benefit experienced by two traditionally underserved populations. Exhibits 17 and 18 highlight these differences among the LMI categories. “LMI” companies provide marginally more management opportunities for females and marginally fewer opportunities for minorities, relative to “non LMI” companies. Conversely, “LMI” companies are owned by both females and minorities at higher average percentages than “non LMI” companies.

Employment at “LMI” companies is also compared to “non LMI” companies by analyzing percent change in employees from 2006 to 2007. The results displayed in Exhibit 19 are contrary to the results of the underserved analysis above and appear to be quite significant. In all three categories, “non LMI” companies experienced negative employment growth, while “LMI” companies experienced neutral or positive employment growth. The implication is that companies located in LMI areas grow and create jobs in meaningful measure.

![Exhibit 19: Percent Change in Employment: 2006 to 2007](image)

The percentage of total employment by ethnicity and gender highlights a firm’s commitment to providing jobs for minorities and females. The higher the percentage in each category, the greater the benefit experienced by these two categorically underserved populations. Exhibit 20 shows the difference in employment for these two categories of workers between “LMI” and “non LMI” companies.

As can be determined from the graphs, “LMI” companies provide employment for minorities and females at higher percentages for both 2006 and 2007 when compared to “non LMI” companies. This demonstrates the tendency for companies located in LMI areas to provide greater employment opportunities for both minorities and females.
Employee benefits offered by companies are intangibles whose significance is often overlooked. By looking at the average percentage of employees that receive health, retirement, and disability benefits, the companies’ commitment to providing these benefits can be measured. Exhibit 21 highlights these benefits provided by companies, characterized according to their LMI eligibility, and again, shows that companies operating in the LMI geographies offer benefits on par with companies in other areas.

Payroll is another social benefit provided by companies. By separating companies into “LMI” and “non LMI” categories, the impact of employee income can be determined. Exhibit 22 shows the results of this analysis.

In both 2006 and 2007, “LMI” companies provide a higher average salary per employee, proving that companies located in LMI areas can compete with those located in more traditional areas. In addition, this distinction shows the impact that companies located in these areas are having on the local economy through personal income.

In addition, Exhibit 23 shows that “LMI” companies trailed “non LMI” companies in payroll growth from 2006 to 2007 by a negligible amount.
**Exhibit 22: Average Payroll Per Employee: 2006 to 2007**

![Bar chart showing average payroll per employee for 2006 and 2007 for non LMI and LMI companies.](chart1)

**Exhibit 23: Percent Change in Payroll: 2006 to 2007**

![Bar chart showing percent change in payroll per employee for 2006-2007 for non LMI and LMI companies.](chart2)

**FINDINGS**

In the analysis of social benefits for BACAF companies classified as “underserved” or located in LMI areas, the results were fairly consistent across the board: “underserved” and “LMI” companies provide greater benefits to society than “not underserved” and “non LMI” companies. In particular, the following outcomes were discovered in this research:

- “Underserved” companies provide greater opportunities for both female and minority management and company ownership than their counterparts.
- “LMI” companies provide better management opportunities for females and greater ownership opportunities for both females and minorities than “non LMI companies.”
- Companies defined as “underserved” experienced negative employment growth from 2006 to 2007, while “not underserved” companies did not.
- “Non LMI” companies experienced negative employment growth from 2006 to 2007 while “LMI” companies demonstrated either neutral or positive employment growth during the same period of time.
- “Underserved” and “LMI” companies employ a higher percentage of minorities and females relative to total employment than their counterparts.
- “Underserved” and “LMI” companies are on par with their counterparts in terms of benefits offered to employees, with the exception of disability benefits, a benefit on which they consistently trailed “not underserved” and “non LMI” companies in offering.
- “Underserved” companies fall behind “not underserved” companies in average payroll per employee, while “LMI” companies lead “non LMI” companies in average payroll.
**CASE STUDY ANALYSIS**

Having examined the early results of the targeted private equity activity of BACAF, the next step is to better understand the mechanisms through which these results can be achieved. To better understand how private equity contributes to financial and social returns, the following case studies were conducted. The companies were selected to serve as a positive story of private equity’s implications for social returns. Companies were considered based on their ability to meet certain criteria, including the year in which they were first invested, their history of positive financial returns, and their ability to meet at least one of the underserved criteria detailed in Exhibit 1. Furthermore, guidance was provided by BACAF as to which companies both met these targets and presented interesting business models. As a result, these case studies are intended to highlight a few best practices for using private equity as a mechanism for financial and social gain.

The case studies of Presidio Bank and Solis Women’s Health target two successful companies to determine exactly how private equity infusion has affected their operations, financial stability, and ability to create jobs and ownership opportunities for underserved populations, including women, ethnic minorities, and low-income persons. These case studies uncover the benefits that private equity has for both start-up and growth stage companies, as well as explores the financial alternatives that exist for companies of this nature. Perhaps more important to this study, however, these case study analyses highlight the benefits to society that these companies are providing through the use of private equity.

**CASE STUDY 1: PRESIDIO BANK**

Presidio Bank (Presidio) opened in July 2006 with a total of $40 million in capital, $10 million of which was private equity invested by Belvedere Capital (Belvedere), one of the funds that receive investment from BACAF. Since private equity was invested at the outset of the bank’s establishment, Presidio qualifies as a start-up from the private equity fund’s perspective. Presidio is a business bank headquartered in San Francisco with branches in Walnut Creek, Santa Rosa, and San Francisco, California. The company started with fifteen employees and now employs 35 in the San Francisco Bay area. Over the past twenty years, many of the area’s banks have been absorbed by large, national banks, reducing the level of personalized banking services offered in the Bay area over time. As the first new bank in twenty years to open in the area, Presidio has been presented with an opportunity to fill a void in personalized banking services in one of the nation’s most populous areas.

Private Equity provided by Belvedere has had a significant impact on the business operation of Presidio Bank. With this source of capital, Presidio has been able to hire employees, build branches, and purchase fixtures for its offices. Private equity also serves as a capital reserve that enables Presidio to have confidence in their lending. To date, Presidio has lent out $180 million in total loans and leases, and maintains $225 million in total assets. Although Presidio could have grown at a faster pace, it has monitored its growth to remain sustainable for the long-term, a wise move in light of recent events in banking. John Palmer, Associate with Belvedere Capital, equates Presidio’s success to both luck and skill. “Presidio was lucky that it opened in July 2006, at the beginning of the
collapse of the housing market. The majority of the problems that banks have today are with loans made prior to 2006.” Palmer goes on to say, “Presidio’s skill set allows them to have a tremendous eye for credit quality. The focus on credit quality has encouraged them to know their customers.” By recruiting and employing qualified loan officers, Presidio is able to calculate the risk of making loans that will be repaid with interest. “This has enabled Presidio to be very prudent in their lending practices in this economic environment,” Palmer adds.

Underserved Mission

As stated by Mary Leonard-Wilson, Executive Vice President of Presidio Bank, the mission of Presidio is “to serve the banking needs of the Bay area counties.” Not only does Presidio provide banking services to business owners, it also is committed to providing products to non-profit organizations. Presidio is also reaching out to their community by offering products to their customers that benefit local charities. For example, Presidio’s Community Value Certificate of Deposit (CD) program provides a specified amount of interest earned on the CD to a non-profit of the investor’s choice. In addition, Presidio has established a business relationship with the Monument Crisis Center, enabling them to continue their work as a food pantry in the underserved East Bay area. Finally, Presidio has provided what Leonard-Wilson calls “favorable loan terms” to TMC Working Solution, allowing them to make micro-loans to individuals seeking specialized financing for personal and small business needs.

Over their short, three-year history, Presidio’s mission has remained steadfast. Leonard-Wilson maintains that Presidio is still firmly rooted in providing products to businesses and individuals in the Bay area, while keeping their commitment to supporting local businesses at the core of their business model. To accomplish their short-term goals, Leonard-Wilson states that Presidio hopes to grow their total assets to $500 million. As of December 2008, Presidio reported $225 million in assets, revealing an opportunity and goal for rapid growth within the next 54 months. Leonard-Wilson describes their services as “individually structured,” with terms created with the customer in mind, rather than “handed down from above.” She describes the bank-customer relationship as a partnership, citing the individual attention to which each customer has access.

In terms of Community Reinvestment Act (CRA) compliance that all banks strive to meet, Presidio recently received a “satisfactory” rating, just over two years after the bank’s opening. Although “outstanding” is the highest rating awarded by CRA, “satisfactory” is the second-highest rating and underscores Presidio’s ability to meet strict CRA criteria in a short period of time. In their CRA compliance examination, Presidio’s 100% community loan and deposit ratio exceeded both the state and national ratio levels, at 91% and 88%, respectively. In addition, the proportion of loans made in the CRA assessment area was 90% by dollars and number of loans. They also received a score of “excellent” on their loans made to underserved geographies. The assessment revealed that Presidio’s lending activity in low-income areas exceeded the aggregate level of lending. Finally, to date, Presidio has received no complaints regarding fair lending practices, another element measured in their CRA exam. With these accomplishments, Presidio Bank has proven their commitment to compliance with the Community Reinvestment Act, the preeminent measure for equitable banking practices in the U.S.
In addition to the criteria measured by CRA, Presidio took it upon itself to measure the amount of loans being made to minority business enterprises (MBEs) and women business enterprises (WBEs). Although this element is not measured as a CRA requirement, a Presidio Bank steering committee decided that their commitment to these two underserved populations was central to their mission of providing services to underserved markets. As a result of this internal decision, Presidio tracks data related to MBE and WBE lending, and works to maintain an equitable level of lending to these groups.

**Employment and Benefits**

As previously mentioned, Presidio Bank’s employment has increased from fifteen to 35 within the past two years. Each of these employees is college-educated, paid on salary, and employed full-time. The bank only employs one temporary worker. Each full-time employee receives health insurance, including medical, dental, and vision, disability benefits, a 401(k) plan, on the job training, and an $800 yearly allowance to offset insurance costs. The company matches 100% of employee contributions to their 401(k) plan, up to 3% of their income, and 50% of employee contributions for the next 2% of their income. Although most employees have some level of financial background, all employees receive training specific to the needs of Presidio’s banking operations. Although advancement is limited within Presidio’s flat organizational structure, Leonard-Wilson affirms that as the bank continues on their growth trajectory, opportunities for advancement within the company will arise. Since Presidio was in effect a start-up, receiving private equity prior to their opening, each of these 35 jobs was enabled by equity infusion. Likewise, the employee benefits that these employees receive are a result of the private equity funding.

**Community Impact**

The impact that a company has on the community in which it is located is an integral part of the social benefits offered by the company. In addition to the community lending efforts and the support of non-profit organizations previously discussed, employees at Presidio are personally involved in their community. Employees at Presidio sit on boards of non-profits in the Bay area, investing time and offering personal expertise to organizations whose mission is to improve the local community. In some cases, Presidio has also been a corporate sponsor for community events, and their involvement in these events will only increase as the bank becomes more profitable, according to Leonard-Wilson. In addition, Presidio Bank occasionally features one of their non-profit customers, providing them both recognition and visibility for the work they are doing in the Bay area.

With private equity from Belvedere, Presidio has been able to provide jobs not only for those employees at Presidio Bank, but also for area companies that serve the bank. For example, Presidio used local firms to design their office spaces and interiors and to build their local branches. By targeting local suppliers and service providers, Presidio contributes to the local economy by keeping the money invested in their region.

**Financial Impact**

The impact that Belvedere Capital (Belvedere) has had on the financial success of Presidio Bank has enabled each of the
aforementioned social impacts. As previously mentioned, private equity comprised one-fourth of the start-up capital received by Presidio Bank. According to Palmer, Presidio received the $30 million balance of its $40 million in start-up capital in the form of individual community investors. Leonard-Wilson describes the affect that Belvedere’s involvement played in providing assurance for individual investment in Presidio. “At that time, there was excitement surrounding investment in a community bank,” Leonard-Wilson remarked. “The fact that Belvedere was involved was a positive sign that made the investment very attractive to individuals at that time.”

Belvedere Capital’s investment in Presidio was a natural choice, since Belvedere focuses on the bank space. In addition, bank regulators require a certain amount of equity investment before other sources, such as subordinated debt, can be considered. Specifically, banks are required to state the amount of equity they have obtained in their application to regulators as a guarantee against potential future losses. Since Presidio’s founding, no new equity sources have been introduced into their mix of equity. Using the same business model as most banks, the main source of operating capital comes in the form of deposits from customers. To augment the deposits, Palmer says, “Presidio uses wholesale borrowing markets, such as the Federal Home Loan Bank. Although external funding sources have increased, the mix of private equity has not changed.”

The financial returns of Presidio have been positive over the past two and a half years, according to Palmer. Although the financial world changed on June 2006, with the beginning of the housing market collapse, he insists that Presidio’s financial growth is “on target” with the financial goals set out at Presidio’s inception. Some measures of their success are exhibited by the fact that Presidio has held no non-performing loans since their launch. In addition, they have not foreclosed on any of their loans, possibly due to the fact that they do not make subprime or adjustable rate mortgage loans. More likely, however, is Presidio’s emphasis on strong, sound underwriting principles. Presidio prides itself on knowing its customers, and basing its lending decisions on much more than credit scores, as larger banks tend to do.

Technical Assistance

The assistance that Belvedere provides to Presidio Bank is crucial to the high performance levels that they have enjoyed recently. Unlike bank lending, private equity investment is a form of ownership, and creates a vested interest in performance from the investor’s standpoint. Because Presidio’s financial success is directly linked to Belvedere’s financial success, Belvedere is compelled to assist Presidio in their management and long-term decision-making processes. Although Belvedere does not get involved in the day-to-day business decisions made by the bank, there is an “ongoing dialogue between Belvedere and the CEO of Presidio,” according to Palmer. Although there is not a formal agreement as to the types of decisions that Belvedere expects to be able to weigh in on, there is an understanding of the expertise that Belvedere has with regard to specific types of decisions. For example, Palmer expects that Presidio would approach Belvedere if they intended to make acquisitions, raise additional capital, or make senior management changes. Palmer makes the case for his assumptions. “Belvedere Capital is the largest institutional investor in Presidio Bank. In addition, Belvedere is located
locally in San Francisco and focuses on banks and thrifts. This is Belvedere’s bread and butter, which underscores the resources available at the banks disposal.” Palmer goes on to say, “The relationship between Belvedere and Presidio is symbiotic.”

When Presidio hired a new CEO in December 2008, Belvedere assisted in the search. In addition to assisting in senior management decisions, Belvedere provides guidance on potential opportunities. “Although banks in general have a community obligation, some banks view CRA as a burden,” Palmer says. “Presidio sees CRA as an opportunity, has taken its requirements seriously, and has received many benefits as a result.” Palmer cites Belvedere Managing Partner Allison Davis’ role on Presidio’s Board of Directors and her relationship with Presidio Chairman and CEO Jim Woolwine as vital elements of the technical assistance that Belvedere provides to Presidio Bank.

**Business Without Belvedere**

Without private equity from Belvedere, Palmer expects that Presidio would have targeted other institutional investors, as well as additional individual community investors. He notes that it would have been much more difficult for Presidio to raise the individual capital without Belvedere’s name behind the investment. Without private equity, Palmer expects that Presidio would have been able to raise a smaller amount of capital, which would have curtailed growth and their impact on the community. Palmer asserts, “Without private equity, Presidio would have probably limited their focus to local businesses, and the local community would have less capital invested in it.” Although the prospect of Presidio’s operations without private equity would not be entirely different, Belvedere provided certainty that would not exist otherwise.

**Future Impacts**

In general, Belvedere Capital is a long-life fund, allowing the recipients of their investments time to realize growth over a period of around ten years. Since all private equity funds must eventually exercise an exit from its invested companies, Belvedere expects to eventually exit from Presidio and provide an above market return to their partners and institutional pension plans. Overall, the experience has been a positive one from both perspectives. In exchange for a future return on their capital, Presidio received a large sum of capital up front, and ongoing assistance and guidance from Belvedere. Looking ahead, Palmer reveals that Presidio’s goal is “to be a much larger bank focused on core business customers. In addition to being highly profitable,” he states, “We are looking for increased brand recognition, and a sustained presence in the Bay area,” along with possible regional expansion. Palmer says that the bank also hopes that it will eventually reach total assets in excess of $1 billion, although he admits that is a long way off. “One of the key factors for Presidio’s success has been the private equity supplied by Belvedere,” Palmer stressed. “Not many banks have private equity at start-up.”

**CASE STUDY 2: SOLIS WOMEN’S HEALTH**

In the mid-1980s, Dr. Tim Freer started a radiology practice that would one day become Solis Women’s Health (Solis). Founded in Plano, Texas, Dr. Freer’s practice began when he broke away from an existing mammography group at great personal risk. At that time, Dr. Freer served as the practice’s
only mammographer, receiving assistance from three additional employees, including two technicians and an office manager. After several years, Dr. Freer was able to expand his Plano-based operation to Phoenix. Although Dr. Freer desired to further expand his business, his practice was funded principally with debt financing, and was financially bootstrapped, limiting growth and Dr. Freer’s vision for his practice. In these early years, Dr. Freer depended on working capital and profits generated by his business for operation. Then, in 2005, Dr. Freer’s practice was acquired by Marwit Capital and renamed Solis Women’s Health. Marwit’s original vision for Solis was to expand Dr. Freer’s business model to other areas of the country. Since the acquisition of Solis by Marwit occurred in the middle of the business’ life cycle, it is a good example of the buyout form of private equity, which has a different set of implications than that of a start-up company.

Underserved Mission

The mission of Solis is stated by CEO Brad Hummel to be “centered on operating as a focus factory with respect to breast cancer diagnostics…and to deliver a positive experience from mammography to breast surgery, all under one care network.” The services offered by Solis Women’s Health start with screening mammography, the annual screening exam that is suggested for every woman over the age of forty and for younger women with a genetic predisposition for breast cancer. Beyond these initial services, Solis offers diagnostic ultrasound, diagnostic mammography, breast biopsy and MRI and Cat Scan (CT) imaging services. When the company was founded in the mid 1980s, the vision was to extend a higher quality mammography product to as many women as possible. What evolved was an interesting dynamic, in that screening was something that was principally found in primary care facilities. Dr. Freer’s vision was for a specialty shop with an orientation around the screening platform, as opposed to the diagnostic platform that was prevalent at that time. To this day, Solis remains committed to their target clientele—women over the age of forty who should be in compliance with regard to annual breast screening.

Hummel goes on to elaborate on the benefits to society offered by the products and services provided by Solis. “At the wide end of the funnel, we are making an important wellness product available to more people, increasing compliance rates among women,” he states. Solis’ contribution to the increase in screening compliance has positive benefits for society in the form of societal costs. Detecting breast cancer sooner results in higher survivability rates, thus reducing costs to society. In addition, the technological advancements in mammography in recent years have only increased the need for Solis’ services.

Hummel explains, “In the past five years, there has been a conversion from analog to digital equipment, which comes at a premium. There is a perception that without state of the art equipment, malpractice lawsuits become more common. As a result, more and more mammographers are getting out of the business,” leaving a void in mammography services.

The private equity component of Solis’ capital has enabled it to convert its screening process from analog to digital and to build a more robust information technology infrastructure, creating opportunities that did not exist prior to the conversion. In addition, the equity capital has allowed Solis to open screening-only facilities in more communities, broadening the reach that Solis has throughout the nation. Providing a visible, neighborhood location not only offers convenience, but also
serves as a reminder for female residents to get their annual mammogram. Solis’ digital infrastructure makes the process easy and convenient for the patient, streamlines the process from screening to surgery, and increases the outcome of the process. Also, with a niche specialization in mammography, there are trained clinicians who provide the same service everyday, thus making fewer mistakes. As a result, Solis is generally a few percentage points below the national average in terms of false positives reported by the clinic.

The services offered by Solis have broad implications for both ethnic and cultural aspects of society. Generally, death rates are lower among white women than African American women, according to Hummel. For whites, the breast cancer mortality rate is 25 for every 100,000 persons. The breast cancer mortality rate for African Americans is 34 for every 100,000 persons. This higher rate among African Americans is due to a lower rate of compliance among African American women. For example, whites are 68% compliant, African Americans are 64% compliant, Hispanics are 59% compliant, and Asians are 54% compliant. Education also increases compliance for all races and ethnicities. Women with college degrees are 77% compliant, those with some college or an Associate’s degree are 69% compliant, those with a high school education are 64% compliant, while those with less than a high school education are 53% compliant. Finally, health insurance plays a large role in compliance, with those that have health insurance at 60% compliance, and those without health insurance at 33% compliance. By increasing screening compliance for each of these demographics, Solis is working to increase compliance and reduce the breast cancer mortality rate for American women.

**Employment and Benefits**

As mentioned, Solis started with Dr. Freer and three employees. When Marwit acquired Solis in 2005, it employed about fifty employees. Today, Solis employs almost 400 employees, with about ten percent in management positions, and the remaining ninety percent employed as hourly clinicians. Of these, about twenty percent make less than $40,000 per year, and very few employees are hired on a temporary basis, providing job stability for each employee. In targeting their employees, Solis looks to find employees proximate to the facilities in which they work. In addition, Solis targets employees who can apply a certain skills set to the specialized work that is conducted at their facilities. As a result of the specialized nature of their work, Solis hires more experienced employees, with a bias for a related work and academic history. The entry-level positions that Solis does provide are typically administrative and clerical in nature. As a result of the specialized nature of their business, Solis places emphasis on hiring Allied Health Care professionals with at least an Associate’s degree, since the screening and diagnostics work does not require a four-year degree.

Solis also provides a wide array of employee benefits to all of its employees, regardless of their position or status within the company. According to Hummel, “Solis views employee benefits as an important element of the contract between the company and its employees.” He goes on to say, “It is much easier to keep existing employees than to replace them.” This commitment to its employees is what drives Solis to provide such benefits as health insurance, short-term disability, and life insurance for each of its employees. In addition, Solis provides its employees with an option to enroll in the company’s 401(k)
plan, although it does not match contributions. In addition, when positions are available within the company, Solis publicly posts openings in an effort to recruit internally, providing opportunities for career advancement, increases in salary, and new career paths for employees within its ranks.

It is important to note, however, that the majority of the increase from fifty to 400 employees since the acquisition of Solis by Marwit has been the result of merging with existing mammography clinics. Still, at least 100 of the 350 new employees were new jobs created, according to Hummel. Each of these new jobs was created, in part, due to the private equity provided by Marwit and are dispersed across various office locations.

**Community Impact**

The impact that Solis Women’s Health has on the community is an important part of the company’s business model. Brad Hummel states that Solis’ most valuable contribution to its community comes in the form of education. “As an extension of our mission, Solis employees promote our services by encouraging women to get their screening mammogram every year,” Hummel asserts. “There is an advocacy process involved in our community outreach.” By reaching out to women in the communities in which Solis centers are located, Solis not only increases the profitability of the company, but also increases the number of women who receive potentially life-saving screening services. The education component of their community outreach model demonstrates Solis’ commitment to the individuals that reside in their communities.

**Financial Impact**

At the heart of the double bottom line achieved by Solis is the impact of private equity on the company’s financial success. As previously mentioned, Marwit supplied forty percent of Solis’ total capital in the form of private equity, with senior debt, subordinated debt, and vendor financing comprising the remaining sixty percent. According to Hummel, it would have been more difficult to secure debt without the initial equity investment by Marwit. At the time Dr. Freer was looking to sell his business, it had simply become too big for him to operate. An investment banker who was promoting Dr. Freer’s business first approached Marwit for investment. At that time, Marwit had capital that it was looking to invest. The business as it existed at that point was subject to a rigorous screening process that Marwit conducted on behalf of its partners. Part of the due diligence process involved Solis proving the ability to provide financial returns. Since acquisition, Marwit has faced some obstacles due to the contracting debt market. As debt becomes less available, all businesses require a higher percentage of equity in their financial mix. This poses some hurdles in terms of return on equity to investors, but Hummel maintains that the company will stay on its current path, knowing that the debt and equity market will not revert to past levels.

With its current financial structure, Solis has met and exceeded its expectations, according to Hummel. “The reason for our success,” Hummel says, “is a thoughtful business plan that was constructed with conservative capital.” As a result, annual revenues have increased from $14 million at the time of acquisition to almost $40 million for the previous year, for an increase of approximately $26 million in just three years. As
forecasted on a run-rate basis, Solis will produce total earnings before interest, taxes, depreciation, and amortization (EBITDA) of $100 million by year-end, a significant increase in revenues over its relatively short lifespan.

Technical Assistance

The assistance provided by Marwit to Solis has had an impact on its ability to produce both financial and social returns. Marwit is very involved in the application of Solis’ financial and capital infrastructure, according to Hummel. “Marwit is involved in all things capital-oriented. Operationally, they are keenly interested.” Hummel continues, “There is a deep understanding of the application and execution of Solis’ business model that is not common among private equity companies.” At the time of acquisition, Solis was able to draw upon Marwit’s expertise in securing senior financing. Marwit’s commitment to the business and their relationship with Solis allowed them to help build the business to the level of success it enjoys today. With their expertise, Marwit is able to advise Solis on all matters related to acquisition, but allows Solis to develop its own market and marketing strategy.

As a result of both the vested interest it has in Solis’ success and the majority financial stake in the company, Marwit has representation on Solis’ Board of Directors. In addition, Marwit filled Hummel’s position as CEO once the acquisition had taken place. Other senior management positions were filled with collaboration between Solis and the fund. These appointments and hires come as a result of the fiduciary duty Marwit has to Solis. Hummel adds, “Marwit brings a level of strategic experience to the table that is useful in dealing with growth issues. The boardroom setting is very productive as a result.” To Hummel, the relationship between Solis and Marwit has been very beneficial. “There is no intrusion from Marwit regarding the daily operations of Solis,” he says.

Business Impact

Private equity has had broad implications for Solis’ business operations. The deployment of equity has evolved from funding the company’s technology infrastructure to financing acquisition activities. Without private equity, Hummel states, “Solis would have been more reliant on vendor financing, which would have had negative implications for growth.” He adds, “We would be a much smaller business with a smaller geographic footprint. There would also be a less sophisticated information technology infrastructure, which has been one of the most value added components of our business model.”

Currently, Solis and Marwit do not have a predetermined exit strategy. As is true with all companies, the current economic downturn has impacted Solis Women’s Health. Solis has had to deploy more equity relative to their overall balance sheet. This has caused an increase in the level of patience required to weather the storm. All in all, Hummel states that the pros have far outweighed the cons in terms of private equity involvement. “We have a healthy business with conservative financing, and a smart and non-intrusive private equity partner,” he affirms.

Future Impacts

The result of the Marwit-Solis partnership is a stable business that has far-reaching impacts on women in need of breast screening. The experienced fund managers at Marwit are adept at offering expertise across the business model, which, in turn,
has enabled higher levels of growth than would have otherwise been expected. Looking back, Hummel asserts that Solis has been a success. “We are decidedly on the right path,” he says. “We have met our expectations in terms of improving the investment thesis and implementing the elements of our strategic plan.” Along those lines, he makes it clear that the vision for Solis’ success has not changed since acquisition. “Solis’ goal is to extend our footprint nationally; to become a highly recognized brand for specialty care. We want to be recognized as the best mammography care facility in the nation. In addition, we want to become the employer of choice in our field and the place where every professional wants to work.”

**FINDINGS**

Both Presidio Bank and Solis Women’s Health are utilizing private equity investment to provide significant returns to their financial and social bottom lines. Using private equity has enabled them to grow their business model in both size and scope to create new jobs, provide employee benefits, return money, leadership, and education to their communities, increase their annual revenues, improve the effectiveness of their organizations, and reach their long term goals. These companies are success stories in their own right, and they are examples of companies that are successfully using private equity to benefit those that use their products and services, and those who find employment with them.

Presidio Bank and Belvedere Capital are filling a void in personalized banking services in the San Francisco Bay area, as well as reaching out to non-profit organizations, fulfilling their CRA requirements, and providing well-paying jobs with benefits to employees living in their community. Their employees serve on the boards of non-profit organizations, offering advice and expertise. Presidio also offers financial products that benefit a wide array of charities. Perhaps most important for Presidio, though, is that they are using their private equity to expand into new communities within the Bay area, and they have long term plans to increase their scope to include much of the West Coast. With their initial investment from Belvedere, the future impacts on their financial bottom line will have far reaching implications for their returns to society for years to come.

Solis Women’s Health and Marwit Capital are partnering to revolutionize the breast cancer screening industry. By expanding their business model both geographically and with regard to the types of services they provide, Solis is working to maximize screening compliance among all demographics in an effort to reduce the breast cancer mortality rate in America. Solis is using their private equity to purchase state-of-the-art equipment and technology in an effort to make the process more pleasant for women. In addition, their centers are becoming more neighborhood-oriented, serving as a constant reminder for women to have an annual mammogram, and making it convenient to do so. In addition, Solis’ employees are reaching out to their community by stressing the importance of compliance. Using their equity, Solis has been able to extend their services to locations all over the nation, with plans to continue growing at a conservative pace.

Both companies are positive examples of how companies can use private equity to meet their own financial goals, but also impact society in a very positive way. The case studies show that companies often have a positive vision, an ideal mission,
and the desire to impact the world in a positive way. Their only shortfall is the equity capital and the business knowledge to implement and realize their goals. With funding from private equity investors, and management assistance, financial structuring, strategic input, and human relations advice from the private equity fund, these companies are able to accomplish their financial goals. By proving their value to the investor, securing equity investment, and performing on par with expectations, these two companies, like many others, are having a positive impact on the world around them.
CONCLUSION

This study aimed to fill a void in existing research by showing the types of social returns companies are providing and defining the types of companies providing these returns. The result is a look into both underserved companies and companies located in low- and moderate-income areas and their ability to compare with regular companies that do not meet either of the criteria studied in this manner. The financial analysis showed that under the two metrics used to define underserved, the companies that qualify as underserved perform better than their not underserved counterparts. Companies that meet the eight underserved criteria presented in Exhibit 1 performed percent better financially than those that did not between 2006 and 2007. Likewise, companies located in LMI areas posted a higher percent increase in revenue than those that are not. The Social Return section showed the myriad of ways companies are using private equity to create jobs, ownership and management opportunities, and increased employee benefits and salaries for everyone, including underserved populations such as females and ethnic minorities. Finally, the two case studies provided specific examples of how private equity is being used by companies to provide positive returns to their double bottom line.

In sum, this report provides and new and unique understanding of how private equity can be put to use in underserved markets. The introduction recognized a market imperfection with regard to opportunities that exist in the private equity marketplace. Most private equity firms target high-growth companies in a limited number of specific industries. What remains are a host of business sectors that have the same equity needs, similar track records for financial returns, and an unprecedented opportunity to realize calculable, real benefits to society. With this in mind and with the analysis presented herein, the question remains: Why don’t more private equity companies seize on the opportunity to benefit their investors and their neighbors? If the answer did not wholly exist prior to the publication of this report, there is now yet another promising report that contributes to the ongoing search for that answer.

The limitations associated with the small sample size, short time horizon, and heterogeneity of companies studied in this report present opportunities for research associated with social returns and underserved companies. The results of this report would be more significant if a larger set of companies were studied over a longer period of time. A larger set of companies would allow for smaller groups of homogenous companies to be examined, thereby teasing out the qualities of those companies that make them successful. Despite these limitations, however, the collective results of this report are promising. A continued partnership with the Ewing Marion Kauffman Foundation, Banc of America Capital Access Funds, and the Center for Community Capital would generate a vast increase in knowledge associated with the social implications of private equity.
APPENDIX

FINANCIAL RETURNS

Table 1: Percent Increase in Revenue: Underserved vs. Not Underserved

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>132%</td>
<td>52%</td>
</tr>
<tr>
<td>Underserved</td>
<td>9%</td>
<td>187%</td>
</tr>
</tbody>
</table>

Table 2: Percent Increase in Revenue: LMI vs. Non LMI

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>52%</td>
<td>42%</td>
</tr>
<tr>
<td>LMI</td>
<td>17%</td>
<td>331%</td>
</tr>
</tbody>
</table>

SOCIAL RETURNS: UNDERSERVED VS. NOT UNDERSERVED

Table 3: 2005 Census Tract Characteristics: Underserved

<table>
<thead>
<tr>
<th></th>
<th>% Under Poverty</th>
<th>% Area Median Income</th>
<th>% Minority Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>7%</td>
<td>180%</td>
<td>27%</td>
</tr>
<tr>
<td>Underserved</td>
<td>15%</td>
<td>107%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Table 4: 2006 Census Tract Characteristics: Underserved

<table>
<thead>
<tr>
<th></th>
<th>% Under Poverty</th>
<th>% Area Median Income</th>
<th>% Minority Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>8%</td>
<td>146%</td>
<td>24%</td>
</tr>
<tr>
<td>Underserved</td>
<td>14%</td>
<td>100%</td>
<td>49%</td>
</tr>
</tbody>
</table>

Table 5: CEO by Gender and Ethnicity

<table>
<thead>
<tr>
<th></th>
<th>Female CEO</th>
<th>Minority CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Underserved</td>
<td>9%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Table 6: Ownership by Gender and Ethnicity

<table>
<thead>
<tr>
<th></th>
<th>% Female Owned</th>
<th>% Minority Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>2%</td>
<td>7%</td>
</tr>
<tr>
<td>Underserved</td>
<td>4%</td>
<td>37%</td>
</tr>
</tbody>
</table>

Table 7: Employment Growth: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>% Employees</th>
<th>% Minority Employees</th>
<th>% Female Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>1%</td>
<td>-14%</td>
<td>-6%</td>
</tr>
<tr>
<td>Underserved</td>
<td>-19%</td>
<td>-15%</td>
<td>-15%</td>
</tr>
</tbody>
</table>

Table 8: Percentage of Employment: Ethnicity and Gender

<table>
<thead>
<tr>
<th></th>
<th>% Minority Employees</th>
<th>% Female Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>2006: 18%</td>
<td>2007: 20%</td>
</tr>
<tr>
<td></td>
<td>2006: 29%</td>
<td>2007: 30%</td>
</tr>
<tr>
<td>Underserved</td>
<td>2006: 43%</td>
<td>2007: 44%</td>
</tr>
<tr>
<td></td>
<td>2006: 34%</td>
<td>2007: 35%</td>
</tr>
</tbody>
</table>

Table 9: Percentage of Employment: Employee Benefit

<table>
<thead>
<tr>
<th></th>
<th>% with Health 2006</th>
<th>% with Health 2007</th>
<th>% with Retirement 2006</th>
<th>% with Retirement 2007</th>
<th>% with Disability 2006</th>
<th>% with Disability 2007</th>
</tr>
</thead>
</table>

Table 10: Average Payroll Per Employee: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>$60,761</td>
<td>$84,328</td>
</tr>
<tr>
<td>Underserved</td>
<td>$55,916</td>
<td>$79,943</td>
</tr>
</tbody>
</table>
### Table 11: Percent Change in Payroll: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Underserved</td>
<td>38%</td>
</tr>
<tr>
<td>Underserved</td>
<td>45%</td>
</tr>
</tbody>
</table>

### Table 12: 2005 Census Tract Characteristics: LMI Area

<table>
<thead>
<tr>
<th></th>
<th>% Under Poverty</th>
<th>% Median Family Income</th>
<th>% Minority Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>8%</td>
<td>159%</td>
<td>40%</td>
</tr>
<tr>
<td>LMI</td>
<td>20%</td>
<td>72%</td>
<td>51%</td>
</tr>
</tbody>
</table>

### Table 13: 2006 Census Tract Characteristics: LMI Area

<table>
<thead>
<tr>
<th></th>
<th>% Under Poverty</th>
<th>% Median Family Income</th>
<th>% Minority Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>8%</td>
<td>132%</td>
<td>36%</td>
</tr>
<tr>
<td>LMI</td>
<td>23%</td>
<td>74%</td>
<td>57%</td>
</tr>
</tbody>
</table>

### Table 14: CEO by Gender and Ethnicity

<table>
<thead>
<tr>
<th></th>
<th>Female CEO</th>
<th>Minority CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>5%</td>
<td>36%</td>
</tr>
<tr>
<td>LMI</td>
<td>10%</td>
<td>33%</td>
</tr>
</tbody>
</table>

### Table 15: Ownership by Gender and Ethnicity

<table>
<thead>
<tr>
<th></th>
<th>Female Owned</th>
<th>Minority Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>2%</td>
<td>28%</td>
</tr>
<tr>
<td>LMI</td>
<td>4%</td>
<td>36%</td>
</tr>
</tbody>
</table>

### Table 16: Percent Change in Employment: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>% Change</th>
<th>% Minority Employees</th>
<th>% Female Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>-17%</td>
<td>-16%</td>
<td>-16%</td>
</tr>
<tr>
<td>LMI</td>
<td>6%</td>
<td>0%</td>
<td>18%</td>
</tr>
</tbody>
</table>

### Table 17: Percentage of Employment: Ethnicity and Gender

<table>
<thead>
<tr>
<th></th>
<th>% Minority Employees</th>
<th>% Female Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>LMI</td>
<td>35%</td>
<td>36%</td>
</tr>
</tbody>
</table>

### Table 18: Percentage of Employment: Employee Benefit

<table>
<thead>
<tr>
<th></th>
<th>% with Health</th>
<th>% with Retirement</th>
<th>% with Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>LMI</td>
<td>64%</td>
<td>69%</td>
<td>38%</td>
</tr>
</tbody>
</table>

### Table 19: Average Payroll Per Employee: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>$54,226</td>
<td>$77,001</td>
</tr>
<tr>
<td>LMI</td>
<td>$62,942</td>
<td>$88,919</td>
</tr>
</tbody>
</table>

### Table 20: Average Payroll Per Employee: 2006 to 2007

<table>
<thead>
<tr>
<th></th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non LMI</td>
<td>45%</td>
</tr>
<tr>
<td>LMI</td>
<td>40%</td>
</tr>
</tbody>
</table>
BIBLIOGRAPHY


