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BUSINESS PLAN

FOR THE DEVELOPMENT OF

A

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANY

(MESBIC)

To be called

Western Capital Ventures, Inc.

presented by

HAROLD K. BROWN
President
The Black Economic Development
Task Force, Inc.

CONTROL # B 8

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Executive Summary

Name of the Project:	Western Capital Ventures, Inc.
Presenter of the Plan:	Harold K. Brown
Legal Form:	Privately held, closed-end incorporated fund
FundingSought:	$2,000,000 in investment capital which will provide access to $8,000,000 in matching SBA funds
Application of Funds:	$165,100 operating budget first year. Balance to be invested in debt and equity of minority held businesses
Date of Plan:	March 17, 1989

Summary of the Plan: This plan to fund and operate a Minority Enterprise Small Business Investment Company (commonly known as a MESBIC) is in response to the critical and continuous need for investment capital in the minority community. It will be a for-profit investment company and will provide investment capital and management assistance to promising companies owned by minorities. This MESBIC will be called Western Capital Ventures, Inc. (WCV). The first goal of this MESBIC is to provide an attractive rate of return to investors. The second goal is to assist in the revenue and job growth of minority business firms.

The Management: The MESBIC will be operated under the direction of Harold K. Brown. Mr. Brown's management experience over the last twenty one years includes experience as a loan officer for a major New York bank, a position as a senior administrator at a large university, and outstanding accomplishments as a community organizer and leader. He will be assisted by a small professional staff, a carefully selected Board of Directors and several key advisors.

The Service: Western Capital Ventures, Inc. will invest in minority-owned businesses located primarily in San Diego County and will provide management consulting services to those firms to insure their success. It is the intent of Western Capital to invest in a portfolio of businesses that are owned or controlled by members of socially or economically disadvantaged groups. The investments shall be in the range of $100,000 - $200,000, and structured to provide a high degree of protection for the investors in Western Capital, reasonable profits for the fund, and financial flexibility for the client companies.

MESBICs are possible due to the federal mandate created by the Small Business Investment Act of 1958. The Act creates the organizational criteria for and the funding authorization of firms commonly known as Small Business Investment Companies (S.B.I.C.s). An SBIC is an investment company dedicated to the financing of small businesses. The Minority Enterprise Small Business Investment Company (MESBIC) program, created in 1969, has the additional mandate of providing capital to firms owned or controlled by socially or economically disadvantaged individuals.

The Act and its subsequent revisions outline the criteria for the creation of investment companies and provide for their funding through the availability of low-cost capital and a high degree of government-backed leverage. Western Capital will take advantage of this program by borrowing up to eight million dollars at rates as low as 3% per annum.

Capital Requirements: It is the intention of Western Capital Ventures, Inc. to raise $2,000,000 of private capital from the San Diego business community. These funds will be augmented by government loans of initially 2 million but with total potential borrowing power of four times the private capital. This means that as the fund matures, privately raised capital will be matched by funds from the Small Business Administration to provide a total fund size of up to $10 million.

Analysis of Need: Certain facts highlight the dramatic need for a MESBIC in the San Diego community. First, San Diego is one of the largest cities in the United States, and it has never had a source of effective economic support to encourage minority firms. Although there are 150 MESBICs in the U.S. and 23 MESBICs throughout the State of California, San Diego does not have one. In addition, the following factors should be considered:

- 25% of San Diego's population is composed of ethnic minorities, giving Western Capital Ventures a broad base of potential investment opportunities
- San Diego has 6,000 minority owned business firms
- Only 15% (906) of the 6,000 minority-owned firms have paid employees - the rest are too small
- Minority-owned firms account for only 2% of the total sales produced by San Diego's businesses

These items underscore the need for additional capital and management assistance so that minority owned firms can develop the business size to employ more, produce more, and become a more viable part of San Diego's economic community.

The Company

Philosophy

Western Capital Ventures, Inc. (WCV) will be an incorporated Minority Small Business Investment Company established as a for-profit company to provide capital to promising companies owned by minorities. The Investment Company will also provide the client companies with management assistance when needed and will monitor the minority firm's business activities. WCV's goal is to significantly increase the number of minority owned firms that produce annual growth revenue in excess of one million dollars. In turn, this growth will provide an increased number of jobs for minorities since historically minority-owned firms tend to create jobs for minority workers.

Western Capital, while being a for-profit company, will not be limited to a profit-producing mission. WCV will have a social goal as well as an economic goal. The social goal is to assist minority firms in moving into our society's economic mainstream. While WCV's first goal is an economic one of producing a profit to continue WCV's activities and to return a profit to WCV's shareholders, the social goal is extremely important.

It is also the philosophy of Western Capital Ventures, Inc. to diversify among a number of companies rather than just a few so as to distribute the risk of the investment portfolio as well as provide a broad opportunity to participate in the gains made by those companies that are successful.

Western Capital will make loans to qualified minority firms at interest rates that are lower than market rate. It can do this because it is able to sell $4 million of preferred stock to the Small Business Administration at a very low cost - as low as 3% cumulative interest. Another $4 million is provided by the Small Business Administration through debentures at several percentage points below market. On the anniversary date, the notes are renewable though not sooner than five years from date of the note. The difference between the cost of money to WCV and the interest WCV charges the client companies produces income for WCV.

WCV will also provide financing for client companies in exchange for a percentage of ownership in the client company. The percentage of ownership will vary but will not exceed 49%. WCV will realize income from the equity appreciation of such ownership when the equity position is liquidated for cash. It will take four - seven years to liquidate an equity position in a client company.

The geographical focus will be San Diego, California. This is of particular significance since there is no active MESBIC in the area. However, when investment opportunities are not available in San Diego, WCV will look for opportunities outside San Diego. The area of service includes both the City of San Diego and the larger county area as investment opportunities are perceived to exist. Specifically targeted areas of interest to Western Capital Ventures, Inc. are the Southeast and Southern sections of San Diego which includes a large number of Hispanic and Black businesses. Also, where appropriate WCV will consider co-participation with other MESBICs in the Southern California area.

Federal Mandate for Small Business Investment Companies

It is the clear intention of the Small Business Investment Act that MESBIC business activities be conducted in such a way that good management practices are encouraged and that acceptable profit in relation to assumed risk may be achieved by investors. In addition, the Act establishes parameters by which the small businesses funded tend to have a much higher rate of success than is typical of new or emerging businesses. While statistics on this are difficult to substantiate, government experts have estimated that nationally, 80% of new businesses fail within the first five years. It is estimated that among those firms funded by SBICs, nearly 80% succeed.

The reason for this success rate is the selection process by which investments are chosen as well as the support relationship established between the SBIC and the client. In the MESBIC, there will be a group of qualified professionals who will assist the management of the company. This group will be maintained on an as-needed basis for consulting and from time to time will be involved in the selection of staff and investments in an advisory capacity.

To this end, this MESBIC will provide investment capital on a selective basis to qualified businesses operating primarily in the San Diego area. In addition, Western Capital Ventures will make available the business assistance mentioned above on a fee or referral basis to the businesses in the portfolio. The portfolio companies will be charged management consultant fees at a rate significantly below the market rate.

Anticipated Results: It is anticipated that beginning in year one, without any equity profits yet realized, the fund will be generating income sufficient to cover all costs of operations (not considering the write-off for bad debt), and will have invested nearly $8 million into client companies over the ten-year period.

In addition, approximately 51 companies will have been formed, potentially generating 372 jobs over five years.

Companies funded is an estimate based on the anticipated average size of $200,000 for each investment, and the jobs created are estimated based on the expectation that smaller companies with few employees will be initially funded, but as those companies mature, the average number of employees per firm will rise. Initially it is expected that each company funded will have 2.5 employees. By the fifth year, it is expected that each funded firm will have eight employees.

After the first two years of operation, it is estimated that distributions to shareholders will begin. It is anticipated that the distributions to the original investors over a 10-year period will amount to $2 million - the total private investment. However, should WCV's allowance of 60% for bad debt on equity investments prove to be too high, additional cash would become available. It is WCV's intention to use that cash, should it become available, to increase the amount of dividends paid to the investors thereby reducing the number of years the investors would receive back their total investment.

Management

Management of Western Capital Ventures will be the responsibility off its President, Harold K. Brown. Mr. Brown is currently Associate Dean for External Relations at the College of Business Administration at San Diego State University. His background includes a full career in business and administration and an active life-long commitment to the fight for the economic and political advancement of the disadvantaged.

Harold Brown received his Bachelor's degree from San Diego State University with a Masters in Business Administration from Fordham University in New York. He has also completed course-work in the executive management doctoral program at the Claremont Graduate School of Business Administration in Claremont, California. His career includes positions as a loan officer for Marine Midland Bank and a Deputy Director for the United States Peace Corps.

While at Marine Midland Bank, Harold Brown was active in providing capital for minority owned businesses, and was associated with the New York banks' MESBIC. One of his assignments with the bank was to conduct a substantive study of the bank's minority business loans to evaluate the status of those loans and to make recommendations on how the bank could improve its program to help minority businesses. His experience also includes the formation of companies and partnerships for investment purposes in San Diego.

In addition to his management skills, Mr. Brown is known as one of the most knowledgeable and effective community organizers in the nation. He provided leadership on the local and national levels during the struggle of the 1960's, and as a testimony to his dedicated leadership, the City of San Diego declared July 22, 1967 "Harold Brown Day." Since then he has been recognized many times as a leader in the San Diego business and civic community.

Mr. Brown's nearly thirty years in the fight to improve the quality of life for minorities adds a unique dimension to his qualifications to serve as the MESBIC's president. He is recognized as San Diego's leading spokesperson in the area of minority economic development. His broad base of contacts and potential referral sources will ensure that WCV enjoys the benefits of a steady deal flow. For further information on his background and accomplishments, his resume is included in the appendix.

The operating policies of Western Capital Ventures will be established by the Board of Directors and its Chairman. This Board will be composed primarily of investors, or representatives selected by investors. Other members of the Board will be persons who are not necessarily investors but will represent the community. Mr. Brown will refer all significant issues to the Board for their approval, and the Board of Directors will have the opportunity to participate in much of Western Capital's operations.

The President will be responsible for the general supervision of all staff, coordination of information to the Board of Directors and building awareness of Western Capital Ventures in the business community. He will review all investment proposals and supervise all contractual agreements with consultants and will be responsible for the development of San Diego State University resources as consultants.

Initially, the President will be responsible for all operational aspects of the company. The President will screen all investment proposals and will present those receiving further consideration to the investment committee.

The President will be responsible for monitoring the progress of each investment, encouraging the use of management assistance when assistance is necessary, and keeping the investment committee informed as to the status of each of the investments.

The President will supervise an Executive Secretary who will be responsible for the maintenance of accounting records for the company, assisting the Vice President with due diligence, daily interfacing with the principals of the client investors in the portfolio, and maintaining all records necessary to present to the Board and the SBA. This position is critical because of the large number of transactions anticipated from the companies in the investment portfolio. When resources permit and the work load increases, a business analyst will be added to the staff. The business analyst will assist the President in the screening, reviewing and monitoring of all investment proposals. This position will be added in approximately the eighteenth month.

Other professional services will also be utilized, some paid and many voluntary. In addition, the associated group of consultants, and more particularly those resources from San Diego State University (discussed below, under Consultants) will make a substantial contribution to the operation of the MESBIC. More information about personnel and an Organization Chart are found in the Operations section below.

Advisory Board

In addition, Harold K. Brown will have the advice and assistance of several key advisors. Key advisors who have agreed to assist the President include:

Alan J. Grant, Professor at San Diego State University's College of Business Administration and President of Grant Venture Management Company

Carole Rhoades, Vice President of Seaport Ventures, Inc. a San Diego Venture Capital firm organized as a Small Business Investment Company

Stanley Heyman, Partner with Coopers & Lybrand of San Diego, a Certified Public Accounting Firm

Edward Arledge and William Hoese, Partners in the law firm of Luce, Forward, Hamilton and Scripps of San Diego

Management Compensation

Compensation to the active principals will be at salaries listed in the projected operating budget. In addition to his salary, the President, Harold K. Brown, shall also receive 5% of the initial common stock issue of 2,500,000 shares and an option to purchase an additional 10% equity interest at some point in the future.

Management Consulting

Consulting with client companies is an important service that will be provided by WCV. It is expected that from time to time client companies will need to consult with someone in a particular area of expertise. WCV will utilize the resources of San Diego State University's College of Business Administration as the heart of its consulting service, augmented with highly qualified individuals with specific skills from the business community. The focus of the consulting program is to have the consultants work with and help educate the minority business owners in specific subject areas, thus increasing their levels of business knowledge and expertise.

The College of Business Administration has agreed to a relationship that can provide its students with "real-life" experience in the business world and its professors with the opportunity to study the business environment while earning additional fees as consultants. The College has already developed a program currently providing this type of service to the community. The program of consulting will consist of three components: the College's Small Business Institute, the College's Internship program, and the Colleges' faculty.

Dr. Oliver Galbraith, a faculty member in the Information and Decision Systems department of the College is the Director of the College's Small Business Institute. The Institute has students who are assigned to small businesses to assist and advise in the management of the business. These students receive course units for this learning experience. Dr. Galbraith has agreed to assign his students to WCV's clients when appropriate.

The Internship Program provides junior and senior level business students with an opportunity to work with a company for one semester. The student is assigned a project that is supervised by a company employee. The student receives a grade and a small stipend. However, the important benefit the student receives is the opportunity to see how a business operates. WCV will participate in the Internship Program to obtain interns for the client companies.

Faculty members have been approached to test their interest in becoming involved with the MESBIC and have indicated a desire to participate. They would receive a reduced fee for their consulting service as part of their contribution to community service. The areas of expertise that would be provided include accounting, marketing & sales, finance, computerized business systems, management and business plan writing. This tie-in will provide Western Capital Ventures with additional expertise and the individual firms with excellent assistance at low cost.

Operating Expenses

The initial investors will receive distributions from the profit on operations on a pro-rata basis (number of shares held divided by the total number of shares outstanding) after the second year. This amount, as stated earlier, could increase should WCV find that its estimate of equity write-offs is too high.

Analysis of the Need for the MESBIC

San Diego is in great need of an investment company that specializes in the disadvantaged business community. Currently there are less than five SBICs active in the San Diego area, and none investing in minority-owned businesses. Over 25% of the population of San Diego County is minority, and over 60% of Southeast San Diego is minority. These two targets comprise an enormous market that can be developed with the special focus of WCV.

The problem of lack of capital for minorities is a national one. In the United States minorities own 7% (843,000) of the 12 million business firms, according to census figures of 1982. That same year those firms together earned $45.3 billion while all U.S. businesses combined had sales of $4.3 trillion. In other words, minorities who comprise 20% of the nation's population own 7% of the nation's business and are able to produce only 1% of its total revenue.

It is clear that there exists a significant and growing demand for venture capital and the associated consulting services in this community. The economic and community benefits Western Capital Ventures can provide will increase in significance as these existing resources are encouraged and developed.

Historic Results from MESBICs

According to information published by the National Association of Investment Companies, a private industry assistance organization, specialized SBICs (MESBICs) have had an enormous impact on both large and small businesses. It lists the following accomplishments:

- At least 50% of the companies listed in Black Enterprise Magazine's Top 100 Black Businesses have used SBIC funding.

- Over 7,000 Hispanic, Black, Asian, and Native American owned businesses - from small retail shops to large corporations - have used SBIC venture capital.

- Total investment between 1978 and 1985 of $462 million financed 4,422 minority-owned businesses, which in turn created or sustained over 82,000 jobs; much of this employment benefited minority youth. These businesses produced over $4.5 billion in revenues.

Target Investments

Many of the client companies of Western Capital will be those businesses that have been started by determined minority individuals with an entrepreneurial personality - an individual who makes things happen. These businesses will be struggling along with annual revenue of approximately $75,000 to $150,000, very few full-time employees, if any, a poor cash flow position, a small salary for the owner and no capital to improve the position of the company. The client company will have only a small amount of assets to be used as collateral, and the company's owner will not have enough personal assets to collateralize a bank loan.

Other client companies will be more established with revenue ranging from $200,000 to $300,000. These companies will have a few full-time employees but will have reached their peak in growth due to an undercapitalized start-up, which means the business has no capital to grow any further. Typically, the client companies were started by tapping the personal savings of the owner and/or his relatives and friends. All of which amounted to a meager source. The important characteristic of both groups of client companies is that they cannot meet the requirements of banks to obtain bank financing.

These client companies are too risky for banks and they will be coming to Western Capital Ventures for financing. WCV will select from these companies the ones considered by WCV to have the greatest potential for success. From these "high risk" companies, WCV will select its clients on the basis of ranking each company in the seven areas below. Of particular interest to WCV is the last item on the list. WCV will not invest in any company that is not receptive to advice and participation from WCV:

- a company with a product or service that has potential market acceptance.
- a company that has business management skills or access to it.
- a company that can or has the potential to produce the cash flow necessary to carry the debt load.
- a company in an industry in which the management of the MESBIC or its consultant staff is familiar.
- a company with growth prospects that can create an opportunity for capital gains for WCV.
- a company with the potential to generate jobs.
- a company whose management is receptive to advice and participation from Western Capital.

These companies will be found through a carefully controlled referral system based on existing community contacts and a public relations program developed in conjunction with minority oriented media. These referrals will be from banks, Savings & Loans, the Neighborhood Development Center, attorneys, public accountants, and other qualified sources.

Competition and Risks

Currently there are virtually no investment firms taking advantage of the opportunities that exist within the minority-owned business segment of San Diego. This large vein of entrepreneurial energy can be developed through the direct capital and business knowledge Western Capital Ventures can infuse into the individual companies. There is also no firm in San Diego exploiting the low cost funds available from the Small Business Administration to the extent Western Capital intends to develop them.

Instead of experiencing competition, WCV can expect to share a very cooperative environment that characterizes the SBIC industry. As a result of this cooperative atmosphere, WCV expects to be able to take advantage of opportunities that involve other SBICs in its deal flow. When a qualified business has financing requirements that exceed WCV's capability, WCV will be able to invite other SBICs or MESBICs to participate, allowing WCV to invest in companies that require more capital than WCV might be willing to provide on a stand-alone basis. Or when WCV is unable to provide financing to a qualified business, it can refer the firm to another SBIC in the San Diego area. The reverse is also true in that other SBICs can refer investment opportunities to WCV. This cooperative environment also lends itself to sharing of information and ideas, which can only enhance WCV's potential for achieving its goals.

Although WCV does not have a competitor in the San Diego area, and WCV will experience cooperative relationships with other SBICs, there is no guarantee that WCV will be able to achieve its goals. WCV cannot guarantee that investors will receive dividends or that they will have all or part of their investment returned to them. However, careful selection and monitoring of client companies and prudent management practices should enable WCV to attain those goals.

Strategy for Raising Capital

Western Capital Ventures plans to raise $2,000,000 through the sale of series A preferred shares of stock. This will be done in two phases. The first phase will be to raise a minimum of $1,000,000 from investors who have indicated support of the formation of a MESBIC and have expressed enthusiasm for the MESBIC's goal of assisting the undeserved minority community. The second phase will be to raise an additional $1,000,000 from individuals, for-profit, and not-for-profit businesses in the San Diego area. These two groups constitute the initial investors anticipated by WCV.

The initial capital structure of Western Capital will be:

- 10,000,000 shares of Preferred stock.
- 500,000 shares of common stock.
- 2,000,000 shares of series A preferred stock will be issued to the initial investors @ $1 per share. Series A preferred shares will have preference over common shares in dividends, liquidation and voting rights. Another series of preferred shares (series B) will later be issued to the Small Business Administration @ $1 per share. Series B shares will not have voting rights.
- 125,000 shares of common stock will be issued to the MESBIC's founder and president, Harold Brown at the discretion of the Board of Directors. Common shares will have voting rights. The remaining portion of common shares will be held in reserve as a management incentive program. Mr. Brown will have the option to purchase an additional 10% of the common shares at a price to be determined by the Board of Directors.

This structure will provide up to $2,000,000 in investable capital immediately, and provide downstream flexibility for growth and emergency response.

In addition, $10,000 is required for activities related to the formation of the company. It is hoped that the direct supporters will make these funds available. This budget includes $5,000 for the licensing fee and an additional $5,000 for organization and travel expenses. This figure is low because considerable legal costs will be covered by pro-bono legal work pledged by the law firm of Luce, Forward, Hamilton & Scripps. Pro-bono accounting services during the formation of the company will be provided by Coopers & Lybrand.

MESBICs are entitled to up to four tiers of subsidized leverage from the Small Business Administration (SBA). There are two types of leverage - preferred stock and debentures. A MESBIC may choose to utilize any of the four tiers or it may utilize all four tiers. The first two tiers are tied to preferred stock while the second two tiers are tied to debentures. If a MESBIC decides to utilize all four tiers of financing, one of the tiers must be tied to equity or totally in subordinated debt.

The SBA purchases preferred stock from MESBICs at a 3% subsidized dividend rate. The first tier of preferred stock is available when the MESBIC has invested 65% of its private capital in client companies. The second tier of preferred stock is tied to an SBA equity requirement. This means that the MESBIC must have some of its funds in equity investments to be eligible for the second tier of financing.

Debentures, which make up the third and fourth tiers of financing, are available from the SBA. Debentures carry a 3% subsidy. This means that the MESBIC borrows funds at three percentage points below the treasury rate for the first five years. For the next five years, the treasury rate at which the MESBIC borrowed the funds, becomes effective. Debentures, therefore, are subsidized for five of the 10-year term.

Plan of Operation

Structure

Western Capital Venture's investment fund will initially consist of $2,000,000 in invested capital. Within the first year of operations an additional $2,000,000 in capital will be obtained through preferred stock from the Small Business Administration. The fund will have access to up to four times the investors' private capital available in the form of preferred stock and debentures backed by the United States Government (see Relationships with the Federal Government, below). WCV will generally be making investments in proposed or existing companies that satisfy the criteria listed below.

In the early stages of Western Capital, debt instruments will be the primary vehicle for investments in client companies. In cases where debt instruments are provided to a client company, WCV will assume a small equity position in that firm when possible and appropriate. Occasionally, equity investments will also be made in promising situations where the client company does not have the cash flow to support debt.

Expected rate of return from each investment in the client companies and Western Capital's anticipated exit will be defined at the inception of each investment. In the case of debt, interest only will be charged on loans that are not fully amortized, generally at the rate of prime plus two percentage points. Loans to the client companies will be serviced on the client company's balance sheets through a sinking fund. In this manner, each company builds a reserve that will be used to liquidate the loan or at the least avoid the need for additional infusions of capital.

Equity investments made in client companies are generally anticipated to be liquidated within seven years, with a target withdrawal of four years. This means that the term of commitment to the client investment by WCV will be expected to be about seven years, but for feasibility analysis the criteria will be that WCV can exit its investment in four years.

The mix of investments will be:

	initial	long-term
Debt	90%	65%

These investments will be four to seven year debt with interest only payment and sinking fund amortization. Firms that qualify for this debt will be asked to deliver equity to the company of between 5-15% of the value of the qualifying firm. These firms will have an opportunity to buy out WCV's investment at any time in the future.

Equity Only	**10%**	**35%**

These investments are exceptional opportunities where little immediate repayment is possible, but long-term potential is perceived. Usually the investment will be for 30-49% of the equity of the company

Relationships with the Small Business Administration

It is imperative to understand how the Federal Government through the Small Business Administration encourages formation of specialized Small Business Investment Companies to attain the policy goal of providing significant economic development without adding to government expenditures.

The incentive for the creation of the investment company is that a licensed SBIC may borrow money, issue debenture bonds, or in the case of MESBICs, sell preferred stock. Western Capital may borrow up to three times, and in some cases, four times the invested private capital provided by the investment group. For MESBICs, the SBA has provided a special vehicle for low cost capital.

Western Capital Ventures, Inc. will sell to the SBA preferred, non-voting stock at a minimum dividend rate (currently approximately 3%). This stock has a ten-year maturity, with no prepayment allowed for five years. Dividend payments are due semiannually. It is WCV's intention to sell $2,000,000 in preferred stock to SBA within the first year of operation.

Oversight of the Portfolio/Operations

The daily business of the investment company will be handled by the President with the assistance of the Vice President of Operations and the Executive Secretary. The Board of Directors will form the general policy for conducting the business. The investment activity, both analytical and developmental, will be handled by the staff and the consultants. All portfolio decisions will be referred to the Investment Committee.

The Investment Committee is a critical part of the success of WCV's operations. The committee will consist of selected persons from the business community who are knowledgeable and have an extended background in analyzing investment opportunities. Board members along with the president will identify persons employed at banks and savings and loan companies who have the necessary background. Seaport Ventures, a venture capital firm and an advisor to the president of WCV has agreed to participate in the selection of companies. It is anticipated that the investment committee will be either voluntary or compensated with stock of the client companies where WCV has an equity position. The committee will review all recommended investments. In addition, the Investment Committee will conduct the quarterly valuations of the investment portfolio before they are reviewed by the Board of Directors.

The Operations Vice President will coordinate the ongoing daily activities involving the material needed for the operation of the Investment Committee. The President will actively interface with the Investment Committee and report to the Board of Directors on the activities of Western Capital Ventures.

Organizational Chart

Board of Directors
|
Investment Committee
|
President
|
Executive Secretary
|
Consultants

Anticipated Results

For the Investor in Western Capital it is recognized that two objectives are sought by an investment in a MESBIC. First, that through the development of a profitable portfolio of client companies, a return on the investments will be produced for the investors. Management believes that through careful management and sound investment criteria, reasonable profits will be realized by investors in the third year of the MESBIC's existence. (See Balance Sheet dividend payout on Page 22 and Cash Flow Analysis on page 23.) Second, that the mission of increasing minority employment and broadening the minority economic base be reached. The Management of Western Capital is committed to this ideal and expects to succeed at that task.

Investment criteria for each investment Western Capital makes in a client company will be based on anticipated rates of return. For debt investments, there should be a 95% probability that the company will be able to support the debt service and that the principle can be repaid in part or in total within five years. Further, the Investment Company will attempt to secure 5% to 15% of the equity in the client company with the expectation that at some point in the future, the company will either produce a future stream of income for Western Capital to participate in or expand the capital structure to allow WCV to liquidate its position. Target returns for this investment vehicle is 15% per annum.

On equity investments, Western Capital will take a 20-49% equity position in a client company. Targeted returns for equity investments will be 25% compounded annually, with an anticipated life of the investment of about seven years. Each specific proposal, however, will be written with the planned option of WCV liquidating its investment after four years.

From a social point of view, the mission of the MESBIC is to invest in the undeserved business community. To that end, by the end of the second year, despite a purposeful and deliberate pace, over $4 million is invested in debt and equity in San Diego. In addition to the anticipated return to investors the contribution to the economic health of the community through jobs, generation of consumer purchasing power, and distribution of wealth through enterprise are significant arguments for the creation of this MESBIC.

Conclusion

It has been shown above that Western Capital Ventures, Inc. can perform a recognized social mission while returning a reasonable profit to its investors. Further, it is clear that historic models from other SBICs are available to pave the way for success here in San Diego. With the high quality of support expected from the investors and the business community at large, management clearly envisions that this MESBIC represents a significant social step and an excellent business opportunity.

For more information on this proposal write to:

MESBIC Project
P.O. Box 12441
San Diego, CA 92112-2441

or call: Harold K. Brown (619) 594-6437

Appendix

Milestones Anticipated

For the projection of the success of Western Capital Ventures, Inc. certain premises are made through the establishment of milestones to be reached. These milestones are implicit in the projection and include:

- Attainment of the initial $2,000,000 in investment capital prior to the first month of operation.
- The first investments in portfolio companies made by the end of the fourth month of operations
- The first $2,000,000 in Preferred Securities issued to the Small Business Administration by month eleven; an additional $2,000,000 will be taken by month 25; it is projected that these securities will be issued at the rate of 3%.
- That there will be a steady inflow of portfolio investments expected; before the end of the first year 65% of available funds will be committed to client companies prior to the issuance of the first $2,000,000 in SBA debt

Assumptions for Financial Projections

The following assumptions are made for the fund itself. These assumptions are reasonably conservative, and reflect the experience of similar programs as much as it is possible to determine.

Assumptions for the Fund

- 92% success rate for debt placements
- 9% rate of return on all cash held for investment (this is the approximate current CD rate)
- 15% simple interest on all debt issued to clients
- 40% success rate on all equity investments
- 25% average rate of return on equity investments
- 5% annual inflation rate on expenses
- 84 month lag time before equity gains realization
- anticipated equity return on debt investments 10% of funds advanced
- all SBA notes will be renewed every five years
- 12 point spread on first $4 million of leveraged (SBA) funds
- 5 1/2 point spread on second $4 million of leveraged (SBA) funds for first five years.

Operating Costs

The following assumptions are made for the operating budget.

Operating Costs (first year)	Monthly	Annual
President		$ 72,000
Executive Secretary		25,000
employee fringe (13%)		9,800
employee benefits (5%)		3,700
Office Rent	$ 800	9,600
Utilities	200	2,400
Telephone	200	2,400
Professional Services		4,800
Travel		5,000
Conferences & Entertainment	400	4,800
Lease of Equipment		4,800
Dues & Subscriptions		3,400
Misc. Office & Postage	400	2,400
Contingency		15,000
		$165,100

Notes on the Operating Budget:

The Contingencies that are budgeted include the following items. It is not known at this time to what extent these activities will impact Western Capital Ventures, but is expected that there will be some costs incurred. Contingency items include:

Part-time clerical assistance
Insurance programs for staff
Collection costs
Incidental consulting charges
Miscellaneous incidental expenses

WESTERN CAPITAL VENTURES, INC.
CASH BASIS BALANCE SHEET
Operating Years 1 & 10

	- 1 -		- 10 -	
ASSETS:				
Cash & Cash Equivalents	2,236,705	55.4%	1,147,221	10.3%
Equity Positions	0	0.0%	4,600,000	41.3%
Notes Receivable	1,800,000	44.6%	5,400,000	48.4%
Total	4,036,705	100.0%	11,147,221	100.0%
LIABILITIES & EQUITY:				
Liabilities				
SBA Notes Payable - Tier 3	0	0.0%	2,000,000	17.9%
SBA Notes Payable - Tier 4	0	0.0%	2,000,000	17.9%
Total	0	0.0%	4,000,000	35.9%
Equity				
Preferred - SBA Series B	2,000,000	49.5%	4,000,000	35.9%
Preferred - Series A	2,000,000	49.5%	2,000,000	17.9%
Retained Earnings	51,705	1.3%	4,182,221	37.5%
Cumulative Series B Dvds	(15,000)	-0.4%	(1,035,000)	-9.3%
Cumulative Series A Dvds	0	0.0%	(2,000,000)	-17.9%
Total	4,036,705	100.0%	7,147,221	64.1%
Total	4,036,705	100.0%	11,147,221	100.0%

STATEMENT OF ASSUMPTIONS

SBA Preferred Stock Tiers 1 & 2	3.00%
SBA Note (1st 5 yrs) Tier 3 & 4	6.50%
SBA Note (aftr 5 yrs) Tier 3 & 4	9.50%
Equity Default Rate	60.00%
Nonperfoming Debt Rate	8.00%
Inflation	5.00%
Interest on Notes Receivable	15.00%
Interest on Cash	9.00%
Equity Return (simple)	376.75%
(compounded)	25.00%

Nonperforming debt does not accrue interest and principal is not reduced.

Equity defaults are reflected as a reduction in gains. A deferral period of 7 years is assumed for any gains on the equity investment.

Income and Expenses are incurred evenly throughout the year.

Equipment and any potential depreciation is assumed to be immaterial in amount.

WESTERN CAPITAL VENTURES, INC.
CASH BASIS BALANCE SHEET
Operating Year 1 through 10

Year	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -
ASSETS:										
Cash & Cash Equivalents	2,236,705	866,440	872,577	1,339,463	2,289,751	1,818,443	1,333,742	906,313	1,268,131	1,147,221
Equity Positions	0	500,000	2,000,000	3,000,000	3,500,000	3,720,000	3,940,000	4,160,000	4,380,000	4,600,000
Notes Receivable	1,800,000	2,800,000	3,300,000	3,800,000	4,300,000	4,520,000	4,740,000	4,960,000	5,180,000	5,400,000
Total	4,036,705	4,166,440	6,172,577	8,139,463	10,089,751	10,058,443	10,013,742	10,026,313	10,828,131	11,147,221
LIABILITIES & EQUITY:										
Liabilities										
SBA Notes Payable - Tier 3	0	0	0	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
SBA Notes Payable - Tier 4	0	0	0	0	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total	0	0	0	2,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Equity										
Preferred - SBA Series B	2,000,000	2,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Preferred - Series A	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Retained Earnings	51,705	241,440	417,577	554,463	674,751	863,443	1,038,742	1,646,313	3,143,131	4,182,221
Cumulative Series B Dvds	(15,000)	(75,000)	(195,000)	(315,000)	(435,000)	(555,000)	(675,000)	(795,000)	(915,000)	(1,035,000)
Cumulative Series A Dvds	0	0	(50,000)	(100,000)	(150,000)	(250,000)	(350,000)	(825,000)	(1,400,000)	(2,000,000)
Total	4,036,705	4,166,440	6,172,577	6,139,463	6,089,751	6,058,443	6,013,742	6,026,313	6,828,131	7,147,221
Total	4,036,705	4,166,440	6,172,577	8,139,463	10,089,751	10,058,443	10,013,742	10,026,313	10,828,131	11,147,221

WESTERN CAPITAL VENTURES, INC.
CASH BASIS BALANCE SHEET
Operating Quarter 1 through 8

Quarter	- 1 -	- 2 -	- 3 -	1st Year	- 5 -	- 6 -	- 7 -	2nd Year
ASSETS:								
Cash & Cash Equivalents	1,998,925	1,413,576	836,756	2,236,705	2,048,468	1,864,621	1,675,263	866,440
Equity Positions	0	0	0	0	0	0	0	500,000
Notes Receivable	0	600,000	1,200,000	1,800,000	2,050,000	2,300,000	2,550,000	2,800,000
Total	1,998,925	2,013,576	2,036,756	4,036,705	4,098,468	4,164,621	4,225,263	4,166,440
LIABILITIES & EQUITY:								
Liabilities								
SBA Notes Payable - Tier 3	0	0	0	0	0	0	0	0
SBA Notes Payable - Tier 4	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0
Equity								
Preferred - SBA Series B	0	0	0	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Preferred - Series A	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Retained Earnings	(1,075)	13,576	36,756	51,705	128,468	209,621	285,263	241,440
Cumulative Series B Dvds	0	0	0	(15,000)	(30,000)	(45,000)	(60,000)	(75,000)
Cumulative Series A Dvds	0	0	0	0	0	0	0	0
Total	1,998,925	2,013,576	2,036,756	4,036,705	4,098,468	4,164,621	4,225,263	4,166,440
Total	1,998,925	2,013,576	2,036,756	4,036,705	4,098,468	4,164,621	4,225,263	4,166,440

WESTERN CAPITAL VENTURES, INC.
CASH FLOW ANALYSIS
Operating Year 1 through 10

Year	- 1 -	- 2 -	- 3 -	- 4 -	- 5 -	- 6 -	- 7 -	- 8 -	- 9 -	- 10 -
Revenues										
Interest on Notes Receiveable	93,150	317,400	420,900	489,900	558,900	608,580	638,940	669,300	699,660	730,020
Interest on Cash and Cash Equivalents	140,608	176,064	77,980	78,532	120,552	206,078	163,660	120,037	81,568	114,132
Gains on Sale of Equity Positions	0	0	0	0	0	0	0	753,500	2,260,500	1,507,000
	233,758	493,464	498,880	568,432	679,452	814,658	802,600	1,542,837	3,041,728	2,351,152
Expenses										
President	72,000	76,000	79,800	83,790	87,980	92,378	96,997	101,847	106,940	112,287
Business Analyst	0	20,000	42,000	44,100	46,305	48,620	51,051	53,604	56,284	59,098
Executive Secretary	25,000	26,000	27,300	28,665	30,098	31,603	33,183	34,842	36,585	38,414
Employee Fringe	9,800	10,400	10,920	11,466	12,039	12,641	13,273	13,937	14,634	15,366
Employee Benefits	3,700	4,000	4,200	4,410	4,631	4,862	5,105	5,360	5,628	5,910
Interest	0	0	0	130,000	260,000	260,000	260,000	260,000	260,000	320,000
Office Rent	9,600	9,800	10,290	10,805	11,345	11,912	12,508	13,133	13,790	14,479
Utilities	2,400	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Telphone	2,400	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Professional Services	4,800	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Travel	5,000	4,400	4,620	4,851	5,094	5,348	5,616	5,896	6,191	6,501
Conferences & Entertainment	4,800	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Dues and Subscriptions	3,400	3,800	3,990	4,190	4,399	4,619	4,850	5,092	5,347	5,614
Lease of Equipment	4,800	5,000	5,250	5,513	5,788	6,078	6,381	6,700	7,036	7,387
Miscellaneous Office & Postage	2,400	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
Contingency	15,000	8,000	8,400	8,820	9,261	9,724	10,210	10,721	11,257	11,820
	165,100	179,900	209,895	350,390	491,409	502,980	515,129	527,885	541,279	615,343
	68,658	313,564	288,985	218,042	188,042	311,678	287,471	1,014,952	2,500,449	1,735,808
State Taxes	6,385	29,161	26,876	20,278	17,488	28,986	26,735	94,391	232,542	161,430
	62,273	284,402	262,109	197,764	170,554	282,692	260,736	920,561	2,267,907	1,574,378
Taxes	10,568	94,667	85,973	60,878	50,266	94,000	85,437	312,991	771,088	535,289
Total Cash from Operations	51,705	189,735	176,137	136,886	120,288	188,692	175,299	607,570	1,496,819	1,039,090
Other Cash Flow										
Net Change in Notes Recievable	(1,800,000)	(1,000,000)	(500,000)	(500,000)	(500,000)	(220,000)	(220,000)	(220,000)	(220,000)	(220,000)
Net Change in Equity Positions	0	(500,000)	(1,500,000)	(1,000,000)	(500,000)	(220,000)	(220,000)	(220,000)	(220,000)	(220,000)
Preferred Dvds - SBA Series B	(15,000)	(60,000)	(120,000)	(120,000)	(120,000)	(120,000)	(120,000)	(120,000)	(120,000)	(120,000)
Preferred Dvds - Series A	0	0	(50,000)	(50,000)	(50,000)	(100,000)	(100,000)	(475,000)	(575,000)	(600,000)
Net Change in SBA Pfd B Stock	2,000,000	0	2,000,000	0	0	0	0	0	0	0
Net Change in Tier 3 Notes Pay.	0	0	0	2,000,000	0	0	0	0	0	0
Net Change in Tier 4 Notes Pay.	0	0	0	0	2,000,000	0	0	0	0	0
Net Change in Pfd A Stock	2,000,000	0	0	0	0	0	0	0	0	0
Net Cash Flow	2,236,705	(1,370,265)	6,137	466,886	950,288	(471,308)	(484,701)	(427,430)	361,819	(120,910)
Cumulative		866,440	872,577	1,339,463	2,289,751	1,818,443	1,333,742	906,313	1,268,131	1,147,221

WESTERN CAPITAL VENTURES, INC.
CASH FLOW ANALYSIS
Operating Quarter 1 through 8

Quarter	- 1 -	- 2 -	- 3 -	- 4 -	1st Year	- 5 -	- 6 -	- 7 -	- 8 -	2nd Year
Revenues										
Interest on Notes Receiveable	0	10,350	31,050	51,750	93,150	66,413	75,038	83,663	92,288	317,400
Interest on Cash and Cash Equivalents	45,000	44,976	31,805	18,827	140,608	50,326	46,091	41,954	37,693	176,064
Gains on Sale of Equity Positions	0	0	0	0	0	0	0	0	0	0
	45,000	55,326	62,855	70,577	233,758	116,738	121,128	125,616	129,981	493,464
Expenses										
President	18,000	18,000	18,000	18,000	72,000	19,000	19,000	19,000	19,000	76,000
Business Analyst	0	0	0	0	0	0	0	10,000	10,000	20,000
Executive Secretary	6,250	6,250	6,250	6,250	25,000	6,500	6,500	6,500	6,500	26,000
Employee Fringe	2,450	2,450	2,450	2,450	9,800	2,600	2,600	2,600	2,600	10,400
Employee Benefits	925	925	925	925	3,700	1,000	1,000	1,000	1,000	4,000
Interest	0	0	0	0	0	0	0	0	0	0
Office Rent	2,400	2,400	2,400	2,400	9,600	2,450	2,450	2,450	2,450	9,800
Utilities	600	600	600	600	2,400	625	625	625	625	2,500
Telphone	600	600	600	600	2,400	625	625	625	625	2,500
Professional Services	3,000	600	600	600	4,800	625	625	625	625	2,500
Travel	2,000	1,000	1,000	1,000	5,000	1,100	1,100	1,100	1,100	4,400
Conferences & Entertainment	1,200	1,200	1,200	1,200	4,800	625	625	625	625	2,500
Dues and Subscriptions	850	850	850	850	3,400	950	950	950	950	3,800
Lease of Equipment	1,200	1,200	1,200	1,200	4,800	1,250	1,250	1,250	1,250	5,000
Miscellaneous Office & Postage	600	600	600	600	2,400	625	625	625	625	2,500
Contingency	6,000	4,000	3,000	2,000	15,000	2,000	2,000	2,000	2,000	8,000
	46,075	40,675	39,675	38,675	165,100	39,975	39,975	49,975	49,975	179,900
				31,902	68,658				80,006	313,564
				6,385	6,385				29,161	29,161
	(1,075)	14,651	23,180	25,517	62,273	76,763	81,153	75,641	50,844	284,402
Taxes				10,568	10,568				94,667	94,667
Total Cash from Operations	(1,075)	14,651	23,180	14,949	51,705	76,763	81,153	75,641	(43,822)	189,735
Other Cash Flow										
Net Change in Notes Recievable	0	(600,000)	(600,000)	(600,000)	(1,800,000)	(250,000)	(250,000)	(250,000)	(250,000)	(1,000,000)
Net Change in Equity Positions	0	0	0	0	0	0	0	0	(500,000)	(500,000)
Preferred Dvds - SBA Series B	0	0	0	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(60,000)
Preferred Dvds - Series A	0	0	0	0	0	0	0	0	0	0
Net Change in SBA Pfd B Stock	0	0	0	2,000,000	2,000,000	0	0	0	0	0
Net Change in Tier 3 Notes Pay.	0	0	0	0	0	0	0	0	0	0
Net Change in Tier 4 Notes Pay.	0	0	0	0	0	0	0	0	0	0
Net Change in Pfd A Stock	2,000,000	0	0	0	2,000,000	0	0	0	0	0
Net Cash Flow	1,998,925	(585,349)	(576,820)	1,399,949	2,236,705	(188,237)	(183,847)	(189,359)	(808,822)	(1,370,265)
Cumulative		1,413,576	836,756	2,236,705		2,048,468	1,864,621	1,675,263	866,440	866,440

RESUME

HAROLD K. BROWN

ADDRESS: 6304 Camino Largo
San Diego, California

TELEPHONE: (619) 287-6002 (Home)
(619) 584-6437 (Office)

BIRTHDATE: May 6, 1934

MARITAL STATUS: Married, two children

EMPLOYMENT

September 1980-present **Associate Dean for External Relations, College of Business Administration, San Diego State University**
Areas of responsibility include developing and maintaining relationships between the College of Business Administration and the San Diego business community and other organizations external to the University. Responsible for raising funds from the private sector; developing publications; coordinating the activities of the Business Alumni Association; coordinating activities with the media; developing programs that promote more effective communication among students, faculty administration, and the general external community.

July 1973-August 1980 **Director, Campus Information Systems, San Diego State University**
Responsible, under the President of the University, for the management of all personnel, equipment, and budgets relating to data processing at the University. Additional responsibilities included the management of the University's Institutional Research activities. Specific duties included directing the computer services that are provided to the instructional, administrative, and research components of the University; directing studies, which include the collection of statistical data to be used for effective management of the University; interfacing with the Division of Information Systems at the Office of the Chancellor on matters relating to data processing; directing the development of automated administrative systems and automated instructional support; directing the procurement of all campus electronic data processing equipment.

July 1972-June 1973 **Associate Dean of Planning, San Diego State University**
Responsibilities consisted of investigating the University's management effectiveness, and organizing and directing the Afro-American Studies Department while conducting the search for a permanent director.

September 1971-June 1972 **Assistant to the Vice President for Academic Affairs and Administration, San Diego State University**
Responsibility consisted of administrative problem-solving in the areas of academic affairs and administration. This included the responsibility for Afro-American Affairs, Educational Opportunity Program, Special Services, and Afro-American Studies; organized and developed the Afro-American Studies Program to department status. Was also responsible for the Affirmative Action Program during its first year at the University.

Harold K. Brown

RESUME

March 1969-August 1971 **Assistant Commercial Banking Officer, Marine Midland Bank, 140 West 125th Street, New York, NY 10027**

Commercial loan officer in the branch system; duties included all facets of commercial banking; credit analysis, customer relations, new business development, bank operations. Was responsible for evaluating commercial loan requests of small, medium, and large companies; handled customers' investments in certificates of deposit and commercial paper; made site visits to locations of small business customers.

July 1968-March 1969 **Executive Vice President, Floyd B. McKissick Enterprises, Inc., 360 West 125th Street, New York, NY 10027**

A company involved with the funding of minority-owned companies. Responsibilities included the formation of the company, planning and coordination of all company activities, and supervision of personnel.

July 1967-July 1968 **Deputy Director, Peach Corps, Connecticut Avenue, Washington, DC, ^NW**

Responsible under the Director for the organization and administration of the first Peach Corps program in Lesotho (a country in Southern Africa). Responsible for the supervision of 70 Peace Corps volunteers and the administration of the Education, Community Development, Health and Cooperative Programs. Specific duties included the supervision of 40 secondary school teachers who taught in various schools throughout Lesotho, and the supervision of the Peace Corps staff. Duties also included coordination of the Peace Corps program with Lesotho government officials.

July 1966-July 1967 **Director, Leadership Training Center, San Diego Office of Economic Opportunity, 1600 Broadway, San Diego, CA 92101**

This program, funded under the Economic Opportunity Act of 1965, was a year's course of study designed to train urban residents for leadership roles. It emphasized "community development" skills. Responsibilities were to develop the concept into a program, then administer the program. Specific duties included the development of a curriculum, budget, and recruitment and supervision of trainees.

September 1961-July 1966 **Teacher, San Diego Unified School District, Park and El Cajon Boulevards, San Diego, CA 92103**

Classroom teacher on the junior high level in the areas of Speech, Physical and Health Education, English, and Social Studies.

EDUCATION

University

Selected course work completed in the PhD program in Executive Management and Administration, Claremont Graduate School, Claremont, CA

1971 **Master of Business Administration**
Fordham University, New York, NY

1961 **General Secondary Teaching Credential;** graduate studies in speech pathology
San Diego State University

1959 **Bachelor of Arts**
San Diego State University

Secondary

1952 **William Penn Senior High School**
York, PA

HONORS

Congressional Distinguished Service Award, presented by Congressman Jim Bates, 1985
City's Proclamation of "Harold Brown Day," July 22, 1967
Outstanding San Diego Teacher, 1961
Who's Who in American Colleges and Universities, San Diego State University, 1959
Selected to the All State (Pennsylvania) Basketball team, 1952
Numerous awards for community service

MILITARY SERVICE

November 1954-November 1956, US Army, Honorable Discharge