

Task Force on Minority Businesses with Non-Minority Partners

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Final Task Force Recommendations

1. These guidelines cover any new MBE formed as a result of a joint venture between a minority business enterprise and a non-minority business enterprise seeking NMSDC certification of the new MBE.
2. MBE applicant must be able to document equity participation (other than sweat equity) in the venture and said participation must include investment timelines.
3. Utilize the National Association of Investment Companies (NAIC) to assist in the review of the joint venture (JV) structure and pricing. The National Association of Investment Companies is the industry association for investment companies dedicating financial resources to investment in an ethnically diverse marketplace. Collectively, NAIC members have over \$4 billion in private equity targeted to minority businesses. Pricing of deal must meet industry standards in terms of valuation process, provision for stock options and earn outs. Methodology and documentation must be provided during certification process (i.e. cash flow + multiples projections).
4. MBE applicant must already be a NMSDC certified business. The new business formed by the joint venture must represent an expansion of the existing MBEs business plan not a first time applicant for certification.
5. MBE applicant must be able to show 51% ownership in the new entity and demonstrate that if the company is sold he/she receives 51% of profits or liability. He/she must also demonstrate "Put" rights (mutually establish breakup price).
6. Distribution of profits is proportional to alleged ownership and if profits are reinvested then show proof.
7. MBE applicant must submit a business plan that outlines the MBE's role in the growth and expansion of the new business formed by the joint venture. The joint venture's business plan will serve as guide to recertification at anniversary date.
8. MBE agrees to provide annual statement of cash flow/distribution as part of recertification documents.
9. The NMSDC Growth Initiative should be considered as an option when investors are crafting an exit strategy.
10. The National Office of NMSDC shall seek external expertise in evaluating these transactions.

Benefits of New Guidelines

- Encourages joint ventures with the best and the brightest minority CEO by insuring that the CEO has prior experience as a CEO of a certified MBE.
- Insures that the MBE joint venture partner has a financial stake in the joint venture commensurate with what is presented to the marketplace.
- Positions the business plan of the new entity formed by the joint venture as a key document in the initial certification of the new entity and the recertification of the new entity thus requiring both partners to invest time and energy in the planning process.
- Insures that MBEs are positioned to create real wealth
- Increases probability that MBE will play a key role in the growth and expansion of the joint venture
- Enhances the credibility of the certification process for new businesses created as the result of a joint venture between MBEs and non-minority partners.