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SBA to take control of fund that owes money

Dallas Business Journal - by Jeff Bounds Staff writer

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The Richardson private-equity firm that controls what is supposedly one of the country's oldest investment funds dedicated to putting money in minority-owned businesses has agreed to let the **U.S. Small Business Administration** take control of the fund and liquidate it.

In papers filed this month in federal district court in Dallas, the SBA says the fund, Mesbic Ventures Inc., owes it \$23.8 million. The agency says in the filing that Mesbic has a greater-than-acceptable "capital

impairment" ratio of 121.34%, a measure of the fund's ability to repay its debt by comparing its realized and potential losses to its private capital.

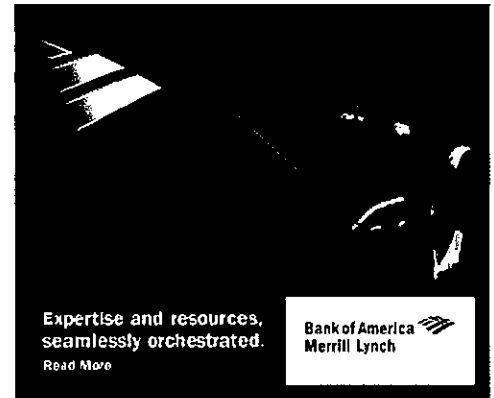
The SBA's filing says that number represents a "condition of extreme capital impairment."

The litigation does not take issue with the financial condition of Pacesetter Capital Group, which manages Mesbic, or any other fund that Pacesetter controls. Neither Pacesetter nor anyone associated with the firm or with Mesbic are accused of wrongdoing by the SBA's lawsuit in connection with Mesbic's demise.

In an e-mail, Don Lawhorne, president and CEO of Pacesetter Capital, says that Mesbic's liquidation "has no operational and/or legal impact" on Pacesetter's other small-business investments or its other economic development efforts.

"We have consistently enjoyed a good working relationship with the SBA, and (we are) looking forward to helping the SBA with (Mesbic) in any way necessary," his e-mail says.

The SBA's legal team at the U.S. Attorney's Office in Dallas declined to comment.



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Formed in 1970, Mesbic is what's known as a Small Business Investment Company, or SBIC, meaning it is licensed by the SBA to invest in small companies and is therefore regulated by the agency. SBICs like Mesbic that make debt investments can in turn get government debt to use in investments in conjunction with private capital that they raise from investors. Mesbic also made equity investments, according to Securities and Exchange Commission filings.

Lawhorne says the SBA's takeover of Mesbic is associated with the agency's recent approval of Pacesetter's plan to merge two other SBICs that Pacesetter manages, Alliance Enterprise Corp. and Power Equities. Pacesetter earlier this year merged those two funds into a new entity, Pacesetter SBIC Fund Inc., with a little more than \$100 million in assets under management, Lawhorne says.

"With three funds, you do three audits. If you consolidate them, you do one audit," he says in an interview. "We eliminated the impairment."

'Increasingly impaired'

In his e-mail, Lawhorne says Mesbic, which was the smallest of the three funds that Pacesetter operated, "had become increasingly impaired during the past three years and required another \$7 million to \$10 million of new private capital to be included in the merger. Unfortunately, we were unable to raise the additional capital against the backdrop of the financial markets tsunami of the past 18 months."

The merger of Alliance Enterprise and Power Equities included an infusion of some \$10 million of a planned \$20 million round of new capital, according to Lawhorne. That \$10 million came from San Diego, Calif.-based Wells Fargo Community Development Corp.

According to Lawhorne, Mesbic had two major problems. One, the companies into which it had made debt investments fell behind on their payments, which meant less cash flow.

In addition, he adds, Mesbic last year had planned "exits," or cashing in of its investments, worth about \$20 million. Of those exits, some \$15 million represented initial public offerings. The other \$5 million represented sales of companies or refinancings of their debt and equity.

But the financial markets shut down, he adds. "That blew out our liquidity."

Bill Siegel, a shareholder at Cowles & Thompson in Dallas who is not affiliated with the Mesbic matter, says the chances are that the court-appointed receiver in the case "will take control over Mesbic's assets and sell them."

The appointment of the receiver should result "in an orderly liquidation," he adds.

jbounds@bizjournals.com | 214-706-7122

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