

Financing for Socially Responsible INVESTMENT-Companies

FINAL REPORT

COMMUNITY ECONOMIC DEVELOPMENT PROJECT

by

Carol Major

When I began the CED Masters program at New Hampshire College (NHC) in the fall of 1984 I was working for the Center for Economic Revitalization (CER) in Montpelier, Vermont. They publish three newsletters which are about social investing, Good Money, Catalyst and Netback Quarterly. I was in charge of managing the subscribers as well as writing articles and editing the newsletters. I had a regular column in Good Money in which I put together model stock portfolios and wrote articles for Catalyst about penny stocks. I enjoyed doing this and wanted to learn more about business and how to create socially responsible businesses in a rural area that could provide year round employment to Vermonters at a reasonable wage. The president of CER, Ritchie Lowry, was supportive. His son Peter Lowry and I enrolled in NHC. It was understood that a share of any profits our CED projects generated would be returned to CER. Thus, in addition to a more highly skilled staff CER had the potential to make more money.

In December 1984 Peter Lowry and I formed a partnership, called People & Prosperity, for the purpose of developing businesses. This was done so we would be recognized as a separate entity from CER.

People & Prosperity's first project was to form a corporation, the East Burke Appropriate Development Corporation, and purchase a cross-country ski resort in the Northeast Kingdom of Vermont. We chose a project in this area for several reasons: 1) the area has the highest unemployment rate in the state 2) the per capita income is the lowest in the state, and 3) many of the jobs are seasonal. We had been working with a local realtor who told us about the Darion Inn in East Burke. It was just what we were looking for. It was a 23 room bed and breakfast inn with 7 principal buildings and 4 auxiliary structures on 650 acres of open and wooded land. We planned on operating the inn and restaurant on a year-round basis, the ski touring center would be open during the winter months, we would log the property during the summer and fall for firewood. We were going to have a produce and herb garden which would supply the restaurant, with the excess being sold to a local farmers' market. One of

the barns had a theatre in it which would be available to local groups to use and also would be rented out for conferences. We already had interest from the Money and You organization for the use of the theatre and conference bookings for rooms. We planned to target tour groups and conferences in our marketing campaign.

The property was listed for sale for \$1,250,000. We decided not to negotiate on the price but to get a six month option on the property. On December 20, 1984 the owner of the property, Richard Yerkes, agreed to a 120 day option in exchange for a promissory note in the amount of \$10,000. The agreement was entered into by People & Prosperity as we had not wanted to form a corporation to develop the business until we had an agreement. The note was due and payable only in the event that People & Prosperity did not exercise the option to buy on or before April 20, 1985.

All was going well in February. We had our management team in place and were pursuing financing. The owner was willing to finance \$700,000 at 10% for 10 years, we were going to apply at a local bank for a first mortgage and had an investor we were talking to about putting up the equity. The realtor began to push us to sign a purchase and sales contract. We told him all of the financial pieces were not in place yet and we had until April 20th to commit ourselves. By mid-March we still had not committed. The realtor called Peter at home and said he realized we were having problems and offered to tear up the note and option if we would allow him to put the property back on the market. Peter and I decided it was a good idea and the next day agreed. We sent a letter to Mr. Yerkes accepting the offer. We decided to do so not only because the offer relieved us of our financial obligation of \$10,000 and having a deadline to meet but also because we had read in the Burlington Free Press an article on the ten most hazardous waste sites in Vermont. The article mentioned one of the sites was on Darling Hill in Lyndonville. The Darion Farm also is on Darling Hill and upon investigation found it was only down the road. We went to the State Water Resources Department and were told that testing had not been completed yet and a full report would not be completed until fall. The Darion Farm's well was 150' below the level of contamination and there was no guarantee that contamination was not spreading toward the inn through sand eskers.

Sixteen days after our letter to Mr. Yerkes accepting his offer we recieved a letter from his attorney stating that he had never made such an offer and we were being held responsible for the \$10,000. We hired

an attorney who called the realtor. She asked him if the property was back on the market and he said that it was. If in fact we were being held responsible for the note, then the property should have been off the market until the exclusive option expired on April 20th.

The current status of this project is that we are due to go to trial on May 1, 1986. The realtor denies making any statements to our attorney. She will now have to be a witness and will be unable to represent us because of it. We feel the property owner should have known about the dump and did not tell us. Also, because we accepted Mr. Yerkes offer did not mean we were backing out of the project it just took off time and a financial obligation. Since this was our first project we wanted to proceed slowly. We learned to always have contingencies in a contract so you are able to get out if necessary. Also to hire an attorney at the beginning of a project to advise on legal matters before you are forced to hire one because of problems. And no matter what the project is give yourselves time. Too, we should have had the corporation sign the note that way we would not be personally liable. The corporation had no assets and we could have declared bankruptcy.

The second project People & Prosperity was involved in was Clean Air Technologies. This was a company in the Northeast Kingdom who was looking for capital to build a factory there. It was going to be worker owned and have a wage scale above the minimum wage of \$3.35/hour. The product they were going to manufacture was a "catalyst" which could virtually stop acid rain. It was a simple device invented by Ray Clark, Jr. It is a product which could be used in your car, wood stove or in the large smoke stacks out west to take the particulate and hydrocarbons out of smoke. It is called a catalyst because it uses itself up and needs to be replaced every year or so thus creating a repeat market. Mr. Clark had offers from West Germany and Canada to buy the technology but he wanted to keep it in the United States. He also had offers from major oil and pollution control companies to buy it. He said he did not want to get rich he just wanted to produce a good product in an area that needed the employment. He was also afraid that the major companies wanted to buy the technology not to use but to shelve it because it threatened their market.

The investment capital needed was \$598,500. We thought that through the newsletters that CER publishes we could raise some of the capital. I wrote an article for Catalyst and received about two dozen inquiries. Before I replied I contacted a securities lawyer to

find out if People & Prosperity could legally receive a commission for finding investors. The attorney contacted the State Banking and Insurance Commissioner. He said that with the type of offering they were making, investors could not be found through a third party and that they would also be in violation if more than 35 sophisticated investors had been contacted. The commissioner wanted to know who People & Prosperity was and what our other business involvements were. We were told that we, and CER, were under investigation and were to cease all business with Clean Air Technologies. We were not allowed to turn over any of the names of potential investors we had. We told the State that we did not have to register as investment advisors as we do not make recommendations, we are only information providers. The State has told our attorney that the case has been dropped, but we have received no written report of that.

By experiencing this case we learned to not only know the product and people well but to know the securities rules under which a corporation has filed. Had someone invested who had heard about the company through me first, if the company went bankrupt, the investor might have tried to sue me.

After going through two unsuccessful projects out of town I decided that I should concentrate on something within CER. Peter decided not to finish school for personal reasons and People & Prosperity was dissolved. I was in charge of developing a new product that would bring money into the business. I had been working on corporate research for three years which had developed into something that was marketable on its own. To test the idea I talked to a religious organization in Burlington about screening their stock portfolio for three social factors: abortion, South Africa and nuclear weapons. The reports were hand typed and included issue papers on their three issues. They were very pleased. Because of its success I am currently pursuing the idea of forming a subsidiary to do corporate audits. They will be put on a computer data base and be marketed to unions, pension funds and individuals. The subsidiary has a securities lawyer and is looking into the possibility of raising capital through a public stock offering. So far things are going well. I have a research assistant working with me who is as committed as I am to making this project work.

PEOPLE & PROSPERITY

People & Prosperity, formed by Carol Major and Peter Lowry, is a registered general partnership in Vermont. As community economic development entrepreneurs, People & Prosperity is guided by the following principles:

1. To create profitable, self-sustaining businesses with the potential for future growth;
2. To create year-round jobs at reasonable pay scales for community residents.
3. To attract out-of-state capital and keep it in the local community.
4. To enable workers to build equity in their jobs through stock purchase and ownership.
5. To utilize land and renovate historical structures in a responsible way.
6. To create resources that can be used by the residents of local communities.

Biographies

Carol Major is a native Vermonter and a worker-owner at the Center for Economic Revitalization, Inc. in Montpelier, Vermont. The Center publishes newsletters (including the nationally acclaimed GOOD MONEY) and provides consulting services to investors and financial professionals who wish to combine social responsibility with good economic return. She works as a Senior Financial Analyst and is pursuing a Masters Degree in Community Economic Development at New Hampshire College.

Peter Lowry has been General Manager, Vice-President and Secretary of the Center for Economic Revitalization, Inc. since its inception in 1982. He is also pursuing a Masters Degree in Community Economic Development at New Hampshire College.