

## Offering Circular

**\$184,520,000**

(Approximate)

# U.S. Small Business Administration

**Guaranteed 4.120% Debenture**

**Participation Certificates, Series SBIC 2004-10 A**

*Evidencing Fractional Undivided Interests in a Pool of 4.120% Debentures Due March 1, 2014 Issued by*

## Small Business Investment Companies

*Distributions of interest payable March 10 and September 10, commencing September 10, 2004*

### The Certificates:

The U.S. Small Business Administration Guaranteed 4.120% Debenture Participation Certificates, Series SBIC 2004-10 A.

- The Certificates represent fractional undivided interests in a pool of debentures which will be issued, simultaneously with the Certificates, by small business investment companies licensed by the U.S. Small Business Administration, an independent agency of the United States.
- The Certificates are issued by SBA, through its agent JPMorgan Chase Bank, as Trustee.

### SBICs:

Small Business Investment Companies, licensed by the U.S. Small Business Administration.

### The Pool:

The Pool will be composed of \$184,520,000 aggregate principal amount of one hundred and seventeen 4.120% debentures to be issued on or about March 24, 2004, by forty-five SBICs.

### Payment Dates:

Payment of interest on the debentures in the pool will be made on each March 1 and September 1, commencing September 1, 2004.

### Distribution Dates:

Distributions of interest will be made on the Certificates, on each March 10 and September 10, commencing September 10, 2004.

Each debenture is scheduled to mature on March 1, 2014, and final distribution in retirement of the Certificates is scheduled for March 10, 2014.

Capitalized terms used on this page and in this Offering Circular have the meanings given to them in the text of this Offering Circular. SBA is guaranteeing the timely payment of principal and interest when due on the debentures and the timely pass-through of such principal and interest to Holders of the Certificates.

**The full faith and credit of the United States is pledged to honor SBA's Guarantee. See "Full Faith and Credit Guarantees."**

The principal amount of a debenture in the Pool will be immediately due and payable when there is an event of default by an SBIC and SBA accelerates the debenture. When such an acceleration happens, SBA will make a payment pursuant to its Guarantee of 100% of the principal amount of the debenture together with accrued interest to the next Payment Date. The amount of any acceleration payment will be distributed pro rata to the Holders of the Certificates on the Distribution Date for such Payment Date. See "Acceleration of Debentures."

An SBIC currently has the option to prepay its debentures, in whole but not in part, on any Payment Date on or after September 1, 2004, initially at a prepayment price of 105% of the principal amount of the debenture, together with accrued interest. The prepayment price decreases by 1% on each September 1 payment date thereafter until reaching a prepayment price of 100% of the principal amount of the debenture on or after September 1, 2009, together with accrued interest. The amount of any Optional Prepayment will be distributed pro rata to the Holders of the Certificates on the Distribution Date for such Payment Date. See "Optional Prepayment of Debentures."

	Price to Public(1)	Underwriting Discount	Proceeds of Offering(1)(2)
Per Certificate	100%	0.500%	99.500%
Total(3)	\$184,520,000.00	\$922,600.00	\$183,597,400.00

(1) Plus accrued interest, if any, from date of original issue.

(2) Before deduction of expenses, estimated at \$40,000.

(3) May vary by plus or minus 5%.

Delivery of the Certificates will be made in New York, New York through the book-entry system of The Depository Trust Company on or about March 24, 2004.

The Certificates are exempt from the registration requirements of the Securities Act of 1933, so no registration statement has been filed with the Securities and Exchange Commission. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Certificates or passed upon the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense.

**JPMorgan**

**Goldman, Sachs & Co.**

**Credit Suisse First Boston**

## OFFERING CIRCULAR SUMMARY

The following summary is qualified in its entirety by more detailed information appearing elsewhere in this Offering Circular.

<b>Issuer</b> .....	The U.S. Small Business Administration (“SBA”), an independent agency of the United States, through its agent, JPMorgan Chase Bank, acting in its capacity as Trustee.
<b>Guarantor</b> .....	SBA.
<b>The Certificates</b> .....	Guaranteed 4.120% Debenture Participation Certificate, Series SBIC 2004-10 A. Each Certificate represents a fractional undivided interest in the Pool of these debentures.
<b>The Pool</b> .....	The Series SBIC 2004-10 A Pool is composed of (i) \$184,520,000 aggregate principal amount of one hundred and seventeen 4.120% debentures, (ii) the guarantee agreement pursuant to which timely payment of principal and interest on each debenture in the Pool will be guaranteed by SBA and (iii) an account into which payment by the SBICs and SBA with respect to the debentures in the pool will be deposited.
<b>The Debentures</b> .....	The debentures in the Pool have been issued by forty-five small business investment companies, or SBICs, licensed by SBA pursuant to Section 301 of the Small Business Investment Act of 1958, as amended. Each debenture will mature March 1, 2014.
<b>Optional Prepayment</b> .....	Each debenture in the Pool is subject to Optional Prepayment, in whole but not in part, at the option of an SBIC on any Payment Date on or after September 1, 2004, initially at a prepayment price of 105% of the principal amount of the debenture. The prepayment price decreases by 1% on each September 1 payment date thereafter until reaching a prepayment price of 100% of the principal amount of the debenture on or after September 1, 2009, together with accrued interest. See “Optional Prepayment of Debentures.”
<b>Acceleration Event and Acceleration Payment</b> .....	An Acceleration Event with respect to a debenture in the Pool will occur upon an event of default and transfer of the SBIC into liquidation status by SBA. See “Acceleration of Debentures.” Upon an Acceleration Event, pursuant to its Guarantee, SBA will make a payment of 100% of the principal amount of a debenture in the Pool, together with interest accrued to the Payment Date next following an Acceleration Event.
<b>The anticipated frequency and amount of Acceleration Payments cannot be predicted and will be influenced by a variety of factors. See “Acceleration of Debentures.”</b>	

**Full Faith and Credit**

**Guarantees** ..... Pursuant to Sections 303 and 319 (formerly Section 321) of the Small Business Investment Act of 1958, as amended, SBA guarantees the timely payment of principal and interest on the debentures in the Pool and the timely pass-through of principal and interest to the Holders of the Certificates. The full faith and credit of the United States is pledged to SBA's Guarantees. See "Full Faith and Credit Guarantees."

**Distributions of**

**Interest** ..... Interest on the debentures in the Pool will accrue from the date of original issue of the Certificates at the rate of 4.120% per annum and will be paid on each March 1 and September 1, commencing September 1, 2004. The interest will be passed through on each March 10 and September 10 (unless such day is not a business day, in which case payment will be made on the next applicable business day), commencing September 10, 2004, to holders in whose names the Certificates are registered in the certificate register maintained by the Trustee at the close of business on the related Record Date. Interest on the Certificates is calculated on the basis of a year of 365 days (regardless of whether the year is composed of 365 or 366 days) and the actual number of days elapsed (including the first day but excluding the last day) from the date of pooling of the related debentures to the first payment date and thereafter from payment date to payment date until maturity.

**Distributions of**

**Principal** ..... Principal is scheduled to be distributed to the Holders of the Certificates on March 10, 2014. However, upon an Optional Prepayment, the prepayment price (expressed as a percentage of the principal amount of the debenture prepaid) will be passed through pro rata to the Holders on the Distribution Date for such Payment Date. Acceleration Payments, if any, will be passed through pro rata to the Holders on the next succeeding Distribution Date following such Acceleration Payment. See "Acceleration of Debentures."

**Trustee** ..... JPMorgan Chase Bank or any successor trustee appointed under the Trust Agreement, dated as of February 1, 1997, as amended from time to time, will act as Trustee. The Trustee will hold legal title to the debentures and the other assets constituting the Pool, collect payments of principal and interest due on the debentures in the Pool and distribute such payments to the Holders of the Certificates.

**Denominations** ..... Certificates will be issued in multiples of \$5,000 with minimum original principal amounts of \$100,000. The denomination signifies a Holder's pro rata share of the aggregate principal amount of the debentures on the pooling date.

**Registration of Certificates . . . . .** The Certificates will initially be offered through the facilities of The Depository Trust Company in book-entry or certificated form. Persons acquiring beneficial ownership interests in the Certificates will hold their interests through The Depository Trust Company.

Transfers within The Depository Trust Company will be made in accordance with its usual rules and operating procedures. Upon request, a purchaser of Certificates is also entitled to receive a physical certificate representing such person's interest. See "Description of Participation Certificates — Book-Entry and Physical Certificates."

**Information Concerning  
Acceleration Events and  
Optional Prepayments . . . . .**

The Trustee will maintain a record of all debentures in the Pool which have been subject to an Acceleration Event or Optional Prepayment (to the extent the Trustee has been notified by SBA of such Acceleration Event or Optional Prepayment). Such information will be made available by dialing (800) 275-2048, a toll-free telephone number, during the Trustee's normal business hours.

**Tax Status . . . . .**

The Pool will be treated as a grantor trust for federal income tax purposes, and the beneficial owners of Certificates will be treated as the beneficial owners of undivided pro rata interests in the income on each debenture in the Pool for such purposes. Ownership of the Certificates will be treated as ownership of "government securities" and "obligations of the United States" for purposes of certain provisions of the federal income tax laws. See "Tax Status."

**Legality of Investment . . . . .**

Under federal law, the Certificates are:

- acceptable for purchase by and as security for advances to member banks of the Federal Reserve System; and
- eligible as security for the deposit of public monies of the United States and as collateral for Treasury Tax and Loan Accounts.

**ERISA Considerations . . . . .**

Fiduciaries of employee benefit plans subject to the Employee Retirement Income Security Act of 1974, as amended, should consult their tax and legal advisors to determine whether the acquisition of a Certificate could result in prohibited transactions or other violations of the fiduciary responsibility provisions of ERISA and Section 4975 of the Code. See "ERISA Considerations" herein.

**Future Issuances of SBIC  
Debentures . . . . .**

The formation of additional pools of SBA-guaranteed SBIC debentures and the offering of certificates representing fractional undivided interests in such pools are required at periodic intervals of not less than every twelve months. See "Description of SBIC

Program — Guaranteed Pools” herein. The frequency and size of such offerings may vary due to such factors as the level of demand for funds by SBICs and changes in the law, in market conditions and in SBA policy.

**Future Issuances of SBIC**

**Participating Securities** ..... The Small Business Investment Act of 1958, as amended, was amended in 1992 to authorize SBA to guarantee a Participating Security. Consequently, in addition to pools of SBA-guaranteed SBIC debentures, the formation of pools primarily comprised of an assignment of certain interests in SBA-guaranteed Participating Securities and the offering of certificates representing fractional undivided interests in such pools are required at periodic intervals of not less than every twelve months. See “Description of SBIC Program — Participating Securities” and “Description of SBIC Program — Guaranteed Pools” herein. Investors are advised that any redemption experience of SBA-guaranteed Participating Securities is not relevant or material to the offering of the Certificates hereunder.

## DESCRIPTION OF SBA

The U.S. Small Business Administration (“SBA”), an independent agency of the United States, was created by the Small Business Act, as amended (15 U.S.C. §§631 *et. seq.*) (the “Small Business Act”), and derives its present authority from the Small Business Act and the Small Business Investment Act of 1958, as amended (15 U.S.C. §§661 *et. seq.*) (the “Act”).

The basic mission of SBA is to aid, counsel, assist and protect the interests of small business concerns; to ensure that small business concerns receive a fair portion of government purchases and contracts as well as of the sales of government property; to make or guarantee loans to small business concerns, state and local development companies, and the victims of floods or other catastrophes, and of economic injury caused thereby; and to license, regulate, and provide financial assistance to small business investment companies.

SBA provides guaranteed, direct, or immediate participation loans to small concerns for plant construction, machinery or supplies, and working capital. SBA also makes low interest loans to handicapped individuals and organizations and may grant revolving lines of credit for export purposes.

SBA also makes subsidized loans to victims of floods, riots, or other catastrophes to repair or replace disaster-damaged property, and to small businesses without access to credit elsewhere that have sustained substantial economic injury in consequence of a disaster.

Through its surety bond guarantee program, SBA guarantees a qualified surety up to 90 percent of losses incurred and paid under bid, payment, or performance bonds issued to small contractors, on contracts valued up to \$2.0 million.

Under provisions of the Act, SBA guarantees debentures of state and local development companies; the development companies, in turn, make loans to small business concerns.

## DESCRIPTION OF THE SBIC PROGRAM

SBA licenses, regulates, and provides financial assistance to small business investment companies licensed pursuant to Section 301(c) and former Section 301(d) of the Act. The sole function of these privately owned and managed investment companies, hereinafter referred to as “SBICs,” is to provide venture capital in the form of equity financing, long-term loan funds and management services to small business concerns, for their growth, expansion and modernization. Regulations for the SBIC Program, including the regulations governing issuance by an SBIC of SBA-guaranteed debentures and participating securities, as further described below, are codified at 13 C.F.R. Part 107, and may be amended from time to time.

SBICs can be formed as for-profit corporations, limited partnerships, limited liability companies or, in the case of SBICs licensed pursuant to former Section 301(d) of the Act (“Specialized SBICs”), non-profit corporations. Specialized SBICs are restricted to investments in “small business concerns which will contribute to a well-balanced national economy by facilitating ownership in such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantage” and, prior to October 1, 1996, could qualify for SBA financial assistance on more favorable terms than SBICs licensed pursuant to Section 301(c) of the Act.

From the inception of the SBIC program to December 31, 2003, all SBICs, including Specialized SBICs, have invested approximately \$40.8 billion in approximately 137,800 financings to small concerns. During calendar year 2003, Specialized SBICs made approximately 140 financings aggregating approximately \$35.6 million to disadvantaged small concerns, and other SBICs made approximately 4,360 financings aggregating approximately \$2.37 billion.

*Debentures.* The Act permits SBA to guarantee debentures issued by SBICs, the proceeds of which are used to augment other funds available to SBICs for investment. Such debentures may have terms of up to 15 years, although currently no outstanding SBIC debenture guaranteed by SBA has an original term of more than 10 years and twenty-nine weeks. Debentures guaranteed by SBA after July 1, 1991 are subordinated only to loans to the issuing SBIC from non-associated lenders in an amount not to exceed the lesser of \$10 million or

200% of the SBIC's combined private paid-in capital and paid-in surplus ("Private Capital"), unless otherwise determined by SBA. As more fully described under "Full Faith and Credit Guarantees" below, the full faith and credit of the United States is pledged to the guarantee by SBA of the timely payment of principal and interest due on each debenture.

On March 10, 2004, there was a total of 399 licensed and operating SBICs other than Specialized SBICs with private capital of \$12.2 billion, of which 296 had no outstanding debenture borrowings guaranteed by SBA, and 103, with private capital of \$1.74 billion, had \$1.53 billion of outstanding debenture borrowings guaranteed by SBA exclusive of the \$30 million in aggregate currently outstanding LMI debentures, as discussed below under "— Regulatory and Legislative Developments."

On March 10, 2004, there was a total of 36 licensed and operating Specialized SBICs with private capital of \$104 million, of which 21 had no outstanding government financings guaranteed by or directly from SBA, and 15 with private capital of \$55 million, had \$36 million of outstanding debenture borrowings from or guaranteed by SBA and \$27 million in preferred securities purchased and held by SBA.

Fifteen of the operating SBICs other than Specialized SBICs with private capital of \$227 million were originally licensed as Specialized SBICs. These 15 SBICs converted their licenses and are no longer restricted to investments in disadvantaged small businesses. On March 10, 2004, five of these converted SBICs had \$22 million in preferred securities purchased and held by SBA.

Under Public Law 108-199, during fiscal year 2004, commitments to guarantee loans for debentures shall not exceed the levels established by Section 20(i)(1)(C)(ii) of the Small Business Act which authorizes SBA to guarantee up to \$3.0 billion in SBIC debentures. Congress may authorize different amounts for future years and may change any amounts that it has authorized and appropriated which have not already been committed by SBA for guarantee. Additionally, SBA may actually guarantee less than the amount authorized or appropriated for any fiscal year.

Until March 29, 1990, debentures issued by Specialized SBICs were only funded directly by SBA. Until April 7, 1986, debentures issued by other SBICs were funded through and held by the Federal Financing Bank, an instrumentality of the United States under the general supervision of the Secretary of the Treasury. Since April 7, 1986, the Federal Financing Bank has not been authorized to purchase SBA-guaranteed SBIC debentures.

*Participating Securities.* On September 4, 1992, the President signed into law Public Law 102-366, the "Small Business Credit and Business Opportunity Enhancement Act of 1992." Title IV of the statute amended the Act and authorized SBA to guarantee a participating security (each, a "participating security," or collectively, "participating securities"), which may be issued by those SBICs that make equity-type investments in small business concerns. Under Public Law 108-199, during fiscal year 2004, commitments to guarantee loans for participating securities shall not exceed the levels established by Section 20(i)(1)(C)(i) of the Small Business Act which authorizes SBA to guarantee up to \$4.0 billion in SBIC participating securities. Between February 22, 1995 and February 25, 2004, inclusive, \$5,491,955,000 aggregate principal amount of SBA-guaranteed SBIC participating securities Participation Certificates were sold in underwritten public offerings. The effect of the passage of the Small Business Credit and Business Opportunity Enhancement Act of 1992 on the volume of debentures issued under the current program cannot be predicted with certainty. **Investors are advised that any redemption experience of SBA guaranteed participating securities is not relevant or material to the offering of the Certificates hereunder.**

*Interim Funding.* In May 1998, SBA began making financial assistance available to SBICs more frequently than the currently scheduled semi-annual offerings of SBA guaranteed participation certificates. SBA now guarantees SBIC debentures and participating security partial assignments for an "Interim Period," which begins at the time of the sale of such instruments to a designated financial institution (the "Interim Funding Provider") and continues until the date of the next applicable participation certificate issuance. The Interim Funding Provider receives a rate of interest or prioritized payments, as applicable, for the Interim Period, which will generally not



exceed six months and two weeks. At the end of the relevant Interim Period the debentures or partial assignments of participating securities are repriced, repurchased and pooled for the sale of participation certificates. SBA expects that all SBIC debentures (other than LMI debentures as discussed below under “— Regulatory and Legislative Developments”) and interests in participating securities issued after May 1998 will be funded in this manner. Although such “Interim Funding” will not affect the terms of the Certificates, Interim Funding effectively extends the term of the debentures and participating security partial assignments prior to pooling by the length of the Interim Period.

*Regulatory and Legislative Developments.* In response to a Presidential directive to all federal agencies to simplify their regulations, SBA published a final rule on January 31, 1996, which streamlined the regulations governing the SBIC Program (61 Fed. Reg. 3177, January 31, 1996). In general, the rule eliminated obsolete regulations and made a number of substantive changes intended to reduce the regulatory burden on SBICs and to make the SBIC Program more cost-effective. The substantive changes included: (1) allowing SBICs to charge a higher interest rate on the loans they make to small businesses; (2) increasing the license application fee, the examination fee and certain processing fees; (3) requiring all new SBICs that obtain SBA financial assistance to have diversity between the management and the ownership of the SBIC; (4) expanding the permitted sources of private capital for Specialized SBICs; and (5) requiring SBICs licensed after January 31, 1996 to have private capital of at least \$5 million in order to apply for debenture financing unless such SBICs can demonstrate long-term financial viability at a lesser amount.

On September 30, 1996, the President signed Public Law 104-208, Division D of which is the Small Business Programs Improvement Act of 1996 (the “Improvement Act”). The Improvement Act made a number of changes to the Act and the SBIC Program, including the repeal of SBA’s authority to license Specialized SBICs and to provide such companies with financial assistance on terms different than those available to other SBICs. The Improvement Act also required all new SBICs to have at least \$5 million of private capital to issue debentures and at least \$10 million of private capital to issue participating securities, although SBA has the discretion to license and to approve leverage for a participating securities issuer with private capital ranging from \$5 million to \$10 million. An exception to this provision was enacted on December 2, 1997, in the Small Business Reauthorization Act of 1997 (the “Reauthorization Act”). The exception permits certain SBICs with private capital of less than \$5 million but not less than \$3 million to issue debenture leverage in an amount not to exceed their private capital. The exception is available to any SBIC that filed its license application on or before May 31, 1998 and that is located in a state not served by another licensee.

In order to obtain financial assistance through SBA, SBICs licensed prior to September 30, 1996, that have private capital of less than \$5 million (for debenture issuers) or less than \$10 million (for participating securities issuers) are required to certify that at least 50% of their future investments will be made in smaller businesses, as defined in the Regulations. All other SBICs applying for SBA financial assistance are required to certify that at least 20% of their future investments will be made in smaller businesses. Any SBIC or group of SBICs under common control with outstanding SBA financial assistance in excess of \$90 million must also certify that the excess will be invested in smaller businesses. The Improvement Act also created an exception to the statutory definitions of small business and smaller business. The exception provides that investments in such businesses by certain venture capital funds and investment companies are to be disregarded in determining the size status of the business.

The Improvement Act and the Reauthorization Act also changed the fees payable by SBICs issuing debentures or participating securities. First, effective October 1, 1997, the leverage fee of 3% of the face amount of the leverage may be paid in two stages: 1% at the time the SBIC obtains an SBA leverage commitment and 2% at the time the leverage is drawn under the commitment. Second, SBICs were required to pay SBA an annual fee equal to 1% of the debentures or participating securities issued after October 1, 1996.

On December 21, 2001, the President signed the Small Business Investment Company Amendments Act of 2001, which changes the annual fee for debentures and participating securities obligated after September 30, 2001. For these debentures and participating securities, the fee is the lower of (1) a percentage established by SBA that reduces to zero the cost of their purchase and guarantee and (2) 1.38%. The annual fee is payable on the same terms and conditions as interest on the debentures or prioritized payments on the participating securities.



SBA recently introduced an initiative to encourage SBICs to invest in small businesses that are located in, or that provide employment for people residing in, inner cities and rural areas. As outlined in 64 Fed. Reg. 52641 (September 30, 1999), this initiative is known as the low- or moderate-income (“LMI”) investments initiative and is a program of narrowly-tailored regulatory and financial incentives for investments by SBICs in qualifying small businesses. Under the initiative, eligible SBICs may issue an SBA-guaranteed deferred-interest debenture and use the proceeds to make equity-type investments in businesses in the targeted areas. There are no LMI debentures in the Pool and SBA expects that LMI debentures will not be pooled for sale. LMI debentures are funded out of the same program levels that are available for SBA’s guarantee of other debenture leverage. SBA cannot predict the amount of LMI debentures that will be issued in the future, but does not expect it to be significant relative to the amount of standard SBIC debentures.

*Capital Requirements.* The current statutory minimum Private Capital requirement for the licensing of new SBICs which issue debentures is \$5 million. SBA may license an SBIC with Private Capital between \$3 million and \$5 million, however, if the applicant demonstrates special circumstances and good cause, has a viable business plan for achieving profitability and has a reasonable timetable for achieving the required level of Private Capital. In general, such SBICs will not be eligible for SBA financial assistance until they meet the required level of Private Capital. However, if such an SBIC filed its license application on or before May 31, 1998, and is located in a state not served by another SBIC, then the SBIC will be eligible to issue debentures in an amount not to exceed its Private Capital. SBICs licensed before October 1, 1996 that do not meet the current statutory minimum Private Capital requirements are eligible to issue debentures only if: (i) the licensee certifies that at least 50% of the aggregate dollar amount of its financings after October 1, 1996 will be provided to smaller businesses and (ii) SBA determines that allowing the licensee to issue debentures would not create or otherwise contribute to an unreasonable risk of default or loss to the United States Government. Issuers of participating securities, whether or not they issue debentures, will be required to have Private Capital of at least \$10 million unless long-term financial viability can be demonstrated at a lesser amount, but no application for the guarantee of participating securities will be considered if the issuer has Private Capital of less than \$5 million.

The total principal amount of outstanding debentures and participating securities guaranteed by SBA and issued by any SBIC or group of commonly controlled SBICs may not, in general, exceed at any one time an amount equal to three times such SBIC’s Private Capital or \$113.4 million, whichever is less, of which no more than two times the SBIC’s Private Capital may be represented by participating securities. Such dollar limit was adjusted annually to reflect increases in the Consumer Price Index since March 31, 1993. Any SBIC or group of commonly controlled SBICs with outstanding debentures and participating securities exceeding \$90 million must invest this excess amount in smaller businesses.

Prior to October 1, 1996, Specialized SBICs investing in venture capital financing may have qualified for financial assistance in an amount equal to four times their Private Capital up to an aggregate of \$35 million and, for financial assistance in excess of \$35 million, in those ratios applicable to other SBICs. Since October 1, 1996, new financial assistance has been made available to Specialized SBICs only on the same terms and conditions available to other SBICs.

As of September 4, 1992, the definition of Private Capital was broadened to include investments in SBICs by all pension funds, whether public or private; direct investments in an SBIC by a State or local government entity provided such investments do not exceed 33 percent of an SBIC’s Private Capital; and, for regulatory purposes only, unfunded commitments from institutional investors. Specialized SBICs may also include in Private Capital funds indirectly obtained from State or local governments provided that such funds were contributed to the Specialized SBIC prior to October 1, 1996.

*Guaranteed Pools.* Section 319 (formerly Section 321) of the Act authorizes the formation of pools of SBIC debentures guaranteed by SBA and the issuance of guaranteed participation certificates representing fractional undivided interests in such pools (see “Description of the Pool of Debentures” below). As more fully described under “Full Faith and Credit Guarantees,” pursuant to Section 319 of the Act the full faith and credit of the United States is pledged to the guarantee by SBA of the timely pass-through of payments of principal and interest due on such debentures.

As envisioned under Section 319, the offering hereby of Guaranteed 4.120% Debenture Participation Certificates, Series SBIC 2004-10 A (the "Certificates"), representing fractional undivided interests in a pool (the "Pool") of SBA-guaranteed SBIC debentures (the "Debentures"), is being undertaken by SBA to provide SBICs with funds for investment activities. The Certificates represent the fifty-seventh issue of 10-year SBA-guaranteed SBIC Debenture Participation Certificates pursuant to Section 319 (formerly Section 321). From September 24, 1986 through September 24, 2003, \$2,606,035,000 aggregate principal amount of 10-year SBA-guaranteed SBIC Debenture Participation Certificates were sold in underwritten public offerings. On June 24, 1992, \$6,000,000 aggregate principal amount of 5-year SBA-guaranteed SBIC Debenture Participation Certificates were sold in an underwritten public offering. On June 8, 1988, September 28, 1988, December 21, 1988 and December 19, 1990, \$38,770,000 aggregate principal amount of 3-year SBA-guaranteed SBIC Debenture Participation Certificates were sold in underwritten public offerings.

Prior to October 1, 1997, Section 320 (formerly Section 322) of the Act required SBA to issue and guarantee SBIC participation certificates at periodic intervals of not less than every three months. Effective October 1, 1997, such requirement was changed to allow for the semi-annual issuance and guarantee of SBIC participation certificates. Effective April 5, 1999, such requirement was changed again to allow for the annual issuance and guarantee of SBIC participation certificates. SBA currently anticipates the formation of additional pools of 10-year SBA-guaranteed SBIC debentures, on a semi-annual basis, and the semi-annual offering of SBA-guaranteed SBIC debenture participation certificates representing fractional undivided interests in such pools. In addition, the formation of additional pools comprised of participating security partial assignments relating to SBA-guaranteed participating securities and the offering of certificates representing fractional undivided interests in such pools are required at periodic intervals of not less than every twelve months. SBA currently contemplates that semi-annual offerings under the participating security program will occur each February and August and that semi-annual offerings under the Debenture Program will occur each March and September. However, SBA's plans with respect to future offerings of certificates representing fractional undivided interests in either pools of debentures or participating security partial assignments are subject to change due to such factors as the level of demand for funds by the SBICs and changes in the law, in market conditions and in SBA policy.

## **DESCRIPTION OF THE POOL OF DEBENTURES**

The Pool is composed of (i) \$184,520,000 aggregate principal amount of one hundred and seventeen 4.120% Debentures issued by a total of forty-five SBICs licensed by SBA pursuant to Section 301 of the Act together with the guarantee agreement pursuant to which timely payment of principal and interest on each Debenture in the Pool will be guaranteed by SBA (the "Guarantee Agreement") and (ii) an account into which payment by the SBICs and SBA with respect to the Debentures will be deposited. The Trustee is the holder of legal title to each Debenture and the funding of the Debentures is being arranged by the sale of the beneficial interest in the principal and interest of each Debenture to the holders (the "Holders") of the Certificates. The largest Debenture in the Pool is in the amount of \$12,605,000; the smallest two Debentures in the Pool are in the amount of \$150,000; and the median of the Debentures in the Pool is in the amount of \$1,000,000. One of the Debentures in the Pool has been issued by a Specialized SBIC.

## **DESCRIPTION OF DEBENTURES**

*General.* Each Debenture contained in the Pool has been guaranteed by SBA as to timely payment of principal and interest pursuant to the Guarantee Agreement. Each Debenture requires repayment of its entire principal amount on March 1, 2014. Each Debenture requires payment of interest semiannually on March 1 and September 1 of each year, commencing September 1, 2004 (the "Payment Dates") and bears interest at the rate of 4.120% per annum on the basis of a year of 365 days (regardless of whether the year is composed of 365 or 366 days) for the actual number of days elapsed (including the first day but excluding the last day), from the date of issuance of the Debenture to the first Payment Date and thereafter from Payment Date to Payment Date until its maturity. The SBICs are required to make all scheduled Debenture payments to the Trustee on the applicable Payment Dates.

*Prepayment of Debentures.* The Debentures are subject to prepayment in whole but not in part as a result of either Optional Prepayments (as defined herein) or Acceleration Events (as defined herein). See “Optional Prepayment of Debentures” and “Acceleration of Debentures.”

## DESCRIPTION OF PARTICIPATION CERTIFICATES

The Certificates are offered hereby pursuant to Section 319 (formerly Section 321) of the Act and represent fractional undivided interests in a Pool of Debentures. The fractional undivided interest of each Certificate is calculated by dividing the original principal amount stated on the face of the Certificate by the aggregate principal amount of the Debentures as of the date of issuance. The principal amount represented by the Certificates and the aggregate unpaid principal amount of the Debentures will decline proportionately to the extent principal is paid pursuant to Optional Prepayments or Acceleration Payments. Certificates will be issued in original principal amounts of \$100,000 or integral multiples of \$5,000 in excess thereof.

Payments of principal and interest due under the Debentures will be made by the SBICs to the Trustee. In the event an SBIC fails to make timely payment of principal or interest due under a Debenture, SBA will make payment of such amount of principal or interest directly to the Trustee on or before the Distribution Date, in accordance with SBA’s Guarantee. See “Full Faith and Credit Guarantees.”

The Trustee will collect payments of principal and interest due on the Debentures (including payments made as the result of an Optional Prepayment, if any) and remit such payments, together with any necessary additional amounts received from SBA under its Guarantee, to the Holders of the Certificates on the Distribution Dates, March 10 and September 10 (unless such day is not a business day, whereupon payment shall be made upon the next applicable business day) of each year, beginning September 10, 2004. The Certificates will accrue interest from the date of pooling of the related Debentures to the first Payment Date and thereafter from Payment Date to Payment Date until maturity. Late payments of interest made by SBICs will be paid directly to SBA as reimbursement for payments pursuant to its Guarantee.

### Book-Entry and Physical Certificates

The Certificates will be issued in registered form (i) in the form of beneficial interests in one or more restricted global certificates (the “Book-Entry Certificates”), deposited with a custodian for The Depository Trust Company (“DTC” and, together with any successor depository, the “Depository”) and (ii) upon request, in certificated form (the “Physical Certificates”). Such a request for Physical Certificates is made to the Trustee or a Participant or Indirect Participant (each as defined below), as applicable. The Book-Entry Certificates and Physical Certificates will be issued in denominations of \$100,000 or any integral multiples of \$5,000 in excess thereof. The registered holders of the Certificates are referred to as “Holders” and the owners of beneficial interests in the Book-Entry Certificates as “Book-Entry Owners.”

*Book-Entry Certificates.* Book-Entry Certificates will be deposited with DTC or its custodian and registered in the name of Cede & Co., as nominee of DTC. DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities for its participating organizations (“Participants”) and to facilitate the clearance and settlement of securities transactions between Participants through electronic book-entries, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (“Indirect Participants”).

Book-Entry Owners that are not Participants or Indirect Participants of DTC who desire to purchase, sell or otherwise transfer ownership of or other interests in Certificates may do so only through Participants and Indirect Participants. In addition, Book-Entry Owners will receive all distributions of principal of and interest on the Certificates through Participants, as described below. It is anticipated that the only “Holder” of record of the

Book-Entry Certificates will be Cede & Co., as nominee of DTC. Book-Entry Owners will not be recognized by the Trustee as Holders, as such term is used in the Trust Agreement, and Book-Entry Owners will be permitted to exercise the rights of Holders only indirectly through DTC and its Participants.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the “Rules”), DTC is required to make book-entry transfers of Book-Entry Certificates among Participants on whose behalf it acts with respect to the Book-Entry Certificates. Participants and Indirect Participants with which Book-Entry Owners have accounts with respect to the Certificates similarly are required to make book-entry transfers and receive and transmit such distributions on behalf of their respective Book-Entry Owners. Accordingly, although Book-Entry Owners will not hold physical certificates representing their interests in Book-Entry Certificates, the Rules provide a mechanism by which Book-Entry Owners will receive payments and will be able to transfer their interests in such Certificates.

***Because DTC can act only on behalf of Participants, who in turn act on behalf of Indirect Participants and certain banks, the ability of a Book-Entry Owner to pledge its interest in Certificates to persons or entities that do not participate in the DTC system, or to otherwise act with respect to such Certificates, may be limited due to the lack of a physical certificate.***

DTC generally will take any action permitted to be taken by a Holder under the Trust Agreement only at the direction of one or more Participants to whose accounts with DTC interests in the Book-Entry Certificates are credited. DTC may take conflicting actions with respect to other undivided interests to the extent that such actions are taken on behalf of Participants whose holdings include such undivided interest.

None of SBA, SBIC Funding Corporation, the Underwriters nor the Trustee will have any liability for any aspect of the records relating to or distributions made on account of beneficial ownership interests in the Book-Entry Certificates held by Cede & Co., as nominee for DTC, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

***Physical Certificates.*** Ownership of certificates may be evidenced by Physical Certificates, registered in the name of the purchaser thereof or any nominee of such purchaser upon request of such purchaser to the Trustee or the purchaser’s Participant or Indirect Participant, as applicable. Physical Certificates will also be issued to a Book-Entry Owner (or its nominee) at any time (subject to the rules and procedures of DTC) upon the request of such Book-Entry Owner that its interest in a Book-Entry Certificate be exchanged for a Physical Certificate or Certificates.

The holder of any Physical Certificate may exchange the same in whole or in part (in an original principal amount equal to \$100,000 or any integral multiple of \$5,000 in excess thereof) for other Physical Certificates or, if such holder is entitled to hold an interest in Book-Entry Certificates (subject to the rules and procedures of DTC), for a beneficial interest in Book-Entry Certificates by surrendering such Physical Certificate to the Trustee (and completing the form of transfer on the reverse thereof) together with any certificate or other required documentation. A nominal charge will be imposed for any registration of transfer or exchange, and the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge imposed in connection therewith. See “Trust Agreement — Registration of Transfer and Exchange of Certificates.”

***Distributions.*** Distributions of principal of and interest on the Book-Entry Certificates will be made to Cede & Co. as the registered owner of the Book-Entry Certificates. Book-Entry Owners will receive all distributions of principal and interest through Participants. It is expected that Cede & Co., upon receipt of any distribution of principal or interest in respect of a Book-Entry Certificate held by it, as nominee for DTC, will immediately credit Participants’ accounts with amounts proportionate to their respective beneficial interests in such Book-Entry Certificate as shown on the records of Cede & Co. It is also expected that distributions by Participants to Book-Entry Owners will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such distributions will be the responsibility of such Participants. Under a book-entry format, therefore, Book-Entry Owners may experience some delay in their receipt of payments since such payments will be forwarded by the Trustee to Cede & Co., and by Cede & Co. to Participants, which thereafter will forward them to Indirect Participants or Book-Entry Owners.

Holders of Certificates evidencing in the aggregate a minimum original principal amount of \$1 million shall be paid by wire transfer for the account of such person in immediately available funds to a commercial bank located in the continental United States having appropriate facilities therefor upon written request received by the Trustee on or before the Record Date, as defined herein, prior to the applicable Distribution Date. For other Holders, distributions on the Certificates will be made by check mailed to the address of the person in whose name the Certificate is registered at the close of business on the Record Date.

### **YIELD CONSIDERATIONS**

The effective yield to Holders will be reduced below the yield otherwise produced by the rate of interest payable on the Debentures because the distribution of interest that accrues on the Debentures in respect of any semiannual interest period ending March 1 or September 1, as the case may be, will not be made until the related Distribution Date, which occurs on March 10 or September 10. An Optional Prepayment or Acceleration Payment will include all interest to the relevant Payment Date and will be passed through pro rata to the Holders on the Distribution Date for such Payment Date.

### **FULL FAITH AND CREDIT GUARANTEES**

Pursuant to Section 303 of the Act, SBA guarantees the timely payment of principal and interest due under each Debenture (the "Section 303 Guarantee"). The Section 303 Guarantee is stated in the Guarantee Agreement, executed on behalf of the United States by an SBA official, which covers the Debentures. The full faith and credit of the United States is pledged to the Section 303 Guarantee. In the event that an SBIC fails to make payment of principal or interest due upon its Debenture on a Payment Date, SBA, pursuant to the Section 303 Guarantee, will make payment of such principal or interest on or before the Distribution Date for such Payment Date.

Pursuant to Section 319 (formerly Section 321) of the Act, SBA guarantees to the Holders the timely pass-through of payments of principal (and prepayment premium, if any) and interest actually received on the Debentures by the Trustee (the "Section 319 Guarantee"). The Section 319 Guarantee is stated on the Certificates and is executed on behalf of the United States by the Administrator or Acting Administrator of SBA. The full faith and credit of the United States is pledged to the Section 319 Guarantee.

Collectively, the Section 303 Guarantee and the Section 319 Guarantee form SBA's guarantee (the "Guarantee") of timely payment to the Holders of principal and interest due on the Debentures. However, in light of the Section 303 Guarantee, it is anticipated that payments by SBA under the Section 319 Guarantee will not be necessary. In the event that a Debenture is prepaid as a result of Optional Prepayment or is paid upon an Acceleration Event, SBA's Section 319 Guarantee will be reduced in proportion to the amount of principal and interest such prepaid Debenture represents in the Pool upon the pass-through of such payments to the Holders.

Should there be any change in the status of SBA as an independent agency or in the Program, the SBA Guarantee and the full faith and credit of the United States pledged to the Guarantee on the Certificates will not be altered or impaired.

The Guarantee is backed by the full faith and credit of the United States and will be performed through payments from the SBA Business Loan Guarantee Financing Account, which is backed by SBA's permanent and definite authority to borrow from the United States Treasury to satisfy all outstanding obligations of SBA.

### **OPTIONAL PREPAYMENT OF DEBENTURES**

*Changes in Debenture Prepayment Terms.* Debentures issued between September 24, 1986 and March 25, 1992 were subject to prepayment (an "Optional Prepayment") in whole but not in part at the option of an SBIC at a declining premium after the first five years from the date of issuance. Debentures issued between September 24, 1986 and March 25, 1992 could not be prepaid by an SBIC at its option during the first five years of their terms.



SBA changed the Optional Prepayment terms for Debentures issued on or after June 24, 1992 as described more fully below. Therefore, the past Optional Prepayment experience of Debentures issued between September 24, 1986 and March 25, 1992 may not be relevant or material to this Offering. Investors should note that rapid rates of Optional Prepayments on Debentures are likely to coincide with periods of low prevailing interest rates, and therefore, the yields at which an investor may be able to reinvest amounts received from Optional Prepayments may be lower than the interest rate on the Debentures subject to such Optional Prepayments. Conversely, slow rates of Optional Prepayments on the Debentures are likely to coincide with periods of high prevailing interest rates, and therefore, the amount of Optional Prepayments available to an investor for reinvestment may be relatively low.

**Investors should be advised that the prepayment experience of Debentures cannot be predicted and will be influenced by a variety of factors.**

*Optional Prepayment Schedule.* An SBIC may, without prior notice, elect an Optional Prepayment, in whole but not in part, on any Payment Date beginning September 1, 2004 at the following prepayment prices (expressed as a percentage of the principal amount of the Debenture prepaid), together, in each case, with interest accrued thereon to the Payment Date:

<u>Payment Dates</u>	<u>Prepayment Price</u>
September 1, 2004 and March 1, 2005 .....	105%
September 1, 2005 and March 1, 2006 .....	104%
September 1, 2006 and March 1, 2007 .....	103%
September 1, 2007 and March 1, 2008 .....	102%
September 1, 2008 and March 1, 2009 .....	101%
On or after September 1, 2009.....	100%

The Trustee will distribute all Optional Prepayments pro rata to the Holders of the Certificates on the Distribution Date, as defined herein, for such Payment Date. The payment of the prepayment premium, if any, to the Trustee is not subject to the Section 303 Guarantee; the distribution of any prepayment premium to the Holders of the Certificates from the Trustee is subject to the Section 319 Guarantee.

## ACCELERATION OF DEBENTURES

*Acceleration Event.* A default by an SBIC as specified in SBA's regulations may result in either an automatic or a discretionary acceleration of such SBIC's Debenture. Upon the occurrence of an SBA administrative action to transfer the applicable SBIC from operating status into liquidation status (an "Acceleration Event"), SBA will pay to the Trustee 100% of the principal amount of such Debenture together with interest accrued to the applicable Payment Date (the "Acceleration Payment"). The Acceleration Payment will be made on or before the Distribution Date for such Payment Date. The Trustee will distribute such Acceleration Payments pro rata to the Holders on the Distribution Date for such Payment Date. Upon an acceleration, the principal amount of the Debenture and interest accrued to the date of such acceleration shall be immediately due and payable to SBA. Payments, if any, made by an SBIC with respect to an acceleration will be made directly to SBA.

Despite an event of default which could trigger a discretionary acceleration, SBA may, in its sole discretion, refrain from transferring an SBIC into liquidation status and thereby avoid or delay an Acceleration Event. See "— Procedure for Acceleration of Debentures." However, such a decision by SBA will not affect SBA's obligation to make all payments as due under such Debenture pursuant to its Guarantee in the event of an SBIC's failure to make timely payments. See "— Full Faith and Credit Guarantees."

*Procedure for Acceleration of Debentures.* SBA's Office of SBIC Operations continually monitors the condition and performance of SBICs through established reporting systems, examination reports of SBA's Office of SBIC Examinations, correspondence with the SBICs and reports filed by SBICs.

With respect to debentures issued on or after April 25, 1994, SBA may, in its sole discretion, declare an acceleration of the debenture upon the occurrence of any one or more of the following: (i) an SBIC commits a



fraudulent act which causes detriment to SBA's position as a creditor or a guarantor; (ii) an SBIC makes any transfer or incurs any obligation that is fraudulent under the terms of 11 U.S.C. 548 (the Bankruptcy Code); (iii) an SBIC willfully engages in self-dealing or other conflicts of interest; (iv) an SBIC willfully violates any substantive provision of the Act or any substantive regulation promulgated thereunder; (v) after being notified of a curable event of default, an SBIC engages in similar behavior which results in another occurrence of the same default; (vi) an SBIC transfers a license or willfully transfers ownership or control of the SBIC; (vii) after repeatedly failing to comply with any non-substantive provision of the Act or the regulations promulgated thereunder, an SBIC also fails to take steps to accomplish an action required by SBA; (viii) an SBIC fails to notify SBA as soon as it knows or reasonably should have known that an event of default exists; (ix) an SBIC fails to notify SBA within ten days of a declaration of default under any non-SBA indebtedness; (x) an SBIC pays fees in excess of those permitted by SBA; (xi) an SBIC makes improper distributions; (xii) an SBIC fails to make timely payment on any obligation held or guaranteed by SBA; (xiii) an SBIC fails to maintain the required minimum capital; (xiv) an SBIC is capitally impaired; (xv) an SBIC defaults under non-SBA indebtedness in excess of \$100,000 unless contested by the SBIC in good faith by appropriate proceedings; (xvi) an SBIC fails to perform under any obligation held or guaranteed by SBA under any agreement with SBA; (xvii) an SBIC fails to comply with any substantive provision of the Act or any substantive regulation promulgated thereunder; or (xviii) an SBIC fails to maintain required investment ratios. Before an acceleration may be declared for any of the events of default set forth in (x) through (xviii) above, SBA must provide the SBIC with a cure period of not less than fifteen days. In addition, before any acceleration is declared, SBA's standard operating procedures call for the transfer of the SBIC from operating status to liquidation status.

With respect to debentures issued before April 25, 1994, SBA may declare the acceleration of such debentures only upon the occurrence of any one or more of the events of default set forth in the regulations in effect at the time of the issuance of such debentures.

When the Office of SBIC Operations determines that an SBIC Debenture is in default, the staff may seek to resolve the problems through cooperative efforts with the SBIC. In such circumstances, SBA will forbear the acceleration of SBA-held or -guaranteed debt during the work-out period. SBA will make Guarantee Payments with respect to the Debentures during this forbearance period and will seek to recover those payments from the SBIC. There is no set time limit for the forbearance. The SBA decides how long to continue the period of forbearance based upon the facts of each case. If efforts to cure the default fail, SBA will transfer the SBIC from operating status into liquidation status in order to protect the creditor position of SBA.

Upon a determination by SBA to transfer an SBIC into liquidation status, jurisdiction over the SBIC is transferred to the Office of SBIC Liquidation whereupon the SBIC is considered in liquidation status. At this point, an acceleration letter is sent to the SBIC citing violations and defaults, making demand for payment of the accelerated obligations and advising the SBIC that it has been transferred to liquidation status. SBA will make a Guarantee Payment of the outstanding principal and accrued interest with respect to such SBIC Debenture to the next scheduled Payment Date on or before the next scheduled Distribution Date for such Payment Date.

Notwithstanding the above, SBA regulations provide that a Debenture is automatically accelerated without prior notice to the defaulting SBIC whenever: (i) an SBIC is insolvent; (ii) not having sufficient property to pay all of its debts, an SBIC makes a voluntary assignment thereof; or (iii) a petition is filed in commencement of any bankruptcy or reorganization proceeding, receivership, dissolution or other similar creditors' rights proceeding, by or against an SBIC, whichever event shall first occur. Whenever SBA learns of the occurrence of such an event of default it must transfer the SBIC into liquidation status. In such event, the administrative procedures described in the preceding paragraph are followed except that SBA may exercise no discretion with respect to the decision to liquidate the SBIC. Likewise, SBA will make a Guarantee Payment of the outstanding principal and accrued interest with respect to such SBIC Debenture to the next scheduled Payment Date on or before the next scheduled Distribution Date for such Payment Date.

SBA applies the same procedures and standards for acceleration of a Specialized SBIC's Debenture as it applies to Debentures issued by other than Specialized SBICs.

The anticipated rate of prepayment of principal, if any, to the Holders of the Certificates as a result of Acceleration Events cannot be determined. Acceleration of a Debenture may result from a variety of factors

including the occurrence of any one or more of the events of default set forth above, none of which are predictable. Commencing in May of 1998, SBIC debentures are funded for an Interim Period of not more than twenty-nine weeks prior to pooling. See “Description of the SBIC Program — Interim Funding.” Although acceleration may occur during the Interim Period, no debentures were accelerated during their related Interim Period as of March 10, 2004.

## **DESCRIPTION OF PROGRAM MANAGEMENT AND OPERATION**

Section 102 of the Act sets forth the policy of the Congress to establish the SBIC program to stimulate and supplement the flow of private equity capital and long-term loan funds to small business concerns. Pursuant to the Act and the regulations established thereunder, SBA provides financial assistance to SBICs through the purchase or guarantee of SBIC debentures or Participating Securities (collectively, “Leverage”).

*Management of SBA.* The Administrator of SBA, its Deputy Administrator, its Chief Counsel for Advocacy, and its Inspector General are appointed by the President of the United States with the advice and consent of the Senate. The major small business assistance programs of SBA and the general administration of SBA are managed by officials appointed by the Administrator. The Presidential appointees together with the major program managers establish SBA policy with respect to operations under the Small Business Act and the Act and applicable regulations. Career personnel at various levels constitute the middle management of SBA and make the preponderance of program operations decisions in conformance with the applicable laws, regulations, and policies. Additionally, the Office of Management and Budget guides SBA’s policies directly through the senior management officials and through circulars issued from time to time. The SBA Inspector General audits the SBIC program and the administration of the Debenture Program within SBA.

*Investment Division of SBA.* The Investment Division of SBA, which is headed by the Associate Administrator for Investment, is the organizational element within SBA with the authority and responsibility for administering the SBIC Program. Within the Investment Division is the Office of SBIC Operations, headed by a Director who has under his supervision and direction Area Chiefs, all located in Washington, D.C. Each Area Chief supervises and directs the activities of several financial analysts. This Office regulates and provides leverage to SBICs. Also within the Investment Division are the Office of Licensing and Program Standards, which is responsible for licensing new SBICs and for the development of regulations for SBICs, the Office of SBIC Liquidation, which is responsible for liquidating SBICs, and the Office of SBIC Examinations, which is responsible for examining the books and records of the operating SBICs.

*Underwriting Standards and Procedures.* Consistent with the legislative intent of the Act, SBA grants Leverage for the purpose of providing financing to small business concerns that are not dominant in their fields and that are unable to obtain equity and long-term debt financing on reasonable terms. See “Description of the SBIC Program.”

Section 310 of the Act, as amended by Public Law 100-590, requires that each SBIC be examined at least every two years, except that, under certain circumstances, SBA may waive the examination for up to one additional year. As a general policy, SBA will not process an SBIC’s application for Leverage if the SBIC has not been examined by SBA’s Office of SBIC Examinations during the 24-month period immediately preceding the date of the application. However, because of resource limitations, for SBICs that have been examined at least once, SBA may determine that prior experience with an SBIC and other relevant circumstances justify processing an application where the SBIC has not been examined during the 24-month period immediately preceding the date of the application. Newly licensed SBICs may be leveraged prior to any examination by the Office of SBIC Examinations. It is the policy of SBA not to approve Leverage where there is an unanswered alleged regulatory violation, where there is a regulatory violation on which SBA and the SBIC have not agreed to a compliance plan, or where SBA and the SBIC disagree on the facts surrounding such an allegation or the interpretation of the facts as they relate to the regulation alleged to have been violated. However, SBA may accept an application under these circumstances if ample justification exists. An applicant SBIC’s capital adequacy, asset quality, management performance, earnings capability, and liquidity characteristics are the principal measurements that are to be used in reaching the financial decision to approve Leverage.

SBICs present different degrees and types of risk and vary widely in their characteristics, many of which could affect the performance of an SBIC in meeting its payment obligations under a debenture. These characteristics include age (newly licensed or seasoned), form of business (corporation or partnership), location, type of financing (loan oriented, equity oriented or balanced), stage of financing, industry preference, size, management types, structure (proximity of management to ownership), and ownership (individual, financial parent, institutional, foreign, domestic, passive or active).

Other factors SBA staff considers when reviewing Leverage applications include the degree of commitment of the owners of an SBIC's equity interests, the diversification of its portfolio, its sources of liquidity and the ability of its management. The ability and willingness of the owners of an SBIC's equity interests to maintain and increase their private capital during periods of both favorable and unfavorable performance and conditions is weighed heavily in evaluating Leverage applications.

The Act requires a certain degree of diversification of an SBIC's portfolio; without the approval of SBA, Specialized SBICs with outstanding Leverage may not invest an amount exceeding 30% and other Leveraged SBICs may not invest an amount exceeding 20% of their private capital in any single small business concern. An SBIC's sources of liquidity are generally limited to the following: current revenues from and amortization of assets, maturity and redemption of assets, sales of assets, collections of receivables, private capital increases, new and refunding borrowings from SBA, and cash and idle fund balances.

**SBA believes the possible risks presented by these factors are so interrelated as not to be separately quantifiable. Accordingly, no effort has been made to isolate or compare the effects of any of these factors on the overall risk in the granting of Leverage. The impact of this risk to investors is that each Debenture is subject to acceleration and payment at 100% of its principal amount at any time prior to the stated maturity upon an Acceleration Event. See "Acceleration of Debentures."**

*Use of Proceeds of Debentures.* SBICs use the proceeds of Debentures principally in combination with their private capital to invest in or make loans to small business concerns. SBICs may also use the proceeds of Debentures for operating purposes to provide interim funds during periods in which liquidity is not available from portfolio flows or from the sale of investments. SBICs are permitted, however, under certain circumstances, to develop bank lines of credit or other sources of liquidity so that it will not be necessary for them to depend upon the issuance of the Debentures for short-term needs. See "Description of the SBIC Program."

## TRUST AGREEMENT

The Certificates will be issued pursuant to a Trust Agreement dated as of February 1, 1997 (as amended from time to time, the "Trust Agreement"), among SBA, JPMorgan Chase Bank, as Trustee, and SBIC Funding Corporation, as Fiscal Agent (as defined below). Holders will be entitled to the benefits of such Trust Agreement to the full extent provided therein. No Holder is intended to have, nor shall any Holder have any right by virtue of any provision of the Trust Agreement, to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Trust Agreement. The rights of a Holder against SBA under the Guarantee are direct, and not through the Trustee. The responsibilities of the Trustee, summarized below, are limited to those set forth in the Trust Agreement, and no further responsibilities should be inferred. All references to time herein refer to New York City time.

The Trust Agreement will be available for reasonable inspection and copying by any Holder or its designee, at such person's expense at the Trustee's Corporate Trust Office, 450 West 33rd Street, 8th Floor, New York, New York 10001, Attention: Structured Finance Services (ABS).

*Purchase, Pooling and Exchange of Debentures; Issuance of Certificates.* The Underwriters have agreed to purchase the Debentures from the SBICs together with the Guarantee Agreement of SBA and to combine the Debentures and the Guarantee Agreement into a Pool; pursuant to a Supplement to the Trust Agreement, the Underwriters will then assign to the Trustee without recourse all of their right, title and interest in and to such Debentures and Guarantee Agreement. In exchange therefor, SBA, through its agent JPMorgan Chase Bank, acting in its capacity as Trustee, will issue Certificates representing fractional undivided interests in such Pool to or upon the order of the Underwriters.

*SBA to Act as Servicer.* As guarantor of the Debentures, SBA will service and administer the Debentures and will have full power and authority, acting alone, to do any and all things in connection with such servicing and administration which it may deem necessary or desirable, and will have the sole and exclusive right to take action and assert claims with respect to the Debentures. Such servicing may include enforcing of representations, warranties and covenants, collecting payments, accelerating maturity in the event of a default, taking action to enforce payments and otherwise exercising the rights and pursuing the remedies available to a holder of a Debenture. Without limiting the generality of the foregoing, SBA may execute and deliver, on behalf of the Trustee and the Holders, any and all instruments of satisfaction or cancellation, or of partial or full release or discharge and all other comparable instruments, with respect to the Debentures.

SBA may perform its servicing obligations through such entity as it may designate, provided that at the time of such designation SBA shall give written notice to the Trustee, signed by an authorized official, of such designation.

*Collection of Debenture Payments — Certificate Account.* The Trustee will receive the payments due on the Debentures (other than payments made on a Debenture by an SBIC after the Trustee has received notice of an Acceleration Event with respect to such Debenture) and deposit such payments in the Certificate Account as described hereinafter. SBA has directed each SBIC to make such payments directly to the Trustee by noon on the relevant Payment Date or, in the case of Optional Prepayments, three business days prior to such Payment Date. No later than 2:00 P.M. on the third business day preceding each Distribution Date, the Trustee will notify SBA in writing of any required Guarantee Payment and the amount thereof. SBA will make any required Guarantee Payment by wire transfer to the Certificate Account, as defined herein, not later than 10:00 A.M. on the relevant Distribution Date.

The Trustee will establish and maintain a separate non-interest-bearing trust account (the “Certificate Account”) into which the Trustee will deposit the following payments and collections received by it in respect of principal of and interest on the Debentures: (i) all regular interest payments on the Debentures, including those made by SBA pursuant to the Guarantee Agreement; (ii) all payments on account of principal on the Debentures at their stated maturity, including those made by SBA pursuant to the Guarantee Agreement; (iii) all Optional Prepayments; and (iv) all Acceleration Payments.

The Trustee will not deposit into the Certificate Account any payment received from an SBIC on account of an Optional Prepayment unless such payment conforms to all of the requirements specified in the Trust Agreement for an Optional Prepayment; provided, however, that the receipt of any non-conforming payment will not in any way reduce the obligation of SBA under the Guarantee Agreement. Any late interest payments made by an SBIC and payments on a Debenture, if any, made by an SBIC after an Acceleration Event will be made directly to SBA and will not be deposited into the Certificate Account or otherwise constitute part of the Pool.

*Distributions to the Holders.* On each Distribution Date, the Trustee will distribute to the Holders of record as of the close of business on the first calendar day of the month in which the Distribution Date occurs (the “Record Date”), other than as described herein respecting the final distribution, each such Holder’s pro rata share (based on the aggregate fractional undivided interest represented by Certificates held by such Holder) of all amounts credited to the Certificate Account relating to the Pool as of 10:00 A.M. on the applicable Distribution Date.

*Statements to the Holders.* At the time of each distribution, the Trustee will furnish to each Holder a statement setting forth the following information with respect to the Certificates owned of record by such Holder:

- (i) the amount of such distribution allocable to principal and premium, if any (including a separate breakdown of any Optional Prepayments and Acceleration Payments);
- (ii) the amount of such distribution allocable to interest; and
- (iii) the aggregate amount of the Holder’s fractional undivided interest in the aggregate unpaid principal amount of Debentures in the Pool as of the opening of business on the business day next succeeding the Distribution Date, after giving effect to payments on such Debentures due on the Distribution Date and distributed either as collections or as Guarantee Payments.

In addition, within a reasonable period of time after the end of each calendar year, the Trustee will furnish a report to each Holder at any time during such calendar year as to the aggregate of amounts reported pursuant to (i) and (ii) above for such calendar year or, in the event such person was a Holder of record during a portion of such calendar year, for the applicable portion of such year.

*Information Concerning Acceleration Events and Optional Prepayments.* The Trustee will maintain a record of the aggregate principal amount of all Debentures which have been subject to an Acceleration Event or Optional Prepayment (to the extent the Trustee has been notified by SBA of such Acceleration Event or Optional Prepayment). Such information is generally available from the Trustee to Holders of Certificates by dialing (800) 275-2048, a toll-free telephone number, during the Trustee's normal business hours.

*Waivers and Modifications of Debentures.* SBA may waive, modify or vary any term of any Debenture or consent to the postponement of strict compliance with any such term or in any manner grant indulgence to any SBIC; provided that SBA may not, without the consent of all Holders, permit any modification with respect to any Debenture that would decrease the interest rate, change the terms of prepayment of principal or interest, reduce the outstanding principal amount (except by reason of actual payment of all principal due thereon), change the final maturity date on such Debenture or terminate or otherwise reduce the benefits of the Guarantee Agreement with respect thereto. See "Acceleration of Debentures." Without the consent of all Holders, no change in the payment schedule of any Debenture will alter or affect SBA's Guarantee of timely payment of principal and interest on such Debenture in accordance with the Guarantee Agreement. See "Full Faith and Credit Guarantees."

*Registration of Transfer and Exchange of Certificates.* The Trustee has been appointed Certificate Registrar for the purpose of registering the ownership of Certificates and any transfers and exchanges of Certificates as herein provided. The Trustee will maintain at its Corporate Trust Office a Certificate Register in which, subject to such requirements as it may prescribe, the Trustee will provide for the registration of the Certificates and of transfers and exchanges of Certificates.

A service charge equal to a reasonable fee for the expenses of the Trustee will be charged to the person presenting a Certificate for transfer or exchange, as the case may be, for any registration of transfer or exchange of such Certificate. SBA or the Trustee may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or exchange of Certificates. All fees charged by the Trustee are subject to SBA's prior written approval. The initial fee for transfer or exchange of a Certificate is \$9.50 unless any part of the transaction is handled by mail, in which case the initial fee is \$14.50.

*Disclosure Requirement.* The Act requires each seller of a Certificate, prior to any sale thereof, to disclose to a purchaser information on the terms, conditions and yield of such Certificate. Each Holder, by virtue of its acquisition of a Certificate, will be deemed to agree to such requirements.

*Persons Deemed Owners.* Prior to due presentation of a Certificate for registration of transfer, the Trustee and any agent of the Trustee may treat the person in whose name any Certificate is registered as the owner of such Certificate for the purpose of receiving distributions as described herein and for all other purposes whatsoever, and neither the Trustee nor any agent of the Trustee shall be affected by notice to the contrary.

*Amendments to the Trust Agreement.* The Trust Agreement may be amended from time to time by SBA, the Trustee and the Fiscal Agent, without the consent of any of the Holders; provided, however, that no such amendment shall reduce in any manner the amount of, or delay the timing of, payments received on Debentures, including Guarantee Payments, which are required to be distributed on any Certificate without the consent of the Holder of such Certificate. No amendment, modification, waiver or consent affecting any provision of the Trust Agreement by the parties thereto shall adversely affect the rights of the Holder of any Certificate outstanding at the time of such amendment, modification, waiver or consent.

*Termination.* The respective obligations and responsibilities of SBA and the Trustee with respect to the Pool (other than the obligation of SBA to make payments to Holders as hereafter set forth) shall terminate upon the final payment of the last Debenture in the Pool, whether at the stated maturity of the Debentures, upon an Acceleration Payment or Optional Prepayment of all Debentures constituting the Pool or otherwise.



With respect to any termination on a date other than the stated maturity of the Debentures, the Trustee will give notice of any such termination by letter to the Holders (with a copy thereof to SBA) mailed not later than the fifth business day subsequent to the Payment Date on which all outstanding principal and accrued interest for the Debentures remaining in the Pool have been paid in full as a result of Optional Prepayments, are payable by SBA as a result of Acceleration Events, or a combination of both. Such notice will specify that final payment will be made from the Certificate Account upon presentation and surrender of Certificates at the Corporate Trust Office of the Trustee, on or after the Distribution Date for such Payment Date. If termination occurs upon the stated maturity of the Debentures, no notice will be given and final payment will be made from the Certificate Account on the next following Distribution Date upon presentation and surrender of Certificates at the Corporate Trust Office of the Trustee.

Any monies held by the Trustee for the payment of any Certificate upon termination which remain unclaimed by any Holder for six months after the date the final payment was made, will be repaid to SBA. Holders must thereafter look to SBA for payment of such amounts, and all liability of the Trustee with respect to such amounts will thereupon cease.

### **TRUSTEE**

JPMorgan Chase Bank, a New York banking corporation, or any successor trustee appointed under the Trust Agreement will serve as trustee (the "Trustee") and will perform such duties as specified in the Trust Agreement and as described herein. The Corporate Trust Office of JPMorgan Chase Bank where its duties under the Trust Agreement shall be performed is located at 4 New York Plaza, 6th Floor, New York, New York 10004, Attention: Structured Finance Services (ABS).

J.P. Morgan Chase & Co., the holding company for JPMorgan Chase Bank, wholly owns J.P. Morgan Securities Inc., one of the Underwriters purchasing the Debentures. In addition, J.P. Morgan Chase & Co. owns, directly or indirectly, SBA-licensed SBICs. The Pool of Debentures does not contain any debentures issued by these SBICs.

### **SBIC FUNDING CORPORATION**

The SBIC Funding Corporation is a District of Columbia not-for-profit corporation organized to serve as the fiscal agent ("Fiscal Agent") of SBA to oversee the implementation and continued operation of the Program. SBIC Funding Corporation has been appointed by the SBICs participating in the Program to serve as their selling agent ("Selling Agent"). The SBIC Funding Corporation was organized by the National Association of Small Business Investment Companies ("NASBIC"), a trade association based in the Washington, D.C. area which represents the interests of the SBIC industry before SBA, Congress, and the financial community.

SBIC Funding Corporation, as Fiscal Agent, provides advice and counsel to SBA relating to the development and conduct of the Program. In this regard, the Fiscal Agent consults with the SBIC industry, monitors the financial markets, makes cost reduction recommendations to SBA and assists in assuring that all regulatory requirements of the Program are met. SBIC Funding Corporation, as Selling Agent, reviews and evaluates on a continuing basis underwriting candidates for the Program, manages the offerings of Certificates under the Program, which includes participation in the preparation of appropriate documentation and the acquisition of necessary regulatory clearances, and executes, with SBA's written approval, agreements for the purchase of the Debentures and the issuance of the Certificates. For its services to the Program, the SBIC Funding Corporation is compensated from a fee levied by SBA upon the funding of the Debentures pursuant to Section 303(b) of the Act.

### **LEGALITY OF INVESTMENT**

The Certificates are acceptable as security for the deposit of public monies subject to the control of the United States or any of its officers, agents or employees, and are eligible as collateral for Treasury Tax and Loan Accounts. Under federal law, national banks and state banks which are members of the Federal Reserve System may deal in, underwrite, and purchase for their own account Certificates without regard to any limitation based on capital and surplus.



The Certificates are eligible as security for advances to member banks by Federal Reserve Banks.

## TAX STATUS

The following is a general discussion of certain of the anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Certificates under the Internal Revenue Code of 1986, as amended (the “Code”) without consideration of the particular facts and circumstances of each prospective investor’s special tax situation. The discussion addresses only a beneficial owner of a Certificate that acquires the Certificate at original issuance and that holds the Certificate as a capital asset, and does not address a taxpayer that is not a “United States Person” (as defined below.) The discussion is based on interpretations of laws, regulations, rulings and decisions, all of which are subject to change. Any such change may be applied retroactively and may adversely affect the federal income tax consequences described herein. Such discussion is not binding on the Internal Revenue Service (“IRS”), which may take a contrary view as to the matters discussed herein. **Accordingly, each prospective investor is urged to consult its own tax advisor with respect to the United States federal income tax consequences of holding a Certificate, as well as any consequences arising under the laws of any other taxing jurisdiction.**

*United States Person.* A “United States Person” is a citizen or resident of the United States, a corporation, partnership or other entity organized in or under the laws of the United States or state thereof, including, for this purpose, the District of Columbia (other than a partnership that is not treated as a United States Person under any applicable Treasury regulations) or an estate the income of which is includible in gross income for United States federal income tax purposes regardless of its source, or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States Persons have the authority to control all substantial decisions of the trust. Notwithstanding the preceding sentence, to the extent provided in Treasury regulations, certain trusts in existence on August 20, 1996, and treated as United States Persons prior to such date, that elect to continue to be treated as United States Persons shall also be United States Persons.

*The Pool.* The IRS has issued a number of revenue rulings regarding the characterization, for federal income tax purposes, of pooling arrangements. Based on these rulings, the Pool will be classified for such purposes as a “grantor” trust of which the beneficial owners of Certificates are the grantors. As a consequence, the Pool will not be subject to federal income tax, and each beneficial owner of a Certificate will be treated for federal income tax purposes as the beneficial owner of a fractional undivided interest in the corpus of the Pool and the income and deductions allocable to such interest. Each beneficial owner of a Certificate will be required to report on its federal income tax returns, consistent with its method of accounting, such income, including interest and, as discussed below, the portion of any Optional Prepayment or Acceleration Payment that exceeds its basis in the Certificate allocable to the Debenture being prepaid, as well as any amount paid by SBA as interest under its Guarantee.

The Trustee will furnish to each Holder a statement with respect to each distribution, setting forth the amount of such distribution allocable to principal and interest and the source thereof. In addition, the Trustee will furnish, within a reasonable time after the end of each calendar year, to each person who was a Holder at any time during such year, a statement setting forth such Holder’s share of interest received.

*Prepayment Price.* The portion of the prepayment price received by a beneficial owner of a Certificate in excess of the beneficial owner’s basis allocable to the Debenture that is being prepaid will be treated as capital gain (assuming the Certificate is a capital asset in the hands of the beneficial owner). In general, such gain will be long-term gain if the holding period for the Certificate is over one year, and short-term gain if the holding period for the Certificate is one year or less.

*Characterization of Certificates.* Ownership of the Certificates will be treated as ownership, for federal income tax purposes, of (i) “obligations of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Code, relating to the definition of federal and domestic savings and loan associations and certain other financial institutions; (ii) “government securities” within the meaning of Section 851(b)(3) of the Code, relating to the definition of regulated investment companies; and (iii) “government securities” within the meaning of

Section 856(c)(4)(A) of the Code, relating to the definition of real estate investment trusts. Income from the Certificates, for the federal income tax purposes, will be treated as income from “obligations of the United States or of any agency or instrumentality thereof” within the meaning of Section 895 of the Code, relating to the exemption from withholding tax for foreign central banks of issue in certain circumstances, but will not be treated as interest on “obligations secured by mortgages on real property or interests in real property” within the meaning of Section 856(c)(3)(B) of the Code, relating to the definition of real estate investment trusts.

*State and Local Taxes.* Under Title 31, Section 3124 of the United States Code, as amended, “obligations of the United States” are exempt from state, municipal or local taxes, other than estate or inheritance taxes and nondiscriminatory taxes or other nonproperty taxes imposed on corporations. The United States Supreme Court in 1987 held that certain federally guaranteed trust or pool certificates should not be treated as “obligations of the United States” for purposes of Section 3124, principally because such certificates are secondary, and not primary, obligations of the United States. *Rockford Life Insurance Co. v. Illinois Department of Revenue*, 482 U.S. 182 (1987). The Certificates issued by the agent of SBA, which is an instrumentality of the United States, arguably can be distinguished from the guaranteed certificates under consideration in *Rockford*, which were issued by a private entity. However, the Certificates may be considered to be merely guaranteed by SBA and not clearly direct and certain obligations of SBA. Accordingly, although there are some factual distinctions between the Certificates and the guaranteed certificates in *Rockford*, no opinion is expressed as to the treatment of the Certificates under Section 3124. Nevertheless, the laws of particular states may specifically exempt federally guaranteed securities from some state and local taxes, and prospective investors are urged to consult their own tax advisors to determine the tax treatment of the Certificates in their states.

*Sale or Other Disposition.* If a beneficial owner of a Certificate sells, exchanges or otherwise disposes of a Certificate, the beneficial owner of the Certificate will recognize gain or loss in an amount equal to the difference between the amount realized by the beneficial owner upon the sale, exchange or other disposition and the beneficial owner’s adjusted tax basis in the Certificate. The adjusted tax basis of a Certificate to a particular beneficial owner generally will equal the beneficial owner’s cost for the Certificate, increased by any discount previously included by such beneficial owner in income with respect to the Certificate and decreased by the amount of principal payments previously received by such beneficial owner with respect to the Certificate. Any such gain or loss will be capital gain or loss if the Certificate was held as a capital asset, except for gain representing accrued interest and accrued discount not previously included in income. Capital losses generally may be used only to offset capital gains.

*Backup Withholding.* A backup withholding tax may be imposed on any reportable payment unless the recipient (i) has furnished under penalties of perjury an accurate taxpayer identification number or (ii) is exempt from the backup withholding provisions of the Code. Corporations and certain other entities are, and individuals are not, exempt from the backup withholding provisions. In the case of an individual, the individual’s social security number is his or her taxpayer identification number. A reportable payment would include interest payments to a beneficial owner of a Certificate and proceeds from the sale of a Certificate to or through a broker or dealer in securities prior to the maturity of the underlying Debentures. A reportable payment also would include proceeds from the retirement of an underlying Debenture, paid or credited to an account by a broker or dealer in securities. Any amount withheld under the backup withholding rules from a reportable payment to a beneficial owner of a Certificate would be allowed as a refundable credit against the beneficial owner’s United States federal income tax, provided that the required information is furnished to the IRS.

## **PURCHASES BY EMPLOYEE BENEFIT PLANS — ERISA CONSIDERATIONS**

The acquisition of a Certificate by an employee benefit plan (a “Plan”) subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), could result in prohibited transactions or other violations of the fiduciary responsibility provisions of ERISA and Section 4975 of the Code if, by virtue of such acquisition, the Debentures were deemed to be assets of the Plan. For example, if an employer whose employees are covered by a Plan had entered into a loan with an SBIC whose Debenture was contained in the Pool, the purchase and holding of Certificates by the Plan would constitute prohibited transactions if the Debentures in the Pool were deemed to be assets of the Plan.

The United States Department of Labor has published final regulations concerning whether or not the assets of a Plan will be deemed to include any of the underlying assets of an entity, such as a grantor trust, for purposes of the fiduciary responsibility provisions of ERISA, when a Plan acquires an equity interest in such entity. Under these regulations, the assets in the Pool would not be assets of a Plan if, at all times, less than 25% of the Certificates are held by Plans, individual retirement accounts, other employee benefit plans not subject to ERISA, and entities whose underlying assets include plan assets by reason of investment by Plans in the entities. However, there can be no assurance that this limit will not be exceeded because there are no limitations on who may purchase the Certificates.

Even if the Debentures are deemed to be assets of a Plan, the Department of Labor's regulations may exempt from the prohibited transaction rules of ERISA certain transactions involving such assets. In addition, there are class exemptions, including the following, issued by the Department of Labor that could apply to the purchase and holding of Certificates. These exemptions are for transactions that meet the requirements of the exemption and that are effected by independent qualified professional asset managers or "in-house" asset managers and for certain transactions involving insurance company general and pooled separate accounts and bank collective investment funds (DOL Prohibited Transaction Exemptions 84-14, 96-23, 95-60, 90-1 and 91-38). Also, all state and local government employee benefit plans and certain church plans are exempt from ERISA and therefore are not subject to the plan asset regulations, irrespective of the treatment of the Certificates. Any Plan fiduciary considering the purchase of Certificates therefore should consult its tax and legal advisors regarding these and other issues and their potential consequences.

## LEGAL OPINIONS

The legality of the sale of the Certificates will be passed upon for SBA by the General Counsel of SBA and for the Underwriters by McKee Nelson LLP, Washington, D.C.

## NOTICE

The statements herein with respect to the Certificates and related documents are subject to the detailed provisions of such Certificates and documents, and the statements made herein are qualified in their entirety by reference thereto. Copies of these documents are available at the Trustee's Administration Office.

## UNDERWRITING

The Underwriters named below have severally agreed, subject to the terms and conditions of the Debenture Purchase, Pooling and Exchange Agreement between SBIC Funding Corporation, as Selling Agent of the SBICs, and the Underwriters, to purchase the Debentures together with the related Guarantee Agreement and to exchange such Debentures and Guarantee Agreement for the principal amount of Certificates set forth below opposite their respective names.

<u>Underwriter</u>	<u>Principal Amount of Certificates</u>
J.P. Morgan Securities Inc. ....	\$ 61,510,000
Goldman, Sachs & Co. ....	61,505,000
Credit Suisse First Boston LLC ....	61,505,000
Total .....	<u>\$184,520,000</u>

The Debenture Purchase, Pooling and Exchange Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent, and that the Underwriters will be obligated to purchase all of the Certificates if any are purchased.

SBA has been advised by the Representative of the Underwriters that the Underwriters propose to offer the Certificates to the public initially at the offering price set forth on the cover page of this Offering Circular and to

certain dealers at such price less a concession of 0.30% of the principal amount of the Certificates; that the Underwriters and such dealers may allow a discount of 0.25% of such principal amount on sales to other dealers; and that the public offering price and concession and discount to dealers may be changed by the Underwriters.

The Underwriters are permitted to engage in certain transactions that stabilize the price of the Certificates. Such transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Certificates.

If an Underwriter creates a short position in the Certificates in connection with the offering, i.e., if it sells more Certificates than are set forth opposite its name above, such Underwriter may reduce that short position by purchasing Certificates in the open market. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

Neither SBA nor any of the Underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Certificates. In addition, neither SBA nor any of the Underwriters makes any representation that such Underwriters will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

Certain affiliates of J.P. Morgan Securities Inc. have equity investments in SBICs. In addition, JPMorgan Chase Bank, an affiliate of J.P. Morgan Securities Inc., is the Trustee under the Trust Agreement. See "Trustee."

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No dealer, salesman or other person has been authorized to give any information or to make any representation other than the information and representations contained in this Offering Circular. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Delivery of this Offering Circular does not imply that the information contained in it is correct any time after its date.

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## U.S. Small Business Administration

**\$184,520,000**  
(Approximate)

### Guaranteed 4.120% Debenture Participation Certificates,

Series SBIC 2004-10 A

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## OFFERING CIRCULAR

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**JPMorgan**  
**Goldman, Sachs & Co.**  
**Credit Suisse First Boston**

March 17, 2004

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