

OFFERING CIRCULAR

\$491,455,000  
(Approximate)

**U.S. Small Business Administration**  
Guaranteed 4.754% Participating Securities  
Participation Certificates, Series SBIC-PS 2004-10 B

Evidencing Fractional Undivided Interests In a Pool Comprised of the Rights to Receive Certain Payments on  
4.754% Participating Securities Due August 1, 2014 Issued by

**Small Business Investment Companies**

Distributions of interest payable February 10, May 10, August 10 and November 10, commencing November 10, 2004

**The Certificates:** The U.S. Small Business Administration Guaranteed 4.754% Participating Securities Participation Certificates, Series SBIC-PS 2004-10 B.

- The Certificates represent fractional undivided interests in a pool primarily comprised of the assignment of certain interests in participating securities, which will be issued 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 an assignment by SBA of the right to receive Prioritized Payments and Redemption Payments on \$491,455,000 aggregate face amount of 4.754% SBIC participating securities to be pooled on or about August 25, 2004 for 101 SBICs.

**Payment Dates:** Payment of Prioritized Payments on the participating securities in the Pool will be made on each February 1, May 1, August 1 and November 1, commencing November 1, 2004.

**Distribution Dates:** Distributions of interest on the Certificates will be made on each February 10, May 10, August 10 and November 10, commencing on November 10, 2004.

Each participating security in the Pool is scheduled to be redeemed in full on August 1, 2014 and final distribution in retirement of the Certificates is scheduled for August 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 payment of Prioritized Payments and the payment of Redemption Payments on the participating securities in the Pool and the timely pass-through of such Prioritized Payments and Redemption Payments to Holders of the Certificates. The pass-through of Prioritized Payments represents payment of interest on the Certificates and the pass-through of Redemption Payments represents payment of principal on the Certificates.

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

SBA has the option, in certain circumstances, to exchange the rights to payments on participating securities in the Pool for such rights in respect of participating securities assigned to other pools. See "Exchange of Payments on Participating Securities Between Pools" and "Yield Considerations" herein.

SBA will make Prioritized Payments on behalf of SBICs which have not generated sufficient profits to make such payments, and the failure by such SBICs to make Prioritized Payments will not result in the forced redemption of the related participating securities. **NO ASSURANCE CAN BE GIVEN AS TO THE RATE AT WHICH THE CERTIFICATES WILL PREPAY AS THE RESULT OF EARLY REDEMPTIONS OF THE UNDERLYING PARTICIPATING SECURITIES (WHETHER MANDATORY, OPTIONAL OR FORCED) OR DUE TO SBA'S EXCHANGE RIGHT DESCRIBED IN THIS OFFERING CIRCULAR.**

	<u>Price to Public(1)</u>	<u>Underwriting Discount</u>	<u>Proceeds of the Offering(1)(2)</u>
Per Certificate .....	100%	0.50%	99.50%
Total(3) .....	\$491,455,000.00	\$2,457,275.00	\$488,997,725.00

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

(2) Before deduction of expenses, estimated at \$50,000.

(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 August 25, 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.

**Goldman, Sachs & Co.**

**JPMorgan**

**Credit Suisse First Boston**

The date of this Offering Circular is August 18, 2004.

**OFFERING CIRCULAR SUMMARY**

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

- Guarantor** ..... The U.S. Small Business Administration (“SBA”), an independent agency of the United States.
  
- The Certificates** ..... Guaranteed 4.754% Participating Securities Participation Certificates, Series SBIC-PS 2004-10 B. Each Certificate represents a fractional undivided interest in the Pool comprised of an assignment of the rights to receive certain payments on participating securities in the Pool.
  
- The Pool**..... Upon issuance of the Certificates, the Series SBIC-PS 2004-10 B Pool will consist of: (i) an assignment by SBA of the right to receive Prioritized Payments and Redemption Payments on \$491,455,000 aggregate face amount of 101 4.754% participating securities named in such assignment, (ii) the guarantee agreement pursuant to which timely payment of Prioritized Payments and Redemption Payments on each participating security named in such assignment will be guaranteed by SBA and (iii) an account into which payment by the SBICs and SBA with respect to such participating securities in the Pool will be deposited.
  
- The Participating Securities** ..... Participating securities represent investments in small business investment companies, or SBICs, licensed by SBA pursuant to Section 301 of the Small Business Investment Act of 1958, as amended. Depending on whether the issuing SBIC is a corporation or a partnership, a participating security will be issued as either preferred stock or an income bond or as a preferred limited partnership interest by those SBICs that make equity investments in small business concerns. A participating security provides, in part, for payment of Prioritized Payments at a specified rate and for payment of the face amount, either at maturity or earlier under the mandatory and optional redemption provisions described in this Offering Circular. Each participating security in the Pool will mature on August 1, 2014.
  
- Prioritized Payments** ..... Prioritized Payments on the participating securities in the Pool shall constitute either the payment of dividends on preferred stock, interest on an income bond or a priority return on a preferred limited partnership interest at a rate per annum equal to 4.754%. An SBIC is obligated to make such Prioritized Payments only to the extent it has sufficient profits available to make such payments. If the SBIC does not make the Prioritized Payment on any Payment Date, SBA will make such Prioritized Payment on behalf of the SBIC under the terms of the SBA guarantee.

SBA anticipates that it will be called upon routinely to make such Prioritized Payments for the SBICs in the early years of the lives of such SBICs. SBA expects to be reimbursed any amounts paid in respect of Prioritized Payments under its guarantee over the life of a participating security. See "Description of the SBIC Program-Participating Securities" herein.

**Distribution of**

**Prioritized Payments** .....

Prioritized Payments on the participating securities in the Pool will accrue from the date of original issue of the Certificates and will be payable on each February 1, May 1, August 1 and November 1, commencing November 1, 2004, by the issuing SBICs. Prioritized Payments will be passed through as interest on the Certificates on each February 10, May 10, August 10 and November 10, commencing November 10, 2004, (unless such day is not a business day, whereupon payment shall be made on the next applicable business day) 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. Prioritized Payments are 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 issuance of the Certificates to the first payment date and thereafter from payment date to payment date until the participating securities in the Pool are paid in full. SBA guarantees the payment of Prioritized Payments on the participating securities on each Payment Date and the pass-through of such Prioritized Payments as interest on the Certificates for distribution to the registered holders of record on the related Distribution Date. See "Full Faith and Credit Guarantees" herein.

**Distributions of**

**Redemption Payments** .....

Redemption Payments may be made on any Payment Date prior to the final Distribution Date upon any Mandatory Redemption or Optional Redemption (as described below) and will be passed through pro rata as principal on the Certificates to the registered holders of record on the related Distribution Date. The face amount of a participating security on the original issue date of the Certificates less all prior amounts received as Redemption Payments will be distributed as principal on the Certificates to the registered holders of record thereof on August 10, 2014. SBA guarantees the payment of Redemption Payments on the participating securities on each Payment Date, including payment of the Redemption Price on the final Distribution Date, and the pass-through of such Redemption Payments as principal on the Certificates for distribution to

the registered holders of record on the related Distribution Date. See “Full Faith and Credit Guarantees” herein.

**Mandatory Redemption and  
Optional Redemption . . . . .**

Each participating security is subject to Mandatory Redemption by an SBIC, in whole or in part, on any Payment Date in accordance with the relevant SBA regulations, as amended from time to time, after all Prioritized Payments and other required distributions in respect of such Payment Date have been made by the issuing SBIC on the participating security. In addition, each participating security is subject to Optional Redemption at the option of an SBIC, in whole or in part, on any Payment Date, after certain distributions in respect of such Payment Date have been made by the issuing SBIC on the participating security in accordance with the relevant SBA regulations, as amended from time to time. The amount of any Mandatory Redemptions and Optional Redemptions will be distributed pro rata as principal on the Certificates to the Holders of the Certificates on the Distribution Date for such Payment Date. **Investors are advised that the redemption experience of the participating securities in this Pool cannot be predicted. See “Mandatory Redemption and Optional Redemption of Participating Securities” herein.**

**Forced Redemption Condition and  
Forced Redemption Payment . . . . .**

SBA may force an SBIC to redeem its participating securities if: (i) a Forced Redemption Condition occurs at the SBIC; and (ii) SBA has taken administrative action to transfer the SBIC from operating status into liquidation status. Pursuant to the SBA’s guarantee agreement, upon the occurrence of both of these events, SBA will make a payment of the Redemption Price of the participating security together with any Prioritized Payments accrued to the Payment Date next following the occurrence of both of these events. Any such payment will be distributed pro rata as principal and interest, respectively, on the Certificates to the Holders on the Distribution Date for such Payment Date. See “Forced Redemption of Participating Securities” herein.

**The anticipated frequency and amount of Forced Redemption Payments cannot be predicted and will be influenced by a variety of factors. See “Forced Redemption of Participating Securities” herein.**

**Exchanges of Payments  
on Participating Securities  
Between Pools . . . . .**

In connection with changes to the Participating Security Program designed to facilitate issuance of an IRS Revenue Ruling, the Trust Agreement was revised to provide SBA the ability, in certain circumstances, to exchange one pool’s right to receive payments on a participating security

with another pool's right to receive payments on one or more participating securities assigned to such other pool. Such exchange right may be exercised by SBA only for pools formed after January 1997.

Specifically, if SBA expects that a participating security in one pool will be redeemed in whole or in part on the following Payment Date, then SBA may (in its sole discretion) replace such pool's right to the proceeds of the expected redemption with the right to corresponding future payments on participating securities from another pool; certificateholders relating to such other pool will receive a distribution on the following Distribution Date representing the proceeds of such redemption.

*As a result, the payment experience of the Certificates may be affected by the performance of participating securities in other pools, particularly the extent to which such participating securities become subject to redemption.*

Under the Trust Agreement, redemption payments on a participating security may be replaced only with payments in respect of participating securities which accrue Prioritized Payments at a rate not less than the rate of Prioritized Payments for the redeeming participating security and which mature earlier than such redeeming participating security. Investors should consider SBA's incentive to consummate such exchanges, principally the economic benefit realized from financing the retirement of higher yielding participation certificates with the redemption proceeds from lower yielding participation certificates. In the exercise of its discretion to consummate an exchange, however, it is SBA's policy to consider the effect of exchanges on the cost of funding to SBICs. See "Exchanges of Payments on Participating Securities" and "Yield Considerations" herein. **No assurance can be given as to whether SBA will exercise its discretion to effect payment exchanges, and if it does, the level and timing of such exchanges, and the rate of distributions to Certificateholders in respect of payments exchanged between pools. As of the date of this Offering Circular, SBA has not exercised its exchange right with respect to any pools of SBA guaranteed securities.**

**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 Redemption Payments and Prioritized Payments on the participating securities in the Pool and the timely pass-through of such payments as principal and interest, respectively, to the registered holders of record of the Certificates. **The full faith and credit of the United States is pledged to**

**SBA's Guarantees. See "Full Faith and Credit Guarantees" herein.**

**The 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 act as custodian of the Participating Security Partial Assignment and other documents constituting the Pool and will hold legal title to the Participating Security Partial Assignment and the other assets constituting the Pool on behalf of the Trust and the registered holders of record of the Certificates. Subject to SBA's exchange rights, the Trustee will receive from the Collection Agent all Prioritized Payments and Redemption Payments collected from the SBICs and will receive from SBA all Guarantee Payments on the business day prior to each Distribution Date. The Trustee will distribute to registered holders of record of Certificates such Prioritized Payments and Redemption Payments on the participating securities, including any Guarantee Payments, as payments of interest and principal, respectively, on the Certificates. See "The Trustee" herein.

**The Collection Agent** ..... JPMorgan Chase Bank or any successor collection agent appointed under the Collection Agent Agreement will act as the Collection Agent under a Collection Agent Agreement described in this Offering Circular. The Collection Agent will collect all payments on the participating securities in the Pool, including Prioritized Payments, Redemption Payments and Profit Participation payments from the SBICs on each Payment Date. The Collection Agent will notify the Servicer of all such amounts collected on the participating securities. The Collection Agent will remit to the Trustee all Prioritized Payments and Redemption Payments on the participating securities one business day prior to the related Distribution Date for distribution to the registered holders of record.

**The Servicer** ..... SBA or its agent shall act as Servicer. The Servicer will administer and service the Participating Security Partial Assignment and the participating securities in the Pool. In addition, the Servicer will reconcile amounts paid by the SBICs to the Collection Agent in respect of Prioritized Payments and Redemption Payments and will compute the amount to be paid by SBA under the Guarantee Agreement. The Servicer will notify SBA of the amount required to be paid by SBA in respect of Prioritized Payments and Redemption Payments under the Guarantee Agreement and provide a report to the Trustee of all Prioritized Payments and Redemption Payments, including Guarantee Payments, to be distributed on the related Distribution Date as interest and principal, respectively, on the Certificates to the registered holders of record of the Certificates.

**Denominations** ..... Certificates will be issued in multiples of \$5,000 with minimum original principal amounts of \$100,000. The denomination signifies the registered holder of record's pro rata share of the right to receive Prioritized Payments and Redemption Payments on the aggregate face amount of the participating securities named in the Participating Security Partial Assignment.

**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 entitled to receive a physical certificate representing such person's interest. See "Description of the Certificates — Book-Entry and Physical Certificates."

**Information Concerning Forced Redemption Events, Mandatory Redemption and Optional Redemption** ..... The Servicer will maintain a record of all participating securities which have been subject to Forced Redemption, Mandatory Redemption or Optional Redemption and the amount of any payment made thereon and will provide a report containing such redemption information to the Trustee. Such report will be made available by the Trustee to Holders of the Certificates by dialing (800) 275-2048, a toll-free telephone number, during the Trustee's normal business hours.

**Tax Status** ..... For federal income tax purposes, beneficial owners of certificates will be treated as owning debt of SBA and not as owning an interest in SBIC securities backed by an SBA guarantee. 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" herein.

**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.

**Future Issuances** ..... 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. 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 program appropriations, in market conditions and in SBA policy. See "Description of SBIC Program — Recent Developments" and "— Guaranteed Pools" herein.



## 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 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.

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.

*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, the Small Business Equity Enhancement Act of 1992 (the “Equity Enhancement Act”), amended the Act and authorized SBA to guarantee participating securities. Depending on whether the issuing SBIC is a corporation or a partnership, a participating security is issued as either preferred stock or

an income bond or as a preferred limited partnership interest, by certain SBICs that make equity investments in small business concerns. No Specialized SBICs have been approved to issue participating securities. The regulations for the participating security program are published at 13 C.F.R. Part 107 (2004) and may be amended from time to time (the "Regulations").

The passage of the Equity Enhancement Act and the creation of the participating security created a new relationship between SBA and the venture capital community. SBA understands that venture capital equity investments may be subject to greater risk than other investments and that SBICs issuing participating securities may initially incur losses on their investments. Consequently, SBA anticipates that it will be called upon, pursuant to the terms of SBA's guarantee, to make payments in respect of prioritized payments for the SBICs during the early years of the lives of such SBICs. SBA expects to be reimbursed for any amounts paid under its guarantee and in addition to receive a share of the profits of the SBIC as profit participation payments over the life of a participating security. SBA, however, realizes that the repayment of its guarantee payments and the payment of profit participation will depend on the ability of the SBIC to operate profitably as an equity investor.

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. 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.

*Recent Developments.* After October 1, 2004, SBA may be unable to issue new commitments for participating securities leverage due to changes in the projected net cost of participating securities. Unless Congress significantly increases the fees SBICs must pay for participating securities leverage or appropriates sufficient funds to support the projected net losses or makes other changes to the SBIC program, SBA will not be able to continue to commit new participating securities leverage. SBA cannot predict whether Congress will take such action. SBA's authority to guarantee participating securities issued under commitments made by SBA prior to October 1, 2004, including participating securities issued after October 1, 2004, would not be affected by this change. No assurance can be made as to the timing or amount of any future issuances of SBIC participating securities.

*Debentures.* The Act also 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. 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.

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.

*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 participating security partial assignments and debentures 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 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 \$5,000,000 in order to apply for debenture financing unless the SBIC 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 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 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 security 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. LMI debentures are funded out of the same program level that is 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 and Leverage Requirements.* Under the Act and the Regulations, an SBIC which issues participating securities, whether or not it also issues debentures, is required to have private capital of at least \$10 million unless the SBIC can demonstrate long-term financial viability at a lesser amount.

On August 10, 2004, there was a total of 34 licensed and operating Specialized SBICs with private capital of \$100 million, of which 20 had no outstanding government financings guaranteed by or directly from SBA, and 14, with private capital of \$53 million, had \$31 million of outstanding debenture borrowings from or guaranteed by SBA (exclusive of \$7 million in aggregate currently outstanding LMI debentures) and \$25 million in preferred securities purchased and held by SBA. None of such debentures are held by the Interim Funding Provider pending the next scheduled public debenture funding.

On August 10, 2004, there was a total of 400 licensed and operating SBICs other than Specialized SBICs with private capital of \$12.4 billion, of which 289 had no outstanding debenture borrowings guaranteed by SBA, and 111, with private capital of \$1.9 billion, had \$1.73 billion of outstanding debenture borrowings guaranteed by SBA (exclusive of \$25 million in aggregate currently outstanding LMI debentures). One hundred twenty-nine of such outstanding debentures, with a principal amount of \$200 million are held by the Interim Funding Provider pending the next scheduled public debenture funding.

One hundred eighty-nine of the operating SBICs other than Specialized SBICs with private capital of \$4.9 billion are eligible to issue participating securities to SBA. From February 1995 through August 10, 2004, 209 SBICs have issued Participating Securities, including the Participating Securities included in the current Pool, to SBA in the aggregate amount of approximately \$5.98 billion (including the Participating Securities in this pool). Seven of these SBICs eligible to issue participating securities with private capital of \$120 million also had outstanding debenture borrowings guaranteed by SBA. The Participating Securities in the Pool have been issued on or before August 10, 2004, and are being repurchased from the Interim Funding Provider with the offering proceeds from the sale of the Certificates.

Sixteen of the operating SBICs other than Specialized SBICs with private capital of \$231 million were originally licensed as Specialized SBICs. These 16 SBICs converted their licenses and are no longer restricted to investments in disadvantaged small businesses. On August 10, 2004, four of these converted SBICs had \$16 million in preferred securities purchased and held by SBA.

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 \$116 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 is available to Specialized SBICs only on the same terms and conditions available to other SBICs.

*Guaranteed Pools.* Section 319 (formerly Section 321) of the Act authorizes the formation of pools of SBIC participating securities guaranteed by SBA and the issuance of guaranteed participation certificates representing fractional undivided interests in such pools. 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 Prioritized Payments and Redemption Payments on such participating securities.

As envisioned under Section 319, the offering hereby of Guaranteed 4.754% Participating Securities Participation Certificates, Series SBIC-PS 2004-10 B (the “Certificates”), representing fractional undivided interests in the “Pool” (as described below), is being undertaken by SBA to provide SBICs with long-term funds for investment activities. The Certificates represent the twenty-sixth issue of 10-year certificates pursuant to Section 319. The earlier issues, aggregating \$5,491,955,000, were sold in underwritten public offerings between February 22, 1995 and February 25, 2004.

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 participating securities, on a semi-annual basis, and the offering of SBA-guaranteed participating securities participation certificates representing fractional undivided interests in such pools (the “Participating Security Program”). In addition, the formation of additional pools comprised of SBA-guaranteed SBIC debentures and the offering of certificates representing fractional undivided interests in such pools are required currently at periodic intervals of not less than every twelve months (the “Debenture Program”). 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. SBA’s plans with respect to future offerings under the Participating Security Program and the Debenture Program 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.

With respect to a holder of a certificate, the Participating Security Program generally is designed to operate similarly to the Debenture Program. Under the Participating Security Program, holders of certificates will receive a pass-through of prioritized payments and redemption payments on the participating securities, as, in effect, interest and principal, respectively, on the certificates, in the same manner as interest and principal on the debentures is passed through as interest and principal on the related certificates. As in the Debenture Program, the holders of certificates under the Participating Security Program are guaranteed the pass-through of payments on the participating securities as interest and principal on the Certificates by SBA under its guarantee of the participating securities and of the certificates. See “Full Faith and Credit Guarantees” herein.

Unlike the Debenture Program, however, where any failure by an SBIC to pay interest on the debenture could result in the acceleration of such debenture by the SBA, the failure by an SBIC to make a prioritized payment if the SBIC does not have sufficient profits to make such payment will

not constitute a condition giving rise to a forced redemption of the participating security by SBA. Under the Participating Security Program, SBA will in fact make prioritized payments under the terms of SBA's guarantee on behalf of those SBICs which have not generated sufficient profits to make such prioritized payments or have not otherwise made such payments on the related Payment Date. In consideration for making such prioritized payments, under the terms of each participating security SBA is entitled to be reimbursed for such guarantee payments and to receive a share of the profits of the SBIC. These reimbursement payments to SBA, however, will not affect distributions of interest to certificateholders, and certificateholders will receive such interest and principal on the certificates regardless of whether the related SBIC reimburses or makes such payments to SBA.

### **DESCRIPTION OF THE POOL OF PARTICIPATING SECURITIES**

Upon issuance of the Certificates, the Pool will consist of: (i) an assignment of the right to receive Prioritized Payments and Redemption Payments on \$491,455,000 aggregate face amount of 4.754% Participating Securities named in such assignment (the "Participating Security Partial Assignment") issued by a total of 101 SBICs licensed by SBA pursuant to Section 301 of the Act; (ii) the guarantee agreement pursuant to which timely payment of Prioritized Payments and Redemption Payments on each Participating Security named in the Participating Security Partial Assignment will be guaranteed by SBA (the "Guarantee Agreement"); and (iii) an account into which payment by the SBICs and SBA with respect to the Participating Securities will be deposited. The Trustee (as defined herein) is the holder of legal title to the Participating Security Partial Assignment on behalf of the Trust for the benefit of the holders of the Certificates (the "Holders") and the funding of the Participating Securities is being arranged by sale of the beneficial interest in the right to receive the Prioritized Payments and Redemption Payments on each Participating Security to the Holders. The largest Participating Security named in the Participating Security Partial Assignment is in the amount of \$18,200,000; the smallest Participating Security named in the Participating Security Partial Assignment is in the amount of \$375,000; the median of the Participating Securities named in the Participating Security Partial Assignment is in the amount of \$4,000,000. Four Participating Securities included in the Pool with an initial face amount of approximately \$14,685,000 are the initial issuances of participating securities by 4 SBICs. See "Mandatory Redemption and Optional Redemption of Participating Securities — Priority of Mandatory Redemptions and Optional Redemptions." The aggregate principal balance of the Pool is subject to a permitted variance of plus or minus 5%.

### **DESCRIPTION OF PARTICIPATING SECURITIES**

Participating Securities represent equity-type investments in small business investment companies licensed by SBA pursuant to Section 301 of the Act. Depending on whether the issuing SBIC is a corporation or a partnership, a Participating Security issued by an SBIC will be either preferred stock or an income bond or a preferred limited partnership interest. A Participating Security provides, in part, for payment of dividends on preferred stock, interest on an income bond or a priority return on a preferred limited partnership interest at a rate per annum equal to 4.754% ("Prioritized Payments") and for payment of the face amount, either at maturity or earlier under the mandatory and optional redemption provisions (collectively, "Redemption Payments"). Each Participating Security requires repayment of its face amount less all prior amounts received as Redemption Payments (the "Redemption Price") on August 1, 2014. Prioritized Payments on the Participating Securities will accrue from the date of original issue and will be payable quarterly on February 1, May 1, August 1 and November 1 of each year (each a "Payment Date") by the issuing SBICs, to the extent such SBICs have sufficient profits available to make such payments. Prioritized Payments are computed 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 Participating Security to the first Payment Date and thereafter from Payment Date to Payment Date until its maturity. Each Participating Security also provides that

the SBIC must make certain Mandatory Redemption payments and may make certain Optional Redemption payments in accordance with the Regulations. See “Mandatory Redemption and Optional Redemption of Participating Securities” herein.

Pursuant to the Guarantee Agreement, SBA guarantees the payment of Prioritized Payments and Redemption Payments on the underlying Participating Securities on each Payment Date. As an inducement for SBA’s guarantee, SBA will be entitled to share in the profits of an SBIC that are generated from such SBIC’s investments which are made before the related Participating Security is redeemed (“Profit Participation”). In this respect, each Participating Security will provide for the payment of Profit Participation to SBA and the reimbursement to SBA of amounts previously paid by SBA in respect of Prioritized Payments.

The SBICs are required to make payment of Prioritized Payments and Redemption Payments on the Participating Securities to the Collection Agent (as defined herein). The Collection Agent will deliver to the Trustee all such Prioritized Payments and Redemption Payments made by the SBICs one business day prior to the related Distribution Date. In addition, any amounts required to be paid by SBA under the Guarantee Agreement in respect of Prioritized Payments and Redemption Payments (“Guarantee Payments”) will be paid directly to the Trustee on or before one business day prior to the related Distribution Date. The Trustee will distribute all amounts received in respect of Prioritized Payments and Redemption Payments as interest and principal, respectively, on the Certificates to the Holders thereof.

#### **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 the Pool. The fractional undivided interest of each Certificate is calculated by dividing the amount stated on the face of the Certificate by the aggregate of the face amounts of the Participating Securities named in the Participating Security Partial Assignment as of the date of pooling. The principal amount represented by the Certificates and the aggregate outstanding face amounts of the Participating Securities will decline proportionately to the extent the Participating Securities are redeemed pursuant to Mandatory Redemptions, Optional Redemptions or Forced Redemption Payments. Certificates will be issued in original principal amounts of \$100,000 or integral multiples of \$5,000 in excess thereof.

Redemption Payments and Prioritized Payments made by the SBICs will be made to the Collection Agent on the Payment Date and the Collection Agent will remit such amounts to the Trustee one business day prior to the related Distribution Date. In the event an SBIC fails to make payment of any Redemption Payments or Prioritized Payments on a Payment Date, the Servicer (as defined herein) will notify SBA of such failure and SBA will, in turn, make payment of such amounts directly to the Trustee on or before one business day prior to the related Distribution Date in accordance with the Guarantee Agreement. See “Full Faith and Credit Guarantees” herein.

The Trustee shall distribute any Prioritized Payments and Redemption Payments that it receives on the Participating Securities (including Guarantee Payments made by SBA) to the Holders as interest and principal, respectively, on the Certificates on each February 10, May 10, August 10 and November 10 of each year (unless such day is not a business day, whereupon payment shall be made upon the next applicable business day) beginning November 10, 2004 (each, a “Distribution Date”).

#### **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 selected by the Seller, 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 issue 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 Prioritized Payments on the Participating Securities because the distribution of Prioritized Payments that accrue on the Participating Securities in respect of any quarterly accrual period ending on each February 1, May 1, August 1 and November 1, as the case may be, will not be made until the related Distribution Date, which occurs on February 10, May 10, August 10 and November 10, respectively, following the payment of Prioritized Payments on the Participating Securities.

The yields to investors will be sensitive in varying degrees to the rate of redemptions on the Participating Securities (and to the rate of redemptions on participating securities in other pools as to which SBA may effect an exchange as described herein). The rate of redemptions among the Participating Securities is expected to vary among such Participating Securities.

Investors should note that the redemption experience on the Participating Securities may be affected by a variety of economic, tax, geographic, demographic, social and other factors. Any Optional Redemption, Mandatory Redemption or Forced Redemption Payment will, subject to the exercise of SBA's exchange right, be passed through pro rata to the Holders as principal on the

Certificates on the related Distribution Date. See “Mandatory Redemption and Optional Redemption of Participating Securities” and “Forced Redemption of Participating Securities” herein.

Redemption proceeds distributed to investors (as a result of the exercise of SBA’s exchange right or otherwise) may occur during declining interest rate environments; in such cases, the yields at which an investor may be able to reinvest amounts representing such proceeds may be lower than the rate on the Certificates. Conversely, relatively lesser amounts may be available for distribution to investors (as a result of a reduced rate of redemptions or the exercise of SBA’s exchange right) during increasing interest rate environments, thereby reducing the availability of amounts for reinvestment at such higher rates. No assurance can be given as to the level and timing of redemptions on the Participating Securities. Similarly, no assurance can be given as to the level and timing of payment exchanges between pools, which will be affected by, among other things, the rate of redemptions on participating securities (including the Participating Securities), SBA’s election to effect such exchanges (which, in turn, will depend on the economic benefit to be realized from any proposed exchange and SBA policy at such time), and the availability of pools of Substitute Participating Securities (as defined herein). See “Exchanges of Payments on Participating Securities Between Pools” herein.

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

Pursuant to Section 303 of the Act, SBA guarantees the payment of Prioritized Payments and Redemption Payments on each Participating Security on the Payment Dates (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 Participating Securities.

**The full faith and credit of the United States is pledged to the Section 303 Guarantee. In the event an SBIC fails to make Prioritized Payments or Redemption Payments on its Participating Security on a Payment Date, SBA, pursuant to the Section 303 Guarantee, will make payment of such Prioritized Payments or Redemption Payments on or before one business day prior to 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 Prioritized Payments and Redemption Payments received on the Participating Securities by the Trustee as principal and interest on the Certificates (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 Prioritized Payments and Redemption Payments on the Participating Securities. 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 Participating Security is redeemed, in whole or in part, as a result of any Mandatory Redemption or Optional Redemption or is redeemed, in whole, upon the occurrence of a Forced Redemption Event, SBA’s Section 319 Guarantee will be reduced in proportion to the amount of Prioritized Payments and Redemption Payments such redeemed Participating Security 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 Participating Security 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.

**MANDATORY REDEMPTION AND OPTIONAL REDEMPTION  
OF PARTICIPATING SECURITIES**

*Mandatory Redemptions.* Participating Securities are subject to mandatory redemption by an SBIC (“Mandatory Redemption”), in whole or in part, on any Payment Date in accordance with the Regulations after all Prioritized Payments and any tax distributions, if permitted by the Regulations, have been made on the Participating Security. The Regulations require that if, after making all Prioritized Payments and any such tax distributions, an SBIC has net cumulative earnings as of its fiscal year end (after giving effect to any reduction for unrealized depreciation on its investments) and provided that such SBIC meets any liquidity requirements set forth in the Regulations, a distribution in an amount equal to such net cumulative earnings must be made to the SBIC’s private investors and to SBA, as the holder of the SBIC’s participating security. The amount distributable to SBA as its share of any such distribution is determined by the ratio of (i) the amount of participating securities, debentures and preferred securities (“Leverage”) issued by the SBIC to (ii) the SBIC’s private capital. If an SBIC’s outstanding Leverage at the time of the distribution exceeds two times its private capital, SBA will receive an amount equal to the actual ratio of outstanding Leverage to the sum of private capital plus outstanding Leverage, multiplied by the total amount distributable. If an SBIC’s outstanding Leverage exceeds 100% but does not exceed 200% of its private capital, SBA will receive one-half of such distribution. If an SBIC’s outstanding Leverage does not exceed 100% of its private capital, SBA will receive an amount equal to the product of the Profit Participation Rate\* and the total amount distributable.

Any amount distributable to SBA as described in the preceding paragraph is applied, first, to amounts due SBA in respect of Profit Participation, second, to dividends or equivalent distributions on preferred securities issued by Specialized SBICs and third, as a Mandatory Redemption, in whole or in part, of the Participating Securities.

The amount of any Mandatory Redemptions will be distributed pro rata to the Holders of the Certificates on the Distribution Date for such Payment Date.

*Mandatory Redemption Distribution Example:*

The following example illustrates how a participating security may be partially redeemed by an SBIC when it makes a required distribution of its earnings.

The distribution example has been prepared on the basis of the following assumptions: (1) the SBIC’s outstanding Leverage exceeds 100% but is less than 200% of its private capital (*i.e.* SBA will receive one-half of amounts required to be distributed based on net cumulative earnings); (2) cumulative earnings equal \$800,000; (3) a combined federal and state income tax rate of 45%; (4) all Prioritized Payments on the participating security have been made; and (5) the Profit Participation Rate is equal to 10%:

Cumulative earnings after Prioritized Payments .....	\$800,000	
Less: total tax distribution** .....	<u>360,000</u>	
Net cumulative earnings after tax distributions .....		440,000
Less: amounts distributed to the SBICs’ private investors .....		<u>220,000</u>
Amounts distributable to SBA:		
Total .....		220,000
Less: Profit Participation .....		<u>44,000</u>
Mandatory Redemption Payment .....		<u>\$176,000</u>

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\* The “Profit Participation Rate” shall be recomputed, in accordance with the Regulations, on each Payment Date on which a Mandatory Redemption will be made, on the basis of a rate which shall not exceed 12% and is a factor of the highest ratio of an SBIC’s participating securities to its private capital, subject to adjustment based on the yield-to-maturity on Treasury bonds with a remaining term of ten (10) years at the issuance date of the participating security.

\*\* Tax distributions are at the option of the SBIC in accordance with the Regulations.

**The foregoing distribution example is intended for illustrative purposes only to provide an understanding of how a participating security may be partially redeemed by an SBIC when it makes a required distribution of its earnings. Variations in the assumptions for each particular SBIC will increase or decrease the amount of Mandatory Redemptions for any given level of earnings.**

*Optional Redemptions.* In addition to Mandatory Redemptions, each Participating Security is subject to redemption at the option of an SBIC (“Optional Redemption”), in whole or in part, on any Payment Date after all required distributions, including those Prioritized Payments, Mandatory Redemption payments, and Profit Participation payments that the SBIC is required to pay, have been made on the Participating Security in accordance with the Regulations. Optional Redemptions may occur regardless of whether the SBIC has cumulative earnings which would require a Mandatory Redemption and regardless of whether the SBIC has sufficient profits to pay Prioritized Payments. For example, Optional Redemptions may occur if an SBIC has cash available for distribution as a result of the sale, whether at a gain or a loss, of an investment in a small business concern.

The amount of Optional Redemptions will be distributed pro rata to the Holders of the Certificates on the Distribution Date for such Payment Date.

*Priority of Mandatory Redemptions and Optional Redemptions.* An SBIC is permitted to issue participating securities on more than one occasion and therefore may have several tiers of participating securities outstanding on any Payment Date. Mandatory Redemptions and Optional Redemptions by an SBIC that has several tiers of participating securities outstanding on a Payment Date will be applied in order of priority based on the original issue date of such participating securities. Accordingly, an SBIC making a Mandatory Redemption or an Optional Redemption will first redeem the participating security with the earliest issuance date, in whole, prior to making any Mandatory Redemption or Optional Redemption of participating securities issued thereafter. Four Participating Securities included in the Pool with an initial face amount of approximately \$14,685,000 are the initial issuances of participating securities by 4 SBICs.

***Mandatory and Optional Redemption Experience.* From the inception of the Participating Security Program on February 22, 1995 through August 10, 2004, excluding the Participating Securities included in the current Pool, an aggregate of \$5,491,955,000 original issue amount of Participating Securities had been issued; during this period, \$1,142,190,107 of these Participating Securities had been redeemed as a result of Mandatory Redemptions and Optional Redemptions. The terms for the Mandatory Redemption or Optional Redemption of a Participating Security are substantially different from the optional prepayment provisions of SBA guaranteed debentures. Therefore, investors should be advised that the optional prepayment experience of SBA guaranteed debentures is not relevant or material to the offering of the Certificates hereunder. INVESTORS SHOULD BE ADVISED THAT THE MANDATORY REDEMPTION OR OPTIONAL REDEMPTION EXPERIENCE OF THE PARTICIPATING SECURITIES CANNOT BE PREDICTED AND WILL BE INFLUENCED BY A VARIETY OF FACTORS.**

## **FORCED REDEMPTION OF PARTICIPATING SECURITIES**

*Forced Redemption Event.* A forced redemption of a Participating Security can occur only if a Forced Redemption Condition (as defined herein) has occurred and SBA has taken an administrative action to transfer the SBIC from operating status into liquidation status. Upon the occurrence of such condition and the taking of such action by SBA, SBA may then take further action to force the SBIC to redeem the Participating Security (a “Forced Redemption Event”). Pursuant to its Guarantee, upon the occurrence of a Forced Redemption Event SBA will make a payment of the Redemption Price of the Participating Security (a “Forced Redemption Payment”) together with any Prioritized Payments accrued to the Payment Date next following the Forced Redemption Event. The Forced Redemption Payment and any such accrued Prioritized Payments will be paid by SBA to the Trustee

on or before one business day prior to the Distribution Date for such Payment Date. On the related Distribution Date, the Trustee will distribute such Forced Redemption Payment and accrued Prioritized Payments that it has received pro rata as principal and interest, respectively, on the Certificates to the Holders thereof. After the occurrence of a Forced Redemption Event, any Redemption Payments and Prioritized Payments on a Participating Security made by the SBIC which would otherwise be made to the Collection Agent will be made directly to SBA.

Despite a Forced Redemption Condition, SBA may, in its sole discretion, refrain from transferring an SBIC into liquidation status and thereby avoid or delay the forced redemption of the Participating Security. See “— Procedure for Forced Redemption of Participating Securities” herein. The Regulations grant SBA the right (i) to require the SBIC to remove the officers and/or directors responsible for the occurrence of the Forced Redemption Condition and to replace such individuals with new officers and directors as approved by SBA and/or (ii) to initiate proceedings for the appointment of SBA or its designee as receiver of the SBIC for the purposes of continuing to operate such SBIC. However, such a decision by SBA will not affect SBA’s obligation to make all payments on the Participating Security as required pursuant to its Guarantee in the event of an SBIC’s failure to make such payments. See “Full Faith and Credit Guarantees” herein.

*Forced Redemption Condition.* A Forced Redemption Condition (“Forced Redemption Condition”) shall mean the occurrence of any of the following conditions: (i) the SBIC becomes equitably or legally insolvent, or has a Capital Impairment Percentage (as defined in the Regulations) greater than 100% and has not cured such capital impairment within the time limits set by SBA; (ii) the SBIC makes a voluntary assignment for the benefit of creditors; (iii) the SBIC commences any liquidation or reorganization proceeding or any receivership, dissolution or other similar creditor’s rights proceeding, or such action is initiated against the SBIC and is not dismissed within sixty days; (iv) the SBIC violates certain provisions of the Regulations, and such violations result in a transfer of control of the SBIC; (v) the SBIC commits a fraudulent act which causes serious detriment to SBA’s position as a guarantor or as a holder of a preferred interest in the SBIC; (vi) the SBIC makes any transfer or incurs any obligation that is fraudulent under the terms of 11 U.S.C. 548 (the Bankruptcy Code); and (vii) the failure by the SBIC to comply with any substantive provision of the Act or any substantive Regulation thereunder.

The failure by an SBIC to pay Prioritized Payments on any Payment Date because such SBIC has not generated sufficient profits from investments to make the Prioritized Payments shall not constitute a Forced Redemption Condition. In such case, pursuant to the Guarantee Agreement, SBA will make the Prioritized Payment on behalf of the SBIC and will be entitled to reimbursement from such SBIC.

*Procedure for Forced Redemption of Participating Securities.* 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.

When the Office of SBIC Operations determines that a Forced Redemption Condition exists with respect to an SBIC, the staff may seek to resolve the problems through cooperative efforts with the SBIC. In such circumstances, SBA will forbear the forced redemption of Participating Securities during the work-out period. SBA will make payments under its guarantee with respect to such Participating Securities during this forbearance period and will seek to recover those payments from the SBIC. There is no set time limit for the forbearance. SBA decides how long to continue the period of forbearance based upon the facts of each case. If efforts to cure the condition fail, SBA has a number of options available to it, including the transfer of the SBIC from operating status into liquidation status in order to protect the 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. At this point, a notice may be sent to the SBIC citing violations, making demand for payment of the Participating Security and advising the SBIC that

it has been transferred to liquidation status. If SBA has demanded such payment from the SBIC, SBA will make a payment under its Guarantee of the outstanding Redemption Price and Prioritized Payments accrued with respect to such SBIC's Participating Security to the next scheduled Payment Date one business day prior to the next scheduled Distribution Date for such Payment Date.

***Forced Redemption Experience.*** From the inception of the Participating Security Program on February 22, 1995 through August 10, 2004, excluding the Participating Securities included in the current Pool, an aggregate of \$5,491,955,000 original issue amount of Participating Securities had been issued; during this period, \$1,073,997,694 of these Participating Securities had been redeemed as a result of a Forced Redemption Event. Forced redemption of a Participating Security may result from a variety of factors including the occurrence of any one or more of the Forced Redemption Conditions, none of which are predictable. Accordingly, the anticipated rate of prepayments on the Certificates due to redemptions as a result of Forced Redemption Events cannot be determined. Additionally, because the procedures and standards for forced redemption of Participating Securities are different from the standards and procedures followed in respect of debentures guaranteed by SBA, the historical acceleration data with respect to the acceleration of SBA guaranteed debentures is not indicative of future forced redemptions of participating securities. **INVESTORS SHOULD BE ADVISED THAT THE FORCED REDEMPTION EXPERIENCE OF THE PARTICIPATING SECURITIES CANNOT BE PREDICTED AND WILL BE INFLUENCED BY A VARIETY OF FACTORS.**

#### **EXCHANGES OF PAYMENTS ON PARTICIPATING SECURITIES BETWEEN POOLS**

In connection with changes to the Participating Security Program designed to facilitate issuance of the Revenue Ruling, the Trust Agreement was revised to provide SBA the ability, in certain circumstances, to exchange one pool's right to receive all or a portion of the payments on a participating security with another pool's right to receive all or a portion of the payments on a participating security. Such exchange right may be exercised by SBA only in respect of pools formed after January 1997.

Specifically, if SBA expects that a Participating Security or a portion thereof will be the subject of a Mandatory, Optional or Forced Redemption on the succeeding Payment Date (such security, a "Redeemable Participating Security"), SBA may exchange the Pool's rights to all or a portion of the proceeds of such expected redemption for the rights to all or a portion of corresponding future payments (representing the allocable portion of redemption proceeds and Prioritized Payments) in respect of one or more participating securities previously assigned to a separate pool (such security, a "Substitute Participating Security"). In such event, Certificateholders would not receive a distribution in respect of such anticipated redemption on the following Distribution Date (which would have been the case absent such exchange). Conversely, to effect such an exchange in respect of a Redeemable Participating Security relating to another pool, SBA may assign all or a portion of the expected redemption payment to the Pool in exchange for the assignment to such other pool of all or a portion of corresponding future payments on one or more Participating Securities in the Pool. In such event, Certificateholders would receive a distribution representing such redemption payment on the following Distribution Date, even if no Participating Security originally assigned to the Pool had been redeemed.

Under the Trust Agreement, payment rights in respect of a Redeemable Participating Security may be assigned only to pools of participating securities which (i) bear Prioritized Payments at rates *no less* than the rate for such Redeemable Participating Security, and (ii) mature *earlier* than such Redeemable Participating Security. Conversely, payment rights in respect of a Substitute Participating Security may be assigned only to pools of participating securities which (i) accrue Prioritized Payments at rates *no higher* than the rate for such Substitute Participating Security, and (ii) mature

*later* than such Substitute Participating Security (*i.e.*, in the case of participating securities with ten-year maturities, pools of participating securities issued *after* such Substitute Participating Security). In addition to the Certificates offered hereby, SBA's exchange right is applicable to the following series:

<u>Series</u>	<u>Maturity Date</u>	<u>Rate of Prioritized Payments</u>
SBIC-PS 1997-A	February 2007	7.08%
SBIC-PS 1997-B	May 2007	7.31%
SBIC-PS 1997-C	August 2007	6.85%
SBIC-PS 1997-D	November 2007	6.51%
SBIC-PS 1998-A	February 2008	6.12%
SBIC-PS 1998-B	August 2008	6.25%
SBIC-PS 1999-A	February 2009	6.10%
SBIC-PS 1999-B	August 2009	7.54%
SBIC-PS 2000-A	February 2010	8.017%
SBIC-PS 2000-B	August 2010	7.449%
SBIC-PS 2001-A	February 2011	6.64%
SBIC-PS 2001-B	August 2011	6.344%
SBIC-PS 2002-A	February 2012	6.03%
SBIC-PS 2002-B	August 2012	5.199%
SBIC-PS 2003-A	February 2013	4.524%
SBIC-PS 2003-B	August 2013	5.136%
SBIC-PS 2004-A	February 2014	4.504%

SBA's ability to exercise its exchange right will be affected by the availability of outstanding pools of participating securities with the requisite payment characteristics (*i.e.*, the maturities and Prioritized Payment rates described above). The formation of such pools will depend in part on the level of prevailing interest rates, from time to time, following the issuance of the Certificates. For example, a reduced interest rate environment will permit the issuance of pools of participating securities from which SBA may assign redemption payments to the Pool in exchange for corresponding payment rights on the Participating Securities. See "Yield Considerations" herein.

*As a result of the SBA's exchange right, the payment experience of the Certificates may be affected by the performance of participating securities in other pools (i.e. to the extent such participating securities become subject to redemption).* No assurance can be given as to whether SBA will exercise its discretion to effect payment exchanges, and if it does, the level and timing of such exchanges and the rate of distributions representing redemption proceeds. Nevertheless, investors should recognize SBA's economic incentive to consummate such exchanges: first, the net effect of any exchange is generally to finance the retirement of higher yielding participation certificates with lower yielding participation certificates, thereby limiting SBA exposure and liability; and second, in connection with any exchange, SBA is entitled to retain Prioritized Payments on any Substitute Participating Security in excess of the Prioritized Payment rate on the related Redeemable Participating Security. In the exercise of its discretion to consummate an exchange, however, it is SBA's policy to consider the effect of exchanges on the cost of funding to SBICs. As of the date of this Offering Circular, SBA has not exercised its exchange right with respect to any pools of SBA guaranteed securities.

Exchanges will be effected in accordance with the terms of the Trust Agreement and pursuant to assignments (each, an "Exchange Assignment") delivered by the Trustee and SBA. For purposes hereof, references to Participating Securities shall include any Substitute Participating Securities or Redeemable Participating Securities as to which payment rights have been assigned to the Pool. In addition, references to the Participating Security Partial Assignment herein shall give effect to any rights assigned to the Pool or therefrom by virtue of the delivery of an Exchange Assignment.

## 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 and participating securities.

*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 majority 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 Participating Security 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 Participating Security 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. See "Description of the SBIC Participating Security Program" herein.

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 the 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 participating security. These characteristics include age (newly licensed or seasoned), form of



business (corporation or partnership), location, type of financing, 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).

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 SBICs with outstanding Leverage 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 refunded borrowings or preferred equity 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.**

*Use of Proceeds of Participating Securities.* SBICs use the proceeds of Participating Securities in combination with their private capital to make equity investments in small business concerns. SBICs may also use proceeds of Participating Securities to prepay outstanding debentures issued by such SBICs. See "Description of the SBIC Program" herein.

## 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, the 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, 14th Floor, New York, New York 10001, Attention: Structured Finance Services (ABS).

*Purchase, Pooling and Exchange of Participating Security Partial Assignment; Issuance of Certificates.* The Underwriters have agreed to purchase the Participating Security Partial Assignment together with the Guarantee Agreement from SBIC Funding Corporation and to combine the Participating Security Partial Assignment and the Guarantee Agreement into a Pool. Pursuant to a Supplement to the Trust Agreement, the Underwriters will then assign to JPMorgan Chase Bank, as Trustee, without recourse, all of their right, title and interest in and to such Participating Security Partial Assignment 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 Participating Security Partial Assignment, SBA will service and administer the Participating Security Partial Assignment 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 Participating Security Partial Assignment and the Participating Securities. SBA may perform certain or all of its servicing obligations through such entity or agent as it may designate (SBA or such entity or agent herein referred to as the "Servicer"), provided that at the time of such designation SBA shall give written notice to the Trustee in accordance with the terms of the Trust Agreement. Such servicing may include enforcing representations, warranties and

covenants, reconciling payments, making demand for payment upon the occurrence of a Forced Redemption Event, taking action to enforce payments and otherwise exercising the rights and pursuing the remedies available to a holder of a Participating Security. 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 Participating Securities.

*Collection of Participating Security Payments — Certificate Account.* JPMorgan Chase Bank or any successor collection agent appointed under the Collection Agent Agreement will act as the collection agent (the “Collection Agent”). Pursuant to the terms of the Collection Agent Agreement, the Collection Agent will receive all payments on the Participating Securities from the SBICs (other than payments made on a Participating Security by an SBIC after the Collection Agent has received notice of a Forced Redemption Event), including Prioritized Payments, Redemption Payments and Profit Participation payments. SBA will direct each SBIC to make such payments directly to the Collection Agent by noon on the relevant Payment Date. The Collection Agent will notify the Servicer of amounts received by the Collection Agent from the SBICs. The Servicer will reconcile the amounts paid by the SBICs and will notify SBA in writing of any Guarantee Payments required to be paid by SBA under the Guarantee Agreement. The Servicer will provide to the Collection Agent and the Trustee a copy of such notification sent to SBA and a report setting forth all amounts in respect of Prioritized Payments and Redemption Payments to be paid to the Trustee by the Collection Agent and to be paid to the Trustee by the SBA as Guarantee Payments.

The Trustee will establish and maintain a separate non-interest-bearing account (the “Certificate Account”) for the deposit of amounts received from the Collection Agent and SBA. The Collection Agent will remit to the Trustee for deposit in the Certificate Account one business day prior to the related Distribution Date all Prioritized Payments and Redemption Payments made by the SBICs on the Participating Securities. In addition, SBA will make any required Guarantee Payments directly to the Trustee by wire transfer to the Certificate Account on or before one business day prior to the related Distribution Date. If the Trustee determines at any time that amounts deposited in the Certificate Account are insufficient to make the required distributions on the Certificates, the Trustee shall immediately notify SBA and SBA shall make any necessary payment under its Guarantee. The Trustee will distribute to the Holders all amounts that it has received as interest and principal on the Certificates on the related Distribution Date.

*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 the close of business on the business day immediately preceding the related Distribution Date.

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

- (i) the amount of such distribution allocable to the principal of the Certificates;
- (ii) the amount of such distribution allocable to interest on the Certificates; and
- (iii) the aggregate amount of the Holder’s fractional undivided interest in the outstanding principal balance of the Certificates as of opening of business on the business day next succeeding the Distribution Date, after giving effect to payments on such Certificates due on the Distribution Date and distributed either as collections or as Guarantee Payments.

The statement to Holders will also include a separate breakdown of the aggregate amount of any Mandatory Redemptions, Optional Redemptions and Forced Redemption Payments on the

Participating Securities. In addition, within a reasonable period of time after the end of each calendar year, the Trustee will furnish a report to each person who at any time during such calendar year was a Holder a report 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 Forced Redemption Events, Mandatory Redemptions, Optional Redemptions and Payment Exchanges between Pools.* The Servicer will maintain a record of all Participating Securities which have been subject to any Forced Redemption Event, Mandatory Redemption or Optional Redemption and the amount of any payment made thereon and will provide a report containing such redemption information to the Trustee. Such report will be made available by the Trustee to Holders of the Certificates by dialing (800) 275-2048, a toll-free telephone number, during the Trustee's normal business hours. In addition, the Servicer will maintain a record of payment exchanges and make such information available to Certificateholders.

*Waivers and Modifications of Participating Securities.* SBA may waive, modify or vary any term of any Participating Security 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 Participating Security that would decrease the Prioritized Payment rate, change the terms of any Mandatory or Optional Redemption, reduce the outstanding Redemption Price amount (except by reason of actual payment of Redemption Payments or Forced Redemption Payments made thereon), change the final maturity date on such Participating Security or terminate or otherwise reduce the benefits of the Guarantee Agreement with respect thereto. Without the consent of all Holders, no change in the payment schedule of any Participating Security will alter or affect SBA's Guarantee of the payment of the Prioritized Payments and Redemption Payments on the Participating Security in accordance with the Guarantee Agreement. See "Full Faith and Credit Guarantees" herein.

*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 the Participating Securities, 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 Participating Security named in the Participating Security Partial Assignment, whether at the stated maturity of the Participating Securities, upon a Forced Redemption Payment, Mandatory Redemption or Optional Redemption of all Participating Securities named in the Participating Security Partial Assignment or otherwise.

With respect to any termination on a date other than the stated maturity of the Participating Securities, 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 of the outstanding Redemption Prices and accrued Prioritized Payments for the remaining Participating Securities have been paid in full as a result of Mandatory Redemptions and Optional Redemptions, are payable by SBA as a result of Forced Redemption 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 Participating Securities, 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.

## **THE TRUSTEE**

JPMorgan Chase Bank, a New York banking corporation, or any successor trustee appointed under the Trust Agreement will serve as the 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 450 West 33rd Street, 14th Floor, New York, New York 10001, Attention: Structured Finance Services (ABS). The Trust Agreement provides that the Trustee may resign at any time upon at least 60 days notice to SBA and the Trustee may be removed by SBA at any time upon at least five days notice to the Trustee. Upon any such resignation or removal of the Trustee, SBA shall appoint a successor Trustee which is eligible as trustee under the provisions of the Trust Agreement.

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 Participating Security Partial Assignment. In addition, J.P. Morgan Chase & Co. owns, directly or indirectly, SBA-licensed SBICs. The Participating Security Partial Assignment does not include any Participating Securities 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 Participating Security 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 Participating Security Program. In this regard, the Fiscal Agent consults with the SBIC industry, monitors the financial markets, makes cost reduction recommendations to SBA, assists in assuring that all regulatory requirements of the Participating Security Program are met and executes, with SBA’s written approval, the Participating Security Partial Assignment and agreements for the purchase of the Participating Security Partial Assignment and the issuance of the Certificates. SBIC Funding Corporation, as Selling Agent, reviews and evaluates on a continuing basis underwriting candidates for the Participating Security Program, assists with the issuance of the Participating Securities and manages the offerings of Certificates under the Participating Security Program, which includes participation in the preparation of appropriate documentation and the acquisition of necessary regulatory clearances. For its services to the Participating Security Program, the SBIC Funding Corporation is compensated by the SBICs and from a fee levied by SBA upon the funding of the Participating Securities 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 who acquires a Certificate at original issuance and who holds the Certificate as a capital asset, and does not address the tax consequences to a taxpayer who 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 (the “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 Persons.* 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, also will be United States Persons.

*Revenue Ruling 97-3.* On December 24, 1996, the IRS issued Revenue Ruling 97-3 (the “Revenue Ruling”) addressing the characterization of an investor’s interest in a trust, such as the Pool, holding the right to Prioritized Payments and Redemption Payments guaranteed by SBA. The IRS concluded in the Revenue Ruling that, for federal income tax purposes, such an investor will be treated as owning debt of the SBA. The IRS stated that the investor’s interest did not represent ownership of the SBIC securities backed by an SBA guarantee. The Revenue Ruling was premised, in part, on SBA possessing certain exchange rights with respect to the participating securities contained in the pool. The Revenue Ruling also was premised on the fact that SBA reasonably expected to disburse and not recover, during the pool’s first three years, an amount exceeding fifteen percent of the Prioritized Payments that would be due on the participating securities in the pool if the Prioritized Payments had to be made regardless of financial condition and were paid in quarterly installments rather than annually (the “Disbursement Expectation”). The Trust Agreement provides SBA with the exchange rights required by the Revenue Ruling, and SBA believes that it has the requisite Disbursement Expectation with respect to the Pool required by the Revenue Ruling. Accordingly, each beneficial owner of a Certificate will be treated for federal income tax purposes as an owner of SBA debt. As a result, each beneficial owner of a Certificate will be required to report on its federal income tax return, consistent with its method of accounting, interest payments with respect to the Certificate. In addition, although not addressed by the Revenue Ruling, the Pool will not be subject to federal income tax.

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.

*Redemption Payments.* Generally, the portion of any payment that is passed through to a beneficial owner of a Certificate as principal on the Certificate in excess of such beneficial owner’s basis in the Certificate 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 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 on 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 not be considered to be clearly direct and certain obligations of SBA for purposes of Section 3124. 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 federal 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 before maturity to or through 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 refundable credit against the beneficial owner's United States federal income tax, provided that the required information is furnished to the IRS.

## **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 Participating Security Partial Assignment were deemed to be an asset of the Plan. For example, if an employer whose employees are covered by a Plan had entered into a loan with an SBIC whose Participating Security was named in the Participating Security Partial Assignment, the purchase and holding of Certificates by the Plan would constitute prohibited transactions if the Participating Security Partial Assignment were deemed to be an asset 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 Participating Security Partial Assignment is deemed to be an asset of a Plan, the Department of Labor’s regulations may exempt from the prohibited transaction rules of ERISA certain transactions involving such asset. 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 Participating Security Partial Assignment Purchase, Pooling and Exchange Agreement between SBIC Funding Corporation, as Fiscal Agent of SBA, and the Underwriters, to purchase the Participating Security Partial Assignment together with the related Guarantee Agreement and to exchange such Participating Security Partial Assignment 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>
Goldman, Sachs & Co. ....	\$163,825,000
J.P. Morgan Securities Inc. ....	163,815,000
Credit Suisse First Boston LLC ....	<u>163,815,000</u>
Total .....	<u>\$491,455,000</u>

The Participating Security Partial Assignment 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 0.125% 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."

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 at any time after its date.

\$491,455,000  
(Approximate)

## U.S. Small Business Administration

Guaranteed 4.754%  
Participating Securities  
Participation Certificates,

Series SBIC-PS 2004-10 B

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## OFFERING CIRCULAR

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

August 18, 2004