



## **Measuring the Role of the SBIC Program in Small Business Job Creation**

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U.S. Small Business Administration*

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## PREFACE

The U.S. Small Business Administration (SBA) oversees the Small Business Investment Company (SBIC) Program, which provides an alternative source of financing for small businesses lacking access to adequate capital from traditional sources, such as banks and credit unions. Since the program's inception in 1958 through December 2015, SBICs have deployed US\$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings.<sup>1</sup>

The goal of this report is to contribute to a deeper understanding of the role that the SBIC Program has played in creating and sustaining jobs in the small business sector using data collected exclusively by the SBA under the SBIC Program. The report addresses key questions concerning the number of jobs created and/or sustained by the program.

The SBA's Office of Investment and Innovation (OII) contracted with the Federal Research Division (FRD) of the Library of Congress for an independent evaluation of the SBIC Program. FRD provides customized research and analytical services on domestic and international topics to agencies of the U.S. government, the government of the District of Columbia, and authorized federal contractors on a cost-recovery basis.

FRD enlisted the aid of two experienced scholars with particular expertise in financial markets to perform this research:

- Dr. John Paglia is a professor of finance at Pepperdine University's Graziadio School of Business and Management, and founding executive director of the Peate Institute for Entrepreneurship. Dr. Paglia also founded and directed the Pepperdine Private Capital Markets Project, which examines the demand for capital by and financing success rates for business owners. The project also examines investments by private equity groups, venture capital firms, and mezzanine funds (among more than a dozen other types of financing), including activity in the lower-middle market, which is defined as the market segment containing businesses with between US\$5 million and US\$100 million in annual revenues.

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<sup>1</sup> U.S. Small Business Administration (SBA), *Offering Circular: Guaranteed 2.507% Debenture Participation Certificate, Series SBIC 2016-10 A*, March 14, 2016, 7, [https://www.sba.gov/sites/default/files/SBIC\\_2016-10A-cusip-831641-FF7.pdf](https://www.sba.gov/sites/default/files/SBIC_2016-10A-cusip-831641-FF7.pdf).

- Dr. David T. Robinson, a professor of finance and the J. Rex Fuqua Distinguished Professor of International Management at Duke University and a research associate at the National Bureau of Economic Research. Dr. Robinson has published several papers in the fields of entrepreneurial finance, venture capital, and private equity, and has conducted a number of studies that analyze the conditions and performance of the financial sector serving young and small businesses, both on the equity side and on the debt side.

The analysis in this report is based on 1995–2014 SBIC data from SBA Portfolio Financing Report (SBA Form 1031) filings, which are submitted by SBICs within 30 days of closing on a financing, and SBA Annual Financial Report (SBA Form 468) filings, which are audited and submitted by SBICs annually. The authors used personal interviews, surveys, and external data sources to augment and validate the data where possible to build the fullest picture possible of the investment behavior of SBIC funds.

This report represents an independent analysis by FRD and the authors, who have sought to adhere to accepted standards of scholarly objectivity. It should not be construed as an expression of an official U.S. government position, policy, or decision.

The SBA makes no representation as to the analysis or calculations performed by the Library of Congress or its employees or contractors and reported in this study. The SBA has not verified the analysis or calculations performed in this study. This study was conducted by third parties not affiliated with the SBA and is intended to be independent from the SBA.

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## OVERVIEW OF FINDINGS

One of the core missions of the U.S. Small Business Administration (SBA) is to help Americans start, grow, and build their own businesses. The SBA’s Small Business Investment Company (SBIC) loan program assists in these efforts by harnessing “the talent of professional investment fund managers to identify and finance promising small businesses.”<sup>2</sup> These small businesses support jobs across a diverse set of industries, including manufacturing, transportation, and technology. For this reason, the SBA approached the Library of Congress’s Federal Research Division (FRD) to assess the following about the jobs created and/or sustained by the SBICs and portfolio companies participating in the program:

- How many jobs have been created by companies that received funding from SBICs?
- How many jobs have been sustained by companies that received funding from SBICs?
- How did the rates of job creation vary according to the type of SBIC that provided the funding?
- How many jobs have been created or sustained per dollar of SBIC financing?
- What have been the government administrative costs associated with the jobs created or sustained?

Statistical analysis of the SBA’s data concerning SBICs has yielded the following answers to these questions:

- The SBIC-funded small businesses in the sample used in this report created almost 3 million jobs during the sample period (October 1995–December 2014). This figure is based on observations from 11,681 SBIC-funded firms.
- The SBIC-funded small businesses in the sample used in this report created or sustained almost 9.5 million jobs during the sample period. *Jobs created or sustained* is an expanded scope of job creation that includes not just the jobs that were added after a firm received SBIC funding, but also those jobs that were maintained in these businesses during the time the companies received such funding.
- Companies funded by non-leveraged SBICs (those that are licensed with the intent of never issuing leverage, which include bank-owned SBICs) created the most number of jobs during the sample period, at 530 jobs per firm on average. Businesses funded by SBICs in the SBA’s participating securities program created the second highest, at 438

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<sup>2</sup> SBA, *The Small Business Investment Company (SBIC) Program Overview*, last updated February 24, 2016, [https://www.sba.gov/sites/default/files/files/SBIC\\_Program\\_Executive\\_Summary\\_2016.pdf](https://www.sba.gov/sites/default/files/files/SBIC_Program_Executive_Summary_2016.pdf).

jobs per firm. Debenture-funded companies created an average of 125 jobs per firm, while businesses financed through the specialized SBIC (SSBIC) created an average of 22 jobs per firm. On average, employment in small businesses funded by these SBIC programs grew by 45.6 percent.

- On average, one new job was created for every US\$14,458 of funding invested through the SBIC Program, while an average of one job was created or sustained for every US\$4,525 invested. Restricting the analysis to only those firms financed through active licensees, the authors found that one new job was created for every US\$16,340 invested, and one job was created or sustained for every US\$4,603 of SBIC funding.
- Between 1999 and 2015, the net government administrative cost<sup>3</sup> was about US\$0.0024 per dollar of funding deployed, or US\$2,400 of government administrative cost for every US\$1 million of capital deployed. This, in turn, means that the average administrative cost was approximately US\$35 per job created, and about US\$11 per job created or sustained.

These findings indicate that SBIC-funded small businesses are a robust source of job creation in the U.S. economy. Yet, the averages reported above mask a tremendous amount of firm-level heterogeneity in job creation.

While the findings in this report show that SBIC-funded small businesses are an important source of job creation, the authors must acknowledge several important caveats and inherent limitations in this analysis. Because the SBIC data only track firms during the time that they are receiving SBIC funding, it is possible that these businesses change their employment patterns after those funds go away. This could result in an over- or under-counting of the current employment numbers in these companies. The authors also do not know the total amount of capital that these businesses received from other sources—funding from banks and other capital providers could be important for many portfolio companies. The SBA only began tracking the size of the round or deal in which the SBIC participated as part of its financing form in 2013, so that they could better understand the contribution to the total financing by SBICs. Based on the analysis, the authors found that, on average, SBICs contributed around 40 percent of the total financing received in each financing round or deal since the SBA started tracking this figure.

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<sup>3</sup> SBA provided administrative costs on the SBIC program from its program overviews. Administrative costs include the direct costs from the operating budget, including contracts, compensation and benefits, but may not include agency wide costs, such as rent and telecommunications and indirect costs. SBA also provided the administrative fees it collected to offset its administrative costs. The net government administrative cost was calculated by subtracting administrative fees from the administrative direct costs identified in its program overview.

A small number of SBIC-funded companies grow to become important job creators, but most do not. Indeed, this finding comports with broader patterns of employment in the small-business sector. A growing body of economics research has stressed that most small businesses do not create jobs; instead, most analysis suggests that a relatively small number of firms is responsible for a relatively large fraction of overall job growth.<sup>4</sup>

Finally, at a conceptual level, it is difficult, if not impossible, to know what employment in these companies would have looked like in the absence of SBIC funding. Thus, it is hard to attach a causal interpretation to the numbers presented here. The statistics on how many dollars were required to create a job should be interpreted with these caveats in mind.

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<sup>4</sup> For example, see Erik Hurst and Benjamin Wild Pugsley, “What Do Small Businesses Do?” (NBER Working Paper 17041, National Bureau of Economic Research [NBER], Cambridge, MA, 2011), <http://www.nber.org/papers/w17041.pdf>; John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda, “Who Creates Jobs? Small vs. Large vs. Young” (NBER Working Paper 16300, NBER, Cambridge, MA, 2012), <http://www.nber.org/papers/w16300.pdf>; and Manuel Adelino, Song Ma, and David T. Robinson, “Firm Age, Investment Opportunities and Job Creation” (NBER Working Paper 19845, NBER, Cambridge, MA, forthcoming).



## BACKGROUND ON THE SBIC PROGRAM

### Description of SBICs

The SBA was established in 1953 to promote the development of small businesses by providing “loans, loan guarantees, contracts, counseling sessions and other forms of assistance.” The organization’s authorizing legislation was the Small Business Act, which created the agency to “aid, counsel, assist and protect, insofar as possible, the interests of small business concerns.” In 1958, the Small Business Investment Act created the SBIC Program, under which the SBA “licensed, regulated and helped provide funds for privately owned and operated venture capital investment firms.”<sup>5</sup> The U.S. government designed the program to provide debt and equity financing to high-risk small businesses lacking access to adequate capital from traditional sources.<sup>6</sup> Since the program’s inception in 1958 through December 2015, SBICs have deployed US\$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings.<sup>7</sup>

### How SBICs Work

Fund managers submit applications to the SBA for licenses to operate SBICs, which typically combine equity investments from private investors—such as pensions, foundations, banks, and high-net-worth individuals—with government-guaranteed debt financing from the SBA. In the process, SBICs leverage their equity capital, resulting in a capital structure (debt-plus-equity financing) that reduces the weighted average cost of capital and boosts returns on equity. The U.S. Congress permits the SBA to guarantee leverage, known as debentures, which are issued to SBICs for up to three times the amount of private equity (although in most cases the limit is set at twice this amount).

The SBIC, typically formed as a limited partnership, invests in a portfolio of small businesses. When formed as a limited partnership, an SBIC—itself a limited partnership—has a general partner that manages the operations of the fund and limited partners who are passive investors. As the investments play out and the SBIC winds down, it repays its debt to the SBA and shares

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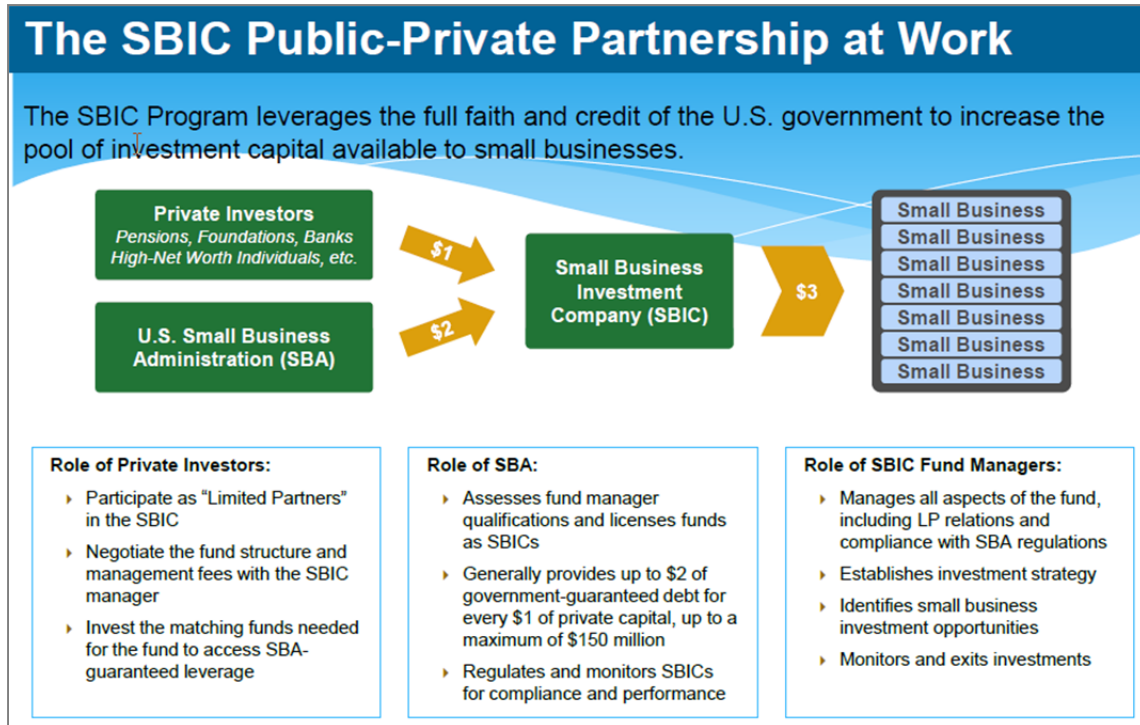
<sup>5</sup> SBA, “History,” accessed April 7, 2016, <https://www.sba.gov/about-sba/what-we-do/history>.

<sup>6</sup> SBA, *The Small Business Investment Company (SBIC) Program Overview*.

<sup>7</sup> SBA, *Offering Circular: Guaranteed 2.507% Debenture Participation Certificate*, 7.

its profits with the investors (see fig. 1).<sup>8</sup> See Appendix II for a full description of the SBIC life cycle.

**Figure 1. SBIC Public-Private Partnership**



Source: “Bridging the Capital Formation Gap: The Small Business Administration’s SBIC Program,” Vimeo video, 57:07, from the Association for Corporate Growth, April 12, 2016, <https://vimeo.com/162594659>.

SBICs enable SBA-guaranteed leverage up to two times the amount of private capital, subject to caps of US\$150 million and US\$350 million for, respectively, individual funds and families of funds.<sup>9</sup> As a result, SBIC business licensees are subject to various investment criteria. The most important criterion is that SBICs must invest in small businesses, which the SBA defines (solely for the purpose of the SBIC Program) as those having less than US\$19.5 million in tangible net worth and an average net income for the preceding two years of less than US\$6.5 million. The SBA also counts small businesses that comply with the agency’s size standards in terms of the

<sup>8</sup> SBA, *The Small Business Investment Company (SBIC) Program Overview*.

<sup>9</sup> SBA, *The Small Business Investment Company (SBIC) Program Overview*.

number of employees or average annual receipts, as calibrated according to industry.<sup>10</sup> These standards are set out in the North American Industry Classification System (NAICS).<sup>11</sup>

The SBIC Program is a particularly attractive investment target for the banking industry for two reasons. First, it is exempt from the Volcker Rule, a provision of the Dodd-Frank Wall Street Reform and Investor Protection Act that prohibits banks from owning hedge or private equity funds.<sup>12</sup> Second, investments in SBICs may qualify for Community Reinvestment Act credits since they are presumed to promote the economic development of all members of a community, including residents of low- and moderate-income neighborhoods.<sup>13</sup> Increased bank participation in the SBIC Program in recent years has steadied investment demand, according to *American Banker* magazine.<sup>14</sup>

### Currently Active SBICs

As of September 30, 2015—the end of the U.S. government fiscal year (FY)—there were 303 licensed SBICs, of which:

- 205 belonged to the ongoing debenture program (generally with a focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing),<sup>15</sup>
- 46 belonged to the discontinued participating securities program (with a high percentage of early-stage investments using equity financing),
- 43 were non-leveraged (generally with a focus on early-stage and later-stage equity investments), and
- 9 belonged to the discontinued SSBIC program (with a focus on minority-, women-, and veteran-owned businesses using primarily loans).<sup>16</sup>

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<sup>10</sup> Compliance with Size Standards as a Condition of Assistance, 13 C.F.R. § 107.700 (2009); What Size Standards are Applicable to Financial Assistance Programs?, 13 C.F.R. § 121.301 (2016).

<sup>11</sup> SBA, “Summary of Size Standards by Industry Standard,” last updated February 26, 2016, <https://www.sba.gov/contracting/getting-started-contractor/make-sure-you-meet-sba-size-standards/summary-size-standards-industry-sector>.

<sup>12</sup> Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships With, Hedge Funds and Private Equity Funds, 79 Fed. Reg. 5535 (January 31, 2014).

<sup>13</sup> Federal Deposit Insurance Corporation, “Interagency Questions and Answers Regarding Community Reinvestment,” last updated April 20, 2014, <https://www.fdic.gov/regulations/laws/rules/2000-6750.html>.

<sup>14</sup> Shane Kite, “SBIC Revival: Why Interest from Banks is Way Up, As the Volcker Rule Looms,” *American Banker*, April 28, 2014, [http://www.americanbanker.com/magazine/124\\_04/sbic-revival-why-interest-from-banks-is-way-up-as-the-volcker-rule-looms-1066822-1.html](http://www.americanbanker.com/magazine/124_04/sbic-revival-why-interest-from-banks-is-way-up-as-the-volcker-rule-looms-1066822-1.html).

<sup>15</sup> Five SBICs in this group have an early-stage focus.

<sup>16</sup> SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015*, accessed September 30, 2016, [https://www.sba.gov/sites/default/files/files/WebSBICProgramOverview\\_September2015.pdf](https://www.sba.gov/sites/default/files/files/WebSBICProgramOverview_September2015.pdf).

For a more detailed explanation of these SBIC programs, see the glossary in Appendix I.

### **Costs of the SBIC Program**

Since the beginning of FY 2000 (October 1, 1999), the SBA has operated the debenture SBIC Program at zero subsidy. The agency accomplishes this by charging SBICs 3 percent up-front fees and annual fees on the leverage balances. The SBA formulates these fees each year, spreading the costs of riskier strategies, such as early-stage investments, across the investment portfolio. As of September 30, 2015, the total amount of private capital and SBA capital at risk in the SBIC Program was approximately US\$25.3 billion.<sup>17</sup>

### **Previous Findings on Job Creation by the SBIC Program**

The first of SBA’s three strategic objectives, as outlined in its FY 2014-18 Strategic Plan, is Strategic Objective 1: “Growing Businesses and Creating Jobs”<sup>18</sup> (The other two were meeting the needs of small businesses and serving as their voice). Given the primacy of job creation to the SBA, it is important to examine how well the agency is doing in this critical area.

Underpinning the SBA’s current claims regarding job creation is the *1999 Arizona Venture Capital Impact Study*, which was conducted by the Zermatt Group. This study concluded that US\$122.2 million of venture capital invested in Arizona businesses in 1997 would generate a company revenue total of about US\$800 million through 2002. Therefore, every dollar of venture capital investment resulted in US\$6.54 in revenue returns over a five-year period. In addition, the investment led to the creation of 3,400 jobs.<sup>19</sup> The ratio of investment (US\$122.2 million) to jobs (3,400) was US\$36,000.

Relying on the Arizona study, the SBA publishes estimates of the numbers of jobs created or sustained by the SBIC Program at the end of each fiscal year explicitly based on the assumption that “[one] job is created for every US\$36,000 of . . . investment (adjusted for inflation).” However, it is not advisable to extrapolate from this metric: It is dated, geographically limited to one state, and focused only on venture capital, which excludes the SBA’s late-stage investment

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<sup>17</sup> SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015*.

<sup>18</sup> SBA, “SBA Strategic Plan, Fiscal Years 2014–2018,” [https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA\\_FY\\_2014\\_-2018\\_Strategic\\_Plan-1.pdf](https://www.sba.gov/sites/default/files/aboutsbaarticle/SBA_FY_2014_-2018_Strategic_Plan-1.pdf).

<sup>19</sup> Justin M. Cook and Sean M. Nevins, *1999 Arizona Venture Capital Impact Study* (n. p.: Zermatt Group, 1999).

efforts. Nevertheless, as of the end of FY 2015, the SBA claimed on this basis that the SBIC Program had created or was sustaining 129,749 jobs—a 15 percent improvement from the previous year.<sup>20</sup>

In 2012, researchers affiliated with the U.S. Census Bureau’s Center for Economic Studies and George Mason University published a study designed to establish whether “SBA loans create jobs.”<sup>21</sup> However, it should be noted that the study assessed the impact of other SBA loan programs—specifically, 7(a) loan programs for small businesses and 504 loans for certified development companies—than the SBIC program of interest here.<sup>22</sup> The study examined matching samples of SBA loan recipients and all U.S. employers from 1976 to 2010 with similar “firm age, industry . . . pre-loan size,” and employment history characteristics. The resulting job creation metric was much more modest than the one for the *1999 Arizona Venture Capital Impact Study*, although the two studies are not comparable. The researchers found “little or no impact of loan receipt [on jobs] *per se*, but an increase of about 5.4 jobs for each million dollars of loans.”<sup>23</sup>

This study is designed to explore the role that the SBIC Program plays in small business job creation based on the most recent data from the SBA’s Office of Investment and Innovation (OII).

## MEASURING THE ROLE OF THE SBIC PROGRAM IN SMALL BUSINESS JOB CREATION

### Methodology

The SBA’s OII, which manages the SBIC Program, provided FRD with its data on SBIC fund managers and portfolio companies in which SBIC funds were invested. The authors restricted

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<sup>20</sup> SBA, *Small Business Investment Company (SBIC) Program Overview as of September 30, 2015*.

<sup>21</sup> J. David Brown and John S. Earle, “Do SBA Loans Create Jobs? Estimates from Universal Panel Data and Longitudinal Matching Methods” (CES Working Paper 12-27, Center for Economic Studies, U.S. Census Bureau, U.S. Department of Commerce, Washington, DC, 2012), <http://www2.census.gov/ces/wp/2012/CES-WP-12-27.pdf>.

<sup>22</sup> According to the SBA, “certified development companies (CDCs) are nonprofit corporations certified and regulated by the [agency], that work with participating lenders to provide financing to small businesses” (“CDC/504 Loan Program: Find a CDC,” accessed April 29, 2016, <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/real-estate-equipment-loans-cdc-504/cdc-504-loan-program-find-cdc>). However, the SBA has clarified that CDCs are generally, but not exclusively, nonprofit corporations.

<sup>23</sup> Brown and Earle, “Do SBA Loans Create Jobs?,” abstract, 14.

their attention to data from October 1995 through December 2014. This data was shared “AS IS” with FRD; that is, as it was reported by SBIC managers to the SBA. The SBA makes no representation or warranty, express or implied, with respect to the content, completeness, or accuracy of the information provided.<sup>24</sup>

The SBIC data provided by OII included information collected from SBA Portfolio Financing Report (SBA Form 1031) and SBA Annual Financial Report (SBA Form 468) filings. The one-page Portfolio Financing Report contains financial and demographic data on small businesses prior to their receipt of capital support through the SBIC Program. The 22-page Annual Financial Report contains annual financials for each SBIC, including employment data on the loans and investments for each year they participate in the program. Schedule 8 of the annual report contains employment and any other general data on the portfolio companies. Copies of both the Portfolio Financing Report and Schedule 8 of the Annual Financial Report are provided in Appendices III and IV. The complete forms can also be found online at: <https://www.sba.gov/sbic/sbic-resource-library/forms>.

### **Number of Portfolio Companies Used in This Analysis**

OII uses the SBA Portfolio Financing Report (SBA Form 1031) to assess various characteristics of small businesses, including employment, *before* their financing events. It uses the SBA Annual Financial Report (SBA Form 468) to assess changes in those companies *while* they participate in the SBIC Program.

To ensure that the analysis was based on the most accurate data possible, the authors excluded the data from portfolio companies that did not submit a Portfolio Financing Report, and only used data from October 1995 to December 2014. The authors also excluded financings that were related to the purchase of taxi medallions by excluding all portfolio companies in NAICS code 48531—these taxi financings were performed primarily by two or three SBICs but skew the measurement of job creation. The resulting data include over 11,500 portfolio companies that received investments from the various funds participating in the SBIC Program (see table 1).

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<sup>24</sup> FRD employees and contractors signed confidentiality agreements, which stipulated they would not “publish, divulge, disclose, or make known in any manner” SBIC data.

**Table 1. Number of Portfolio Companies Receiving Funding from SBIC Funds**

Type of SBIC Fund	Number of Companies
Non-Leveraged	1,788
Debenture	5,596
Participating Securities	2,926
Specialized	1,371
<b>Total</b>	<b>11,681</b>

Occasionally, some portfolio companies may receive funding from different types of SBIC funds. For example, a company may receive financing from both a non-leveraged SBIC and an SBIC licensed through the debenture program. In such instances, that firm would be counted twice—once under each SBIC fund category. However, such instances are extremely uncommon; the analysis presented here is unaffected by excluding such firms.

### Measuring Job Creation

For each portfolio company, an initial employment figure was established by recording the earliest available employment number reported on either the SBA Portfolio Financing Report (SBA Form 1031) or the SBA Annual Financial Report (SBA Form 468). Similarly, the last available employment figure was recorded as the final headcount for each firm.

If the employment data were missing from the first record of an individual portfolio company, the authors took the value from the next record, if available; otherwise, they set the initial headcount as equal to the final headcount in order to obtain a conservative measure of job creation. Similarly, if the final headcount was missing, they took the value from the penultimate record if it was available. These imputations expanded the available data but did not materially affect the calculations that were performed in the analysis.

These calculations gave rise to two distinct measures of job creation: jobs created and jobs created or sustained. The latter—jobs created or sustained—was computed by recording the final headcount for each company. The former—jobs created—was obtained by taking the difference between the final and initial employment figures listed for each company. This is a conservative measure of job creation inasmuch as a great many firms reported maximum employment levels that exceeded the final employment tally that was recorded. In that sense, job growth that was

transient was not included in the calculation. Additionally, this figure does not account for jobs that were created or sustained indirectly.

In terms of interpretation, these two measures—jobs created and jobs created or sustained—are at the extreme ends of the job creation spectrum. On one end, jobs created is the appropriate measure of job creation under the assumption that the initial headcount for each portfolio company would have been sustained in the absence of SBIC funding: in that case, only the incremental employment reflects actual job creation. On the other end, if one were to assume that none of the jobs in the firm would have remained were it not for the SBIC funding that the firm received, then jobs created or sustained is a more appropriate measure of job creation because, in addition to the incremental employment, it also includes the jobs that were not shed over time. Accordingly, jobs created and jobs created or sustained can be interpreted as bounds on the amount of job creation that has occurred as a result of the SBIC Program. The facts at hand may place any specific case somewhere between these two poles, but they provide reasonable bounds on the amount of job creation that has occurred.

### **Measuring Total Investment**

To arrive at a measure of the number of dollars invested per job created, this analysis also tracked the amount of SBIC funding that each portfolio company received. The SBA Portfolio Financing Report (SBA Form 1031) records the amount of debt, equity, and hybrid securities that each firm receives at each financing event. To construct the financing measures, the authors summed the total amounts of each type of funding that the individual companies received. Because this analysis did not attempt to compare individual SBICs with one another in terms of how many jobs were created, the authors aggregated data across SBIC funds in instances where multiple funds invested in the same portfolio company.

### **Measuring the Employment Impact of Investments**

The final step of the analysis measures the employment impact of the SBIC investments by computing the ratio of the total dollars invested by the number of jobs created. Because most firms start small and stay small, though some do add many jobs, the analysis is aggregated down to the level of each SBIC investment program. This allows for a comprehensive picture of the role the overall SBIC Program plays in small business job creation.



## MEASURING THE EMPLOYMENT IMPACT OF THE SBIC PROGRAM

### Measuring Job Creation in SBIC-Funded Portfolio Companies

Table 2 reports the aggregated employment figures for SBIC-funded portfolio companies. The total initial employment in the sample was almost 6.5 million workers across 11,681 firms over a period of nearly 20 years. Summing up the last recorded employment count for all of the firms in the data yields a total of 9,457,965 jobs, which implies that a total number of 2,960,177 jobs were created between October 1995 and December 2014.

**Table 2. Total Job Creation in SBIC-Funded Portfolio Companies**

Type of SBIC Fund	Number of Companies	Total Employment			
		Initial	Final	Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	1,517,224	2,465,657	948,433	2,465,657
Debenture	5,596	3,049,361	3,748,951	699,590	3,748,951
Participating Securities	2,926	1,860,879	3,142,195	1,281,316	3,142,195
Specialized	1,371	70,324	101,162	30,838	101,162
<b>Total</b>	<b>11,681</b>	<b>6,497,788</b>	<b>9,457,965</b>	<b>2,960,177</b>	<b>9,457,965</b>

Breaking the employment data out across the different types of SBIC funds shows a tremendous amount of variation in the numbers of jobs created and jobs created or sustained. For example, the participating securities program was responsible for funding businesses with the highest number of total jobs created (1,281,316), followed by non-leveraged funds (948,433), and then by debenture funds, whose portfolio companies created 699,590 jobs. Debenture-funded portfolio companies created or sustained the most number of jobs (over 3.7 million), with portfolio companies funded through the participating securities program coming in second at slightly over 3.1 million jobs. Non-leveraged SBIC funds created or sustained almost 2.5 million jobs during this period. Relative to the other SBIC programs, firms funded by the specialized program were associated with only modest aggregate employment.

One reason why the total employment figures across the programs differ is that the average firm size varies across the program types. This can be seen in table 3. While an average of 253 jobs were created and 810 jobs were created or sustained per firm, there was significant variation across the groups. Businesses financed by non-leveraged SBICs were the largest in terms of final

employment, with 1,379 jobs created or sustained on average. Firms financed by SBICs from the participating securities program were the second largest, at 1,074 jobs created or sustained on average. Companies financed through the debenture program were a little bigger than half this size, at 670 jobs created or sustained on average, while firms financed through the specialized program were small by comparison.

**Table 3. Jobs Created per SBIC-Funded Portfolio Company**

Type of SBIC Fund	Number of Companies	Jobs per Company		Job Creation Rate
		Created	Created or Sustained	
Non-Leveraged	1,788	530	1,379	0.63
Debenture	5,596	125	670	0.23
Participating Securities	2,926	438	1,074	0.69
Specialized	1,371	22	74	0.44
<b>Total/Average</b>	<b>11,681</b>	<b>253</b>	<b>810</b>	<b>0.46</b>

The programs also differ in terms of the average numbers of jobs created and created or sustained. The final column of table 3 divides the number of jobs created by the initial head count to report a job creation rate. The non-leveraged and participating securities programs created the most number of jobs per job sustained, at over 0.6 jobs created per initial job, while the average across the whole sample was about one-half job created per initial job. The reasons for the differences in job creation may be attributed to the type of financings provided by each of these different funds. The next section considers the types of financings provided by these different SBICs.

### Measuring Total Investment in SBIC-Funded Portfolio Companies

Table 4 shows that the portfolio companies in the sample across all SBIC programs accounted for a financing total of almost US\$43 billion from October 1995–December 2014. Slightly over US\$17 billion (40 percent) of that funding came through the debenture program. SBICs in the non-leveraged and participating securities programs each accounted for around US\$12 billion (30 percent) of financing. The specialized program was small in comparison—\$774 million (1.8 percent).

**Table 4. Total Dollars Invested by Type of Fund and Security**

Type of SBIC Fund	Number of Companies	Total Invested Overall by Security Type (in US\$ millions)			
		Debt	Debt/Equity	Equity	Total
Non-Leveraged	1,788	\$739	\$2,274	\$9,422	\$12,435
Debtenture	5,596	\$7,311	\$6,263	\$3,607	\$17,181
Participating Securities	2,926	\$817	\$2,280	\$9,311	\$12,408
Specialized	1,371	\$487	\$160	\$127	\$774
<b>Total</b>	<b>11,681</b>	<b>\$9,355</b>	<b>\$10,976</b>	<b>\$22,468</b>	<b>\$42,799</b>

The fact that the amounts of debt and equity vary according to the type of fund is a reflection of the different investment strategies commonly used by funds in each program. Not surprisingly, for example, the vast majority of financing provided through the debtenture program is either debt or a hybrid of debt and equity—for example, mezzanine debt with warrants attached. The numbers also reflect the fact that, occasionally, funds operating under different programs may invest in the same portfolio company.

As shown in the table above, over 75 percent of the non-leveraged and participating securities financing dollars were in the form of equity, while less than 21 percent of the debtenture and specialized financing dollars were through equity. These types of SBICs also showed the highest job creation rates, which is a reflection of the natural tendency for equity investments to be more common among higher risk, higher growth companies, while debt investments are more common among lower risk, lower growth companies.

### **Measuring the Employment Impact of SBIC Funding**

Table 5 provides a calculation of the ratio of SBIC financings to jobs created and jobs created or sustained. The bottom row of the table shows that, across the board, SBIC programs invested a total of approximately US\$14,500 per job created, while a little over US\$4,500 was invested per job created or sustained.

**Table 5. Ratio of SBIC Dollars Invested to Jobs Created and Jobs Created or Sustained by Type of Fund**

Type of SBIC Fund	Number of Companies	Ratio: Total SBIC Financing per Job <sup>25</sup>	
		Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	\$13,112	\$5,043
Debenture	5,596	\$24,559	\$4,583
Participating Securities	2,926	\$9,684	\$3,949
Specialized	1,371	\$25,108	\$7,654
<b>Total/Average</b>	<b>11,681</b>	<b>\$14,458</b>	<b>\$4,525</b>

As with the earlier analyses, there is substantial variation in these dollars-per-job-created figures depending on the type of fund. Firms funded through the non-leveraged program, for example, created jobs at a rate of around US\$13,000 in SBIC financing per job created, while companies funded through the debenture program created jobs at a rate of approximately US\$25,000 of SBIC financing per job created.

The programs also rank differently in terms of the dollars invested per job created or sustained, largely because the average firm size varies across the program types. For instance, portfolio companies financed through the non-leveraged program come in at an average of around US\$5,000 in SBIC financing per job created or sustained, while businesses financed through the specialized program created or sustained jobs at a rate of over US\$7,600 per job.

As a final step, the authors investigated whether there have been important changes over time in the ratio of financing dollars per job created or sustained. To do this, they restricted attention to only those firms financed by active licensees. Limiting the sample in this way allowed them to consider whether the costs have changed over time. The sample breakdown for firms financed by active licensees is in table 6.

<sup>25</sup> This figure only represents SBIC financing dollars per job. As noted previously, the authors do not know the total amount of capital that these businesses received from other sources—funding from banks and other capital providers could be important for many portfolio companies. The SBA only began tracking the size of the round or deal in which the SBIC participated as part of its financing form in 2013, so that they could better understand the contribution to the total financing by SBICs. Based on analyzing this data, the authors found that, on average, SBICs contributed around 40 percent of the total financing received in each financing round since the SBA started tracking this figure. Using a 40 percent contribution, the total financing dollars from all sources per job would be \$36,145 per job created and \$11,313 per job created or sustained.

**Table 6. Number of Portfolio Companies Receiving Funding from Active SBIC Licensees**

Type of SBIC Fund	Number of Companies
Non-Leveraged	390
Debenture	2,041
Participating Securities	548
Specialized	199
<b>Total</b>	<b>3,178</b>

Lastly, table 7, which highlights the ratio of total SBIC financings to the numbers of jobs created and jobs created or sustained by fund type among active licensees, shows higher average financing dollars per job than the overall analysis. This is particularly the case among firms financed through the debenture program, which shows an average cost of just over US\$33,000 per job created and around US\$5,200 per job created or sustained. It is important to recognize this because table 7 restricts attention to active licensees only, where there is a preponderance of newer investments, many of which may not have had sufficient time to grow. These numbers should be interpreted with that caveat in mind.

**Table 7. Ratio of Total SBIC Financings to Jobs Created and Jobs Created or Sustained by Type of Fund for Active SBICs**

Type of SBIC Fund	Number of Companies	Ratio: Total Financing to Jobs	
		Created	Created or Sustained
Non-Leveraged	390	\$11,214	\$4,616
Debenture	2,041	\$33,646	\$5,203
Participating Securities	548	\$5,801	\$3,081
Specialized	199	\$661,031	\$7,106
<b>Total/Average</b>	<b>3,178</b>	<b>\$16,340</b>	<b>\$4,603</b>

## MEASURING THE GOVERNMENT COST OF THE SBIC PROGRAM

It is important to recognize that the calculations presented above relate program dollars invested to jobs created and jobs created or sustained, not the taxpayer costs associated with these jobs. The taxpayer costs of these jobs is the net administrative costs of the SBIC Program (the gross administrative costs less the licensing and examination fees) minus the incremental tax revenue generated by firms and individuals that would not have been generated in the absence of the program.

As table 8 demonstrates, the taxpayer costs associated with these programs is small relative to the amount of dollars deployed. Indeed, the SBA has operated the debenture SBIC Program at zero subsidy since FY 2000. Overall, the SBIC Program provided US\$57.2 billion of financing dollars between 1999 and 2015 for a net administrative cost of approximately US\$138 million, or roughly one penny of net administrative costs for every US\$4 deployed.

**Table 8. Breakdown of SBIC Administrative Costs**

Item	Amount
Total SBIC Financing Dollars	\$57,229,853,052
Total SBIC Administrative Expenses	\$185,080,017
Minus Licensing and Exam Fees	\$46,727,000
Net Administrative Costs	\$138,353,017
Net Administrative Costs per Financing Dollar	\$0.0024

Source: SBA provided administrative costs on the SBIC program from its program overviews. Administrative costs include the direct costs from the operating budget, including contracts, compensation and benefits, but may not include agency wide costs, such as rent and telecommunications and indirect costs. SBA also provided the administrative fees it collected to offset its administrative costs. The net government administrative cost was calculated by subtracting administrative fees from the administrative direct costs identified in its program overview. Financing dollars were based on Form 1031 data.

Based on an average administrative cost of one cent per US\$4 deployed, table 9 reports the administrative cost per job created and per job created or sustained. The taxpayer costs associated with these jobs is quite low.<sup>26</sup> The calculation reported in table 9 does not account for the fact that taxes are paid by both employees and the companies. At some level, the administrative costs per job reported here are offset even further by the income taxes paid by employees who would not otherwise be working, by companies that would not otherwise be generating profits, and by investors who would not otherwise be earning returns.

<sup>26</sup> The administrative costs for the participating securities program are substantially higher if the subsidy costs of the government leverage issued are included in the calculation. The SBA's fiscal year 2017 budget estimates these subsidy costs of government leverage at 26.3 cents per dollar, which implies a cost of 18.28 cents per dollar for the participating securities program. This raises the total administrative costs to US\$1,771 per job created and US\$771 per job created or sustained through the participating securities program. These subsidies do not impact the costs associated with the other SBIC investment programs.

**Table 9. SBIC Administrative Costs per Job Created and Job Created or Sustained**

Type of SBIC Fund	Number of Companies	Ratio: Total SBIC Financing per Job		Ratio: Administrative Cost per Job	
		Jobs Created	Jobs Created or Sustained	Jobs Created	Jobs Created or Sustained
Non-Leveraged	1,788	\$13,112	\$5,043	\$31.70	\$12.19
Debtenture	5,596	\$24,559	\$4,583	\$59.37	\$11.08
Participating Securities	2,926	\$9,684	\$3,949	\$23.41	\$9.55
Specialized	1,371	\$25,108	\$7,654	\$60.70	\$18.50
<b>Total/Average</b>	<b>11,681</b>	<b>\$14,458</b>	<b>\$4,525</b>	<b>\$34.95</b>	<b>\$10.94</b>

## CONCLUSION

Congress created the SBA's SBIC Program in 1958 and since the program's inception through December 2015, SBICs have deployed US\$80.5 billion in capital (two-thirds from the private sector) into approximately 172,800 financings. This study has assessed the job creation that resulted from this investment activity.

The authors' analysis indicates that SBIC-funded small businesses created almost 3 million jobs during the sample period, which extended back to October 1995 and ran through December 2014. In addition, these SBIC-funded small businesses created or sustained almost 9.5 million jobs during this time.

Putting these jobs and financing figures together reveals that, on average, one new job was created for every US\$14,458 of funding invested through the SBIC Program, while an average of one job was created or sustained for every US\$4,525 invested. If attention is restricted to only those portfolio companies financed by active licensees, the ratios are one job created for every US\$16,340 invested, and one job created or sustained for every US\$4,603 invested. While these numbers are qualitatively similar, it is important to recognize that the time period covered by the active licensees is more heavily influenced by the Great Recession in the late 2000s than the overall sample.

These findings indicate that SBIC-funded small businesses are a robust source of job creation in the U.S. economy. Nevertheless, it is important to point out the limitations that are inherent in

this type of analysis. Because the SBA's SBIC data only track firms during the time that they are receiving SBIC funding, it is possible that these businesses could grow or shrink after this funding ceases, which could result in job gains or losses that would go unmeasured by this analysis. In addition, the analysis presented here does not account for any potential funding that firms received from non-SBIC sources.

A more important shortcoming stems from the inherent difficulty in establishing causal interpretations to the numbers presented here. Because it is practically impossible to know what employment in these businesses would have looked like in the absence of SBIC funding, it is difficult to take a stand on whether the SBIC funding caused the job creation, or whether similar levels of job creation could have been achieved through alternative means of financing. Ultimately, questions of this nature go far beyond the scope of the current analysis.

These caveats notwithstanding, the analysis presented here, when compared to previous estimates for the private equity industry, suggests that the ratio of investments to jobs is at least as attractive in the SBIC Program as is found elsewhere in the private equity sector as a whole. Moreover, because the program operates at a relatively low administrative cost, the government costs per job created and per job created or sustained is easily outweighed by the tax revenues generated by the employment, profits, and returns of the firms that receive the investments.



## APPENDIX I. GLOSSARY

### **Community Reinvestment Act**

Enacted by Congress in 1977, the Community Reinvestment Act is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate.

### **Debenture**

A corporate finance term that refers to a medium- to long-term debt instrument used by large companies to borrow money at a fixed rate of interest. For the purposes of the Small Business Investment Company (SBIC) Program, while authorized under the Small Business Investment Act to have a maximum term of 15 years, substantially all SBIC debentures are issued for a 10-year term.

### **Debt Financing**

Financing based on debt instruments, such as bond issues or long-term notes payable.

### **Debt-Plus-Equity Financing**

Financing based on debt instruments, such as bond issues or long-term notes payable, and equity, such as common stocks, preferred stocks, or retained earnings.

### **Dodd-Frank Wall Street Reform and Consumer Protection Act**

Signed into law by President Barack Obama on July 21, 2010, this act is intended to promote the financial stability of the United States by improving accountability and transparency in the financial system, to protect American taxpayers by ending bailouts, and to protect consumers from abusive financial services practices, among other purposes.

### **Equity Capital/Financing**

Money raised by a business in exchange for an ownership share of the company, by either owning shares of stock outright or having the right to convert other financial instruments into stock. Two key sources of equity capital for new and emerging businesses are angel investors and venture capital firms.

### **Hybrid Financing**

Combined debt and equity financing.

### **Leverage**

The ratio of a company's loan capital (debt) to the value of its common stock (equity).

**Licensee**

A private investment fund licensed as an SBIC by the U.S. Small Business Administration (SBA).

**Limited Partnership**

A partnership consisting of a general partner, who manages the business and has unlimited personal liability for the business's debts and obligations, and a limited partner, who has limited liability but cannot participate in the management of the business.

**Lower-Middle Market**

The market segment containing businesses with between US\$5 million and US\$10 million in annual revenues.

**Mezzanine Financing**

Mezzanine debt is used by companies that are cash-flow positive to fund further growth through expansion projects, acquisitions, recapitalizations, and management and leveraged buyouts. When mezzanine debt is used in conjunction with senior debt, it reduces the amount of equity required in the business. As equity is the most expensive form of capital, it is most cost effective to create a capital structure that secures the most funding, offers the lowest cost of capital, and maximizes return on equity.

**North American Industry Classification System (NAICS)**

The standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. economy.

**Office of Investment and Innovation (OII)**

The office within the SBA that operates the SBIC Program.

**Portfolio Company**

An entity in which a venture capital firm, buyout firm, holding company, or other investment fund invests. All of the companies currently backed by a private equity firm can be referred to as the firm's portfolio.

**Private Equity/Capital**

An asset class consisting of equity securities and debt in operating companies that are not publicly traded on a stock exchange. A private equity investment will generally be made by a private equity firm, a venture capital firm, or an angel investor.

## Private Equity Fund

A collective investment scheme used to make investments in various equity (and, to a lesser extent, debt) securities according to one of the investment strategies associated with private equity.

## SBA Annual Financial Report (SBA Form 468)

The OII uses the Annual Financial Report to assess changes in SBICs while they participate in the program. SBICs submit them quarterly and they are audited annually.

## SBA Portfolio Financing Report (SBA Form 1031)

The OII uses the Portfolio Financing Report to assess various characteristics of small businesses before their financing events. SBICs submit the form within 30 days of the close of financing. This form contains portfolio concern financing and supplementary information that the SBA uses to evaluate an SBIC's investment activities and compliance with SBIC Program requirements. The agency also pools the information provided by individual SBICs on these forms to analyze the SBIC Program as a whole and the impact of SBIC financings on the growth of small businesses.

## SBIC Funds (by Type)

**Bank-owned:** Bank-owned SBIC funds are typically non-leveraged financings. Banks sometimes prefer owning the SBICs themselves because doing so allows them to have more control over where the fund investments are made while avoiding the risks associated with leveraged financing. These SBICs generally focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing.

**Debenture:** Debenture SBICs generally focus on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing

**Non-leveraged:** Non-leveraged SBIC funds make up approximately 15 percent of the active SBICs. Generally focused on later-stage, mezzanine, and buyout investments using primarily debt and hybrid financing, their private capital is not supplemented with SBA-guaranteed debentures.

**Participating Securities:** The SBIC Program's participating securities effort was the SBA's original attempt to infuse funding into the venture capital industry. It began in 1994, in time to catch the dot-com wave, and was suspended in 2004, when the SBA stopped issuing new licenses. Under the program, the SBA matched up to twice the amount of private capital raised by a qualified firm. Some venture capital businesses, such as Triathlon, which raised its debut fund under the initial program, succeeded, but others floundered.

**Specialized:** The specialized SBIC program was authorized between 1969 and October 1996 to target “disadvantaged” businesses, meaning those that were at least 50 percent owned, controlled, and managed on a day-to-day basis by a person or persons whose participation in the free enterprise system was hampered because of social or economic disadvantages.

### **Small Business**

A business with less than US\$19.5 million in tangible net worth AND an average after-tax income for the preceding two years of less than US\$6.5 million; OR, a business that qualifies as “small” under NAICS code standards (which are generally based on annual sales or the number of employees).

### **Venture Capital**

Early-stage funding for startup companies that are high on risk but also high on potential. Venture capital is a type of equity financing that addresses the funding needs of entrepreneurial companies that—for reasons of size, assets, and stage of development—cannot seek capital from more traditional sources, such as public markets and banks. Venture capital investments are generally made as cash in exchange for stock shares and an active role in the invested company.

### **Volcker Rule**

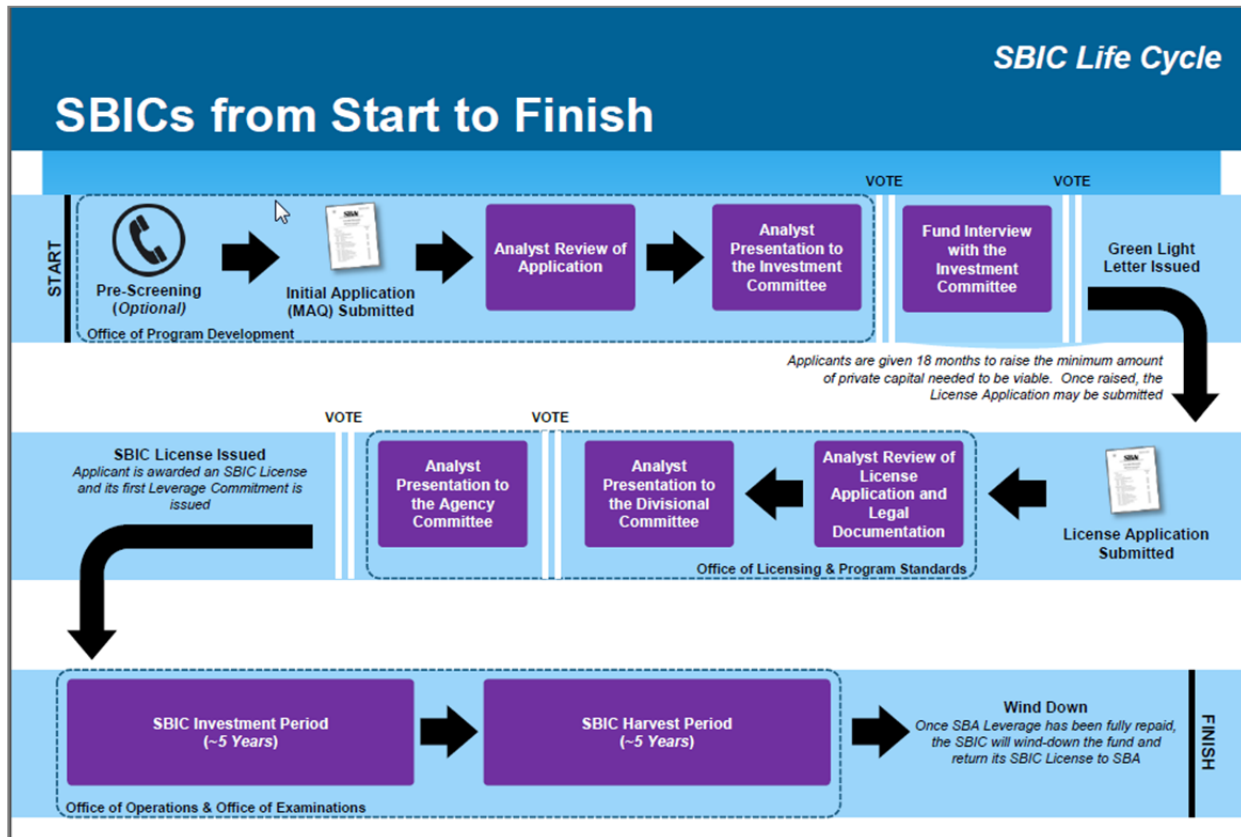
A section of the Dodd-Frank Act, originally proposed by American economist and former Federal Reserve Chairman Paul Volcker to restrict U.S. banks from making certain kinds of speculative investments that do not benefit their customers.

*Note:* These definitions were compiled from various sources, including websites and official documents of U.S. government organizations, such as the Federal Financial Institutions Examination Council, the U.S. Census Bureau, the U.S. Small Business Administration, and the White House; the websites of trade associations, such as the National Association of Investment Companies and the National Venture Capital Association; and trade platforms, such as *Crunch Base* and *Investopedia*.

**APPENDIX II. SBIC LIFE CYCLE**


The SBIC life cycle begins with an extensive application process. Following an optional pre-screening of applicants by telephone, the first required step in applying for an SBIC license is the submission of a management assessment questionnaire (MAQ). After the SBA’s investment committee reviews the MAQ, the agency issues a green-light letter. It is only upon the receipt of this letter that an applicant may submit a formal license application. This application is subject to additional review by the SBA’s Office of Licensing and Program Standards before an SBIC license is issued. Once licensed, and if eligible under SBA regulations, an SBIC may apply for a leverage commitment. The SBIC then goes through investment and harvest periods (where investments are later sold), each of which extends for approximately five years. When the leverage has been repaid, the SBIC winds down the fund and returns its license to SBA (see fig. 2).

**Figure 2. SBIC Life Cycle**



Source: “Bridging the Capital Formation Gap.”

APPENDIX III. SBA PORTFOLIO FINANCING REPORT (SBA Form 1031)

	OMB No. 3245-0078 Expiration Date 10/31/2017																				
<h3 style="margin: 0;">U.S. Small Business Administration Portfolio Financing Report</h3>																					
Name of Licensee _____ License Number _____																					
<b>Part A - Small Business Concern Data</b>																					
1. Name of Small Business _____ 2. Employer Identification Number _____ 3. Street Address _____ 4. City _____ 5. State _____ 6. ZIP Code _____ 7. County _____ 8. Small Business FAX _____ 9. Contact Person for FAX _____ 10. Date Business Established ___/___/___ 11. Form of Business ___ 1) Corporation 2) Partnership 3) Proprietor 4) LLC 12a. NAICS Code _____ Industry _____ 12b. Energy Saving Qualified Investment? ___ If checked, was Energy Saving debenture used to finance investment? ___ 13. Percentage of Small Concern (if any) Owned by: American Indian or Alaska Native: ___% Asian: ___% Black or African American: ___% Hispanic or Latino: ___% Native Hawaiian or Other Pacific Islander: ___% White: ___% 14a. Percentage of Small Concern Owned by Women (if any) ___% 14b. Percentage Owned by Veterans (if any) ___% 15. CEO or President (may select one or more): Woman: ___ American Indian or Alaska Native: ___ Asian: ___ Black or African American: ___ Hispanic or Latino: ___ Native Hawaiian or Other Pacific Islander: ___ White: ___																					
<b>Part B - Prefinancing Information</b>																					
16. Prefinancing Status: ___ (1) New Information (2) Previously Submitted (3) Acquired Business (4) New Business 17a. Stage of Company at Financing: _____ 17b. Technology developed with SBIR/STTR funding: _____ 18. Small Business Concern's Pre-Money Valuation: _____ 19. Fiscal Year End Immediately Prior to Date of Financing (Month/Day/Year) ___/___/___ 20. Gross Revenue for Prior Fiscal Year \$ _____ 21. After-Tax Profit or (Loss) for Prior Fiscal Year \$ _____ 22. Income Taxes for Prior Fiscal Year: Federal \$ _____ State \$ _____ Local \$ _____ 23. Net Worth \$ _____ 24. Number of Employees _____																					
<b>Part C - Financing Information</b>																					
25. a. Date of Financing ___/___/___ b. Date of Disbursement ___/___/___ 26. Did Licensee lead this investment? ___ 27. Purpose of Financing (Percentage of Financing that will be used to support each category below. Percentages should total to 100%). <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">a. Working Capital or Inventory Purchase _____</td> <td style="width: 50%;">f. Acquisition of Machinery and Equipment _____</td> </tr> <tr> <td>b. Plant Modernization or Leasehold Improvement _____</td> <td>g. Land Acquisition or Dwelling Construction _____</td> </tr> <tr> <td>c. Acquisition of All or Part of an Existing Business _____</td> <td>h. Marketing Activities _____</td> </tr> <tr> <td>d. Consolidation of Obligations or Non-SBIC Debt Refunding _____</td> <td>i. Research and Development _____</td> </tr> <tr> <td>e. New Building or Plant Construction _____</td> <td>j. Other _____</td> </tr> </table>		a. Working Capital or Inventory Purchase _____	f. Acquisition of Machinery and Equipment _____	b. Plant Modernization or Leasehold Improvement _____	g. Land Acquisition or Dwelling Construction _____	c. Acquisition of All or Part of an Existing Business _____	h. Marketing Activities _____	d. Consolidation of Obligations or Non-SBIC Debt Refunding _____	i. Research and Development _____	e. New Building or Plant Construction _____	j. Other _____										
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c. Acquisition of All or Part of an Existing Business _____	h. Marketing Activities _____																				
d. Consolidation of Obligations or Non-SBIC Debt Refunding _____	i. Research and Development _____																				
e. New Building or Plant Construction _____	j. Other _____																				
28. Is this the first Financing of this Small Business by the Licensee? _____																					
29. Financing Instruments and Applicable Amounts (for participations, include Licensee's portion only): <table style="width: 100%; border: none; margin-top: 5px;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;">Instrument</th> <th style="text-align: left; border-bottom: 1px solid black;">Amount</th> <th style="text-align: left; border-bottom: 1px solid black;">Initial Interest Rate(s)</th> <th style="text-align: left; border-bottom: 1px solid black;">% Actual Ownership</th> </tr> </thead> <tbody> <tr> <td>Loan Only</td> <td>\$ _____</td> <td>_____ %</td> <td></td> </tr> <tr> <td>Debt with Equity Features</td> <td>\$ _____</td> <td>_____ %</td> <td></td> </tr> <tr> <td>Equity Only</td> <td>\$ _____</td> <td></td> <td>_____ %</td> </tr> <tr> <td><b>Total Licensee Financing</b></td> <td><b>\$ _____</b></td> <td></td> <td></td> </tr> </tbody> </table>		Instrument	Amount	Initial Interest Rate(s)	% Actual Ownership	Loan Only	\$ _____	_____ %		Debt with Equity Features	\$ _____	_____ %		Equity Only	\$ _____		_____ %	<b>Total Licensee Financing</b>	<b>\$ _____</b>		
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Debt with Equity Features	\$ _____	_____ %																			
Equity Only	\$ _____		_____ %																		
<b>Total Licensee Financing</b>	<b>\$ _____</b>																				
30. Total Size of Financing Round for Small Business Concern: _____ 31. Comments: _____																					
<b>Part D - Transmission Verification</b>																					
Transmission Date ___/___/___																					

OMB No. 3245-0078 Expiration Date 10/31/2017
<b>U.S. Small Business Administration Portfolio Financing Report</b>
<p><b>Use of Information:</b> SBA Form 1031 is to be completed only by small business investment companies (SBICs) licensed by the Small Business Administration (SBA). This form contains Portfolio Concern financing and supplementary information that SBA uses to evaluate an SBIC's investment activities and compliance with SBIC program requirements. SBA also pools information provided by individual SBICs to analyze the SBIC program as a whole and the impact of SBIC financings on the growth of small business.</p>
<p><b>Instructions for Submitting Completed Form:</b> SBA Form 1031 must be completed and filed electronically in the SBIC-Web system. SBIC-Web requires an SBA-approved user account. Submit your account request to <a href="mailto:sbicwebsupport@sba.gov">sbicwebsupport@sba.gov</a>.</p>
<p><b>PLEASE NOTE:</b> The estimated burden for completing this form is 12 minutes per response. You will not be required to respond to this information collection if a valid OMB approval number is not displayed. If you have questions or comments concerning this estimate or other aspects of this information collection, please contact the U.S. Small Business Administration, Chief, Administrative Information Branch, Washington, DC 20416 and/or SBA Desk Officer, Office of Management and Budget, New Executive Office Building, Room 10202, Washington, DC 20503.</p>
<b>PLEASE DO NOT SEND FORMS TO OMB.</b>

APPENDIX IV. SBA ANNUAL FINANCIAL REPORT (SBA Form 468, Schedule 8)

<b>SCHEDULE 8</b>		<b>Unaudited Portfolio Company Information</b>			OMB Approval No. 3245-0063	
		AS OF			Expiration Date 10/31/2017	
Name of the Licensee:				License No.		

Portfolio Company Name	Employer ID	% Own	% Vote	Cost at End of Period	Unrealized App (Dep)	Total Reported Value
		0%	0%	\$0	\$0	\$0

<p><b>General Portfolio Company Information</b></p> <p>Business Description: NAICS: <input style="width: 150px;" type="text"/></p> <p>Soybean farming, field and seed production</p> <hr/> <p>1st Date Invested: <input style="width: 60px;" type="text"/> Overline? <input style="width: 60px;" type="text"/></p> <p>Current Stage: <input style="width: 150px;" type="text"/></p> <p>Exchange: <input style="width: 60px;" type="text"/> Stock Symbol: <input style="width: 60px;" type="text"/></p> <p>If original investment company's name changed, was acquired/merged, company name of original investment: <input style="width: 100px;" type="text"/></p> <p>Address: <input style="width: 150px;" type="text"/></p> <p>City/State: <input style="width: 80px;" type="text"/></p> <p>Zip Code: <input style="width: 60px;" type="text"/> LMI: <input style="width: 60px;" type="text"/></p> <p>Other Comments:</p>	<p style="text-align: center;">Rounded to nearest \$</p> <p style="text-align: center;"><b>Portfolio Company Financial Information</b></p> <table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:55%;">Fiscal Year End:</th> <th style="width:15%;">Period 1</th> <th style="width:15%;">Period 2</th> <th style="width:15%;">Period 3</th> </tr> <tr> <th style="text-align: center;">As Of Date</th> <th></th> <th></th> <th></th> </tr> </thead> <tbody> <tr> <td>Basis Period</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Revenues</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Gross Profit</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>EBITDA</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Interest Charges</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Net Income</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Cashflow from Ops.</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Burn Rate</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Cash Balance</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Current Assets</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Fixed Assets</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Total Assets</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Current Liabilities</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Debt</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Total Liabilities</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>EOY Equity Value (Market)</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>EOY Enterprise Value</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td colspan="4">Full-time employees : -</td> </tr> <tr> <td colspan="2">Federal Taxes Paid : \$0</td> <td colspan="2">State Taxes Paid : \$0</td> </tr> </tbody> </table>	Fiscal Year End:	Period 1	Period 2	Period 3	As Of Date				Basis Period				Revenues	\$0	\$0	\$0	Gross Profit	\$0	\$0	\$0	EBITDA	\$0	\$0	\$0	Interest Charges	\$0	\$0	\$0	Net Income	\$0	\$0	\$0	Cashflow from Ops.	\$0	\$0	\$0	Burn Rate	\$0	\$0	\$0	Cash Balance	\$0	\$0	\$0	Current Assets	\$0	\$0	\$0	Fixed Assets	\$0	\$0	\$0	Total Assets	\$0	\$0	\$0	Current Liabilities	\$0	\$0	\$0	Debt	\$0	\$0	\$0	Total Liabilities	\$0	\$0	\$0	EOY Equity Value (Market)	\$0	\$0	\$0	EOY Enterprise Value	\$0	\$0	\$0	Full-time employees : -				Federal Taxes Paid : \$0		State Taxes Paid : \$0	
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In addition, the authors consulted relevant federal codes, laws, and regulations; U.S. government websites, such as those maintained by the Federal Deposit Insurance Corporation and the U.S. Small Business Administration; newspapers, such as the *Guardian*; and the websites of industry trade organizations, such as the National Association of Investment Companies and the National Venture Capital Association.