

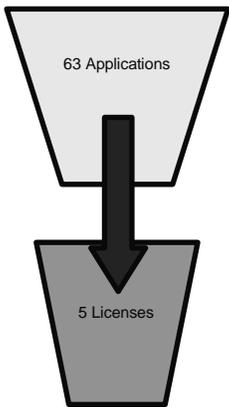


The Small Business Investment Company (SBIC) Program Spotlight on SBIC Early Stage Investment Initiative

The Early Stage Investment Initiative launched in 2011 as part of President Obama’s Startup America Initiative. The program has committed \$200 million annually to venture capital firms investing in high growth US small businesses. Early stage funds must invest at least 50% of investable capital in Early Stage companies, defined as companies yet to achieve positive cash flow from operations as of the date of investment. The remaining 50% must be invested in US small businesses. Unlike the Regular Debenture Program, which operates on a rolling basis, the Early Stage program operates pursuant to an Annual Call. Management Assessment Questionnaires (“MAQs”) are due in early spring of each year. Upon obtaining a Green Light approval, Funds must raise a minimum of \$20 million of Private Capital; the SBA’s commitment is up to a one-to-one match, capped at \$50 million.

Progress to Date

Limited Partners like the program because it is highly selective.



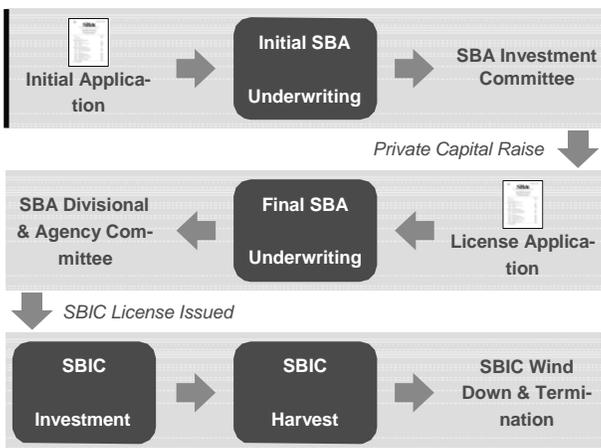
- **Hatteras Venture Partners:** Life-science investments in North Carolina and Southeastern US
- **Grayhawk Capital:** Technology investments in Southwestern US
- **Walden Venture Capital:** Investments in digital media and cloud services based in California
- **Noro-Moseley Partners:** Information Technology and Healthcare IT focus in Southern US
- **LiveOak:** Technology investments in Texas

Rigorous Underwriting Criteria

To be considered for an SBIC license, applicants must demonstrate the same key qualifications sought by private investors:

- **Manager Assessment**
A cohesive team of individuals with strong reputations and years of investment experience.
- **Performance Analysis**
A high quality track record of analogous investments that have yielded strong returns and successful exits.
- **Strategy Evaluation**
A well-articulated investment strategy that is compatible with leverage and which targets small businesses.
- **Fund Structure & Economics:**
Sufficient fund infrastructure to support the strategy and a strong alignment of incentives between the fund’s general partner, limited partners and SBA.

The application process mirrors that of an institutional LP in terms of due diligence and SBA processing time (~9 months)



Low cost option for less dilutive capital

For a \$25K upfront fee, an Early Stage SBIC may qualify for up to \$50M of debenture capital from SBA to enhance the returns of partially de-risked follow on investments at or near an inflection point/exit - i.e., when funds have greater visibility on the company’s exit horizon.

SBICs also can, and do, opt for less than a full tier of leverage

Doing so minimizes the J-Curve impact and maintains a conservative leverage ratio.

Improvements and Permanence

In FY 2016, SBA intends to make certain modifications to the Early Stage regulations to express SBA’s intent to make the Early Stage program an ongoing part of the SBIC program. This will include

For more info on ES program, including upcoming webinars please periodically visit:
www.sba.gov/inv/earlystage

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For more comprehensive information :
www.sba.gov/inv