

Office of Investment and Innovation

Small Business Investment Company Program

Webinar: SBIC Application Materials
February 4, 2014



Agenda

- 1) Agenda (1 min)
- 2) Overview (2 min)
- 3) Review of Updates & Changes (15 minutes)
 - 1) Minor Updates & Formatting Changes
 - 2) Updates to Track Record Exhibits
 - 3) License Application
- 4) Useful Tip (1 min)
- 5) Q&A



Layout

Layout of Prior Version:

- ▶ Phase I: Management Assessment Questionnaire
 - ▶ Form 2181
 - ▶ Form 2183 (Subset of Form 2182: Exhibits D, E, F, G, K, L, P, V)
- ▶ Phase II: License Application
 - ▶ Form 2181
 - ▶ Form 2182 (Exhibits B-V)

Layout of New Version:

- ▶ Phase I: Management Assessment Questionnaire
 - ▶ Form 2181
 - ▶ Form 2182: Part I (Exhibits A-F)
- ▶ Phase II: License Application
 - ▶ Form 2181
 - ▶ Form 2182: Part I & II (Exhibits A-F & Exhibits G-J)
 - ▶ Form 2183



Layout (cont.)

Form 2181:

- ▶ Applicant Narrative (Word)
- ▶ Excel Supplement (Excel)

Form 2182: Principal Exhibits

- ▶ MAQ & License Application
 - ▶ Exhibit A. Experience
 - ▶ Exhibit B. Legal Questionnaire
 - ▶ Exhibit C. Other SBIC Activities & Relationships
 - ▶ Exhibit D. References
 - ▶ Exhibit E. Track Record
 - ▶ Exhibit F. Portfolio Detail
- ▶ License Application ONLY
 - ▶ Exhibit G. Identified Parties & Fingerprint Cards
 - ▶ Exhibit H. Statement of Personal History (Individuals)
 - ▶ Exhibit I. Statement of Personal History (Entities)
 - ▶ Exhibit J. Authorization to Release Information

Form 2183: Fund Exhibits

- ▶ License Application ONLY
 - ▶ Exhibit K. Capital Certificate
 - ▶ Exhibit L. Transferor's Liability Contract
 - ▶ Exhibit M. Declaration of Significant Investors
 - ▶ Exhibit N. Offering Memoranda & Other Documents
 - ▶ Exhibit O. Organizational Documents of Applicant
 - ▶ Exhibit P. Opinions of Counsel
 - ▶ Exhibit Q. Management Services & Other Agreements
 - ▶ Exhibit R. Bank Letter & Third-Party Debt
 - ▶ Exhibit S. Legal Documentation Certification
 - ▶ Pre-Licensing Worksheet



Deadlines

Phase I: Management Assessment Questionnaire

- ▶ Beginning **April 1, 2014**, all submissions of the MAQ (Form 2181 and Part I of Form 2182) must use the new versions of the application. The Office of Program Development will no longer accept the prior version on or after that date.

Phase III: License Application

- ▶ Beginning **May 1, 2014**, all submissions of the License Application (Forms 2181, 2182 and 2183) must use the new versions of the application. The Office of Licensing will no longer accept the prior version on or after that date.

Early Stage:

- ▶ All 2014 Early Stage applications must use the new versions of the MAQ. Applications are due by **March 28, 2014**.



Submission Instructions

Management Assessment Questionnaire

- ▶ Submit in **electronic** format ONLY:
 - ▶ Email to applySBIC@sba.gov
 - ▶ Subject: MAQ: **Name of Applicant** (Part # of #)
 - ▶ Mail-in hard copies of Exhibit B Certification pages ONLY

License Application

- ▶ Submit (1) electronic copy:
 - ▶ Email to applySBIC@sba.gov
 - ▶ Subject: License Application: **Name of Applicant** (Part # of #)
- ▶ Mail-in (3) signed hard copies



Form 2181 Data & Narrative Split

Narrative (Form 2181: Narrative):

- ▶ Longer-form responses allow more flexibility in describing the fund's investment approach
- ▶ Concision is still a virtue

1. Investment Strategy

1.1. Strategy Narrative

Please provide an overview of your investment strategy and the types of transactions you intend to pursue. Do not exceed the space provided on this page. Unless it does not apply, please address the following elements:

- Geographic focus
- Industry focus
- Company stage
- Company size
- Investment/Deal size
- Ownership/Control
- Preference for leading transactions, co-investing or being sole investor
- Investment pace
- Diversification strategy

[Click here to enter text.](#)

Consolidated References

References:

- ▶ All principals should provide references in a single excel file
- ▶ Applicants should be aware that reference calls may begin **upon receipt** of the application
- ▶ Include a cover letter with any concerns about SBA calling on- or off-list references



OMB Approval No. 3245-0062
Expiration Date: 12/31/2016



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The SBIC Program

Form 2182: Exhibit D

List of References (Submit One Exhibit per Fund)

Name of Applicant:

Enter Principal Last Names:

Insert rows above this line --->

Please Note: SBA analysts conduct a thorough due diligence process on all SBIC Program applicants. This process includes reference calls to both "on-list" references you have included in this Exhibit as well as to "off list" references SBA analysts themselves identify.

While SBA analysts will generally contact you before making reference calls, this may not always be the case. Please be aware that the reference calling process may begin immediately upon SBA's receipt of your application. If you have any special concerns about SBA contacting current employers, current partners, or any other on- or off-list references, please notify SBA in advance of submitting your application and include a cover letter with your application notifying us of your concerns.



Financial Projections in MAQ

Form 2181 - Section 8:

- ▶ New “Attachments” section in Form 2181
- ▶ Requests that funds submit their PPM (if available at the MAQ stage)
- ▶ Requests that funds submit their 10-year financial projections based on their projected capital raise, operating budget and schedule of investments

8. Attachments

Instructions

Please submit the documents listed below and check the box next to each item you have submitted.

Attachments List

Private Placement Memorandum (MAQ Applicants: If available; License Applicants: Required)

Financial Projections:

Please submit a 10-year financial forecast for the proposed SBIC. The model should include the following elements:

- *Input/Assumptions worksheet containing key drivers of the model*
- *Balance sheet and cash flow projections for the following entities:*
 - o *Fund Entity (including Schedule of Investments)*
 - o *General Partner & Management Company*
 - o *Limited Partners*
 - o *SBA*

The worksheets identified above must include the following variables as inputs or outputs:

- *Expected Private Capital and SBA Leverage commitments*
- *Type of debentures drawn (Standard, 5-Year Discounted or 10-Year Discounted)*
- *Amounts and timing of SBA leverage draws, associated fees and interest rate assumptions*
- *Investment types and structure (debt vs. equity, yield expectations and exit proceed assumptions)*
- *Expected number of investments*
- *Expected investment sizes*
- *Loss assumptions*
- *Investment period and harvest period length*
- *Projected gross IRR and net IRRs on a levered and unlevered basis*
- *Management fee schedule*
- *Cash balance expectations at fund entity level*
- *Annualized pro-forma budget detailing the expenses required to conduct the business of the fund, including Principal salaries, rent, office expenses, etc.*
- *FOR EARLY STAGE APPLICANTS: Please ensure your fund model tracks the status of the required “interest reserve”*

As noted in the application instructions, you do not need to submit a hard copy of your model as part of your MAQ. However, when submitting a [License Application](#), you should include both an electronic version of the model as well as a printed copy.



Legal Questionnaire

Form 2182 – Exhibit B (previously Exhibit D):

- ▶ Prior version of the MAQ & License Application asked principals to disclose charges, arrests or convictions related to criminal offenses in Exhibit C – Statement of Personal History
 - ▶ Criminal offenses have the potential to derail SBIC applications, but Exhibit C was not requested until after the “green light”
 - ▶ In some cases, principals have been forced off teams as a result of an undisclosed criminal history
- ▶ Based on an OGC suggestion, Exhibit B. Legal Questionnaire, an exhibit included in the MAQ, now asks these questions

NOTE: Questions B1 through B3 are repeated in Exhibit G and should be answered in both instances.

Questionnaire

B1. Have you ever been charged with or arrested for any criminal offense other than a minor motor vehicle violation (including offenses that have been dismissed, discharged, expunged, or not prosecuted)? YES NO

B2. Have you ever been convicted, placed on pretrial diversion, or placed on any form of probation (including adjudication withheld pending probation) for any criminal offense other than a minor motor vehicle violation? YES NO



Overview: Track Record Exhibits

Exhibit E1 (formerly Exhibit F2):

- ▶ Eligibility requirements have not changed
- ▶ For the submission of track records of investment committee members, deal leads, etc.

Exhibit E2 (formerly Exhibit F3):

- ▶ Eligibility requirements have not changed
- ▶ For the submission of track records not eligible for submission using Exhibit E1

Exhibit F (new):

- ▶ Documentation related to investments and funds



Exhibit E1

Exhibit E1:

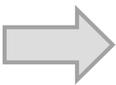
- ▶ **Formatting Changes:**
 - ▶ Exhibit is locked, but not password protected
 - ▶ The worksheets are linked together: changes on one worksheet flow through to the others
- ▶ **Content changes**
 - ▶ Data requested on both a portfolio company **AND** security basis
 - ▶ Leverage ratios requested at time of financing
 - ▶ Covenant violations and restructurings should be identified
 - ▶ Active involvement requested for **non-principals**



Exhibit E1-I

	A	B	C	D	E	F
10						
11	Cash on Cash Performance (Unlevered)					
12	Distributions to Paid-In Capital			#DIV/0!		
13	Residual Value to Paid-In Capital			#DIV/0!		
14	Total Value to Paid-In Capital			#DIV/0!		
15						
16	Year	Amount Invested in Companies	Gross Cash Receipts	Residual Value of Assets	Gross Investment CF	
17		0	0	0	0	
18	2002				0	
19	2003				0	
20	2004				0	
21	2005				0	

Exhibit F2-E



	A	B	C	D	E	F	G	H
1	[Name of Portfolio]							
2	[Name of SBIC Applicant]							
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Exhibit E1-I

Exhibit E1-I (formerly Exhibit F2-E):

- ▶ The information requested is essentially the same, but it now must be provided...
 - ▶ ...on a quarterly basis
 - ▶ ...by component
 - ▶ ...and in a manner reconciles with the investment schedule (E1-H)



Exhibit E1-I

Prior Version (Exhibit F2-E):



New Version (Exhibit E1-I):

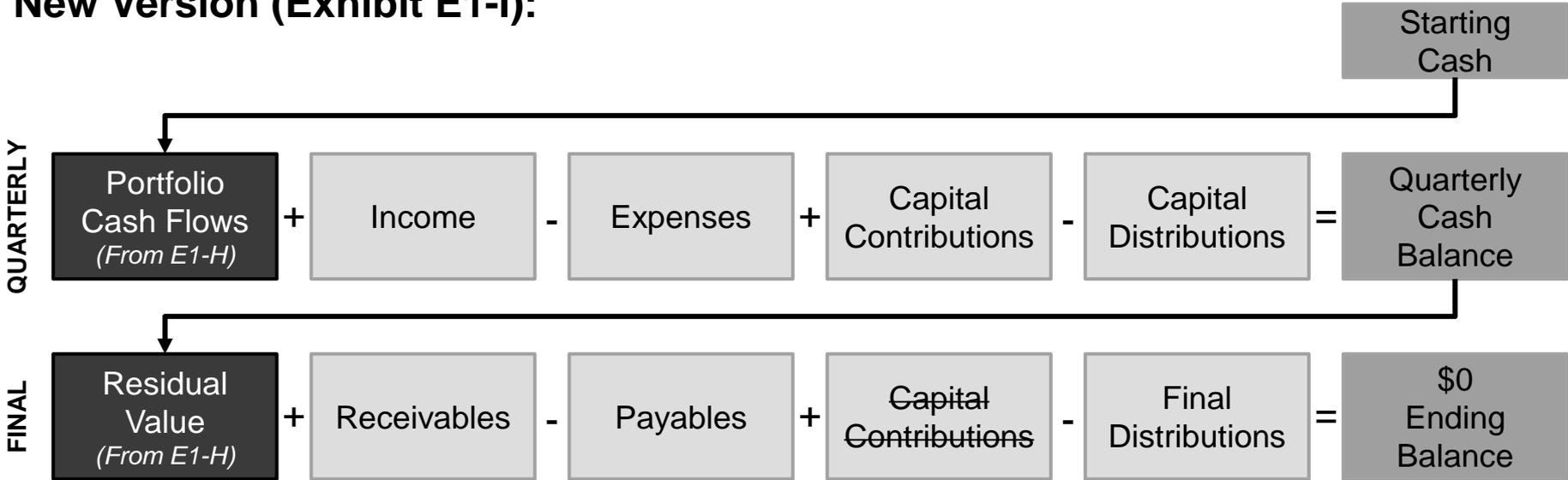


Exhibit F: Portfolio Detail

New Documentation Requested:

- ▶ Documentation:
 - ▶ Investment memoranda
 - ▶ Annual & Quarterly LP reports
 - ▶ Wind-up plans
 - ▶ Aging report for any on- or off-balance receivables

Exhibit F. Portfolio Detail

PRIOR TO SUBMITTING THIS DOCUMENT, PLEASE SEE THE "NOTICES REQUIRED BY LAW" ON PAGE 3 OF THESE EXHIBITS FOR EXPLANATIONS ABOUT DISCLOSURE OF INFORMATION AND USES OF SUCH INFORMATION.

Instructions

For each of the investment funds included in "Exhibit E: Track Record", please submit the supporting documentation listed below in **ELECTRONIC** format only. Hard copies will not be accepted. If this documentation is not included with your application, please provide a brief explanation.

1. All annual reporting packages sent to limited partners as well as the four most recent quarterly reporting packages.
2. The original investment memoranda for each investment included in Exhibit E.
3. "Wind-Up Plan" for each active fund, including (i) the remaining number of years you expect the fund to operate, (ii) the expected liquidation date and anticipated proceeds for each remaining investment, (iii) the timing and amount of any planned reduction in your management expenses, and (iv) the timing of repayments on any obligations outstanding to SBA (if applicable).
4. For all active funds, provide an aging report for any on- or off-balance sheet interest receivables.



License Application

No changes were made to the exhibits listed below

Labels: Prior Version

- ▶ Exhibit B. Identified Parties & Fingerprints
- ▶ Exhibit C. Statement of Personal History
- ▶ Exhibit H. Authorization to Release Information
- ▶ Exhibit I. Declaration of Significant Investors
- ▶ Exhibit J. Transferor's Liability Contract
- ▶ Exhibit K. Organizational Chart
- ▶ Exhibit M. Capital Certificate
- ▶ Exhibit O. Offering Memoranda & Other
- ▶ Exhibit Q. Organizational Documents
- ▶ Exhibit R. Opinions of Counsel
- ▶ Exhibit S. Management Services Agreements
- ▶ Exhibit T. Bank Letter
- ▶ Exhibit U. Legal Documentation Certification

Labels: New Version

- ▶ Exhibit G. Identified Parties & Fingerprint Cards
- ▶ Exhibit H. Stmt. of Personal History (Individuals)
- ▶ Exhibit I. Stmt. of Personal History (Entities)
- ▶ Exhibit J. Authorization to Release Information
- ▶ Exhibit K. Capital Certificate
- ▶ Exhibit L. Transferor's Liability Contract
- ▶ Exhibit M. Declaration of Significant Investors
- ▶ Exhibit N. Offering Memoranda & Other
- ▶ Exhibit O. Organizational Documents
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- ▶ Exhibit S. Legal Documentation Certification



Navigation

Navigation Menu

Fill-Ins

The screenshot displays the Microsoft Word interface. The **View** tab is active in the ribbon, showing options like **Print Layout**, **Full Screen Reading**, **Web Layout**, **Outline**, and **Draft**. The **Navigation Pane** is open on the left, showing a **Table of Contents** with sections 1 through 3. Section 2, **Firm and Team**, is expanded, and **2.1. Firm Overview** is highlighted in yellow. A red circle is drawn around the Navigation Pane. The main document area shows the content of section 2.1, **Firm Overview**, which includes a text box with the placeholder **Click here to enter text.** This text box is also circled in red. The document title is **1. Form 2181 - Narrative (Applicant Name).docx**.

Questions?

