Early Stage Small Business Investment Companies

January 2012
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SBIC Program Introduction*:
- Program Overview
- Advantages of an SBIC
- SBIC Life Cycle

*This section will not be covered in the January 11, 2012 Webinar.

Early Stage SBIC Program

Questions and Answers
The SBIC Program in Brief

- The SBIC Program is a multi-billion dollar, government-sponsored investment fund created in 1958 to bridge the gap between entrepreneurs’ need for capital and traditional sources of financing:
  - SBA invests long-term capital in privately-owned and managed investment firms licensed as Small Business Investment Companies (SBICs)
  - For every $1 an SBIC raises from a private investor, the SBA will typically provide $2* of debt capital, subject to a cap of $150 million
  - Once capitalized, SBICs make debt and equity investments in some of America’s most promising small businesses, helping them grow

* SBA provides leverage up to 3x private capital, but typically 2x.

SBIC Success Stories

Costco  Amgen  Staples
Apple  Quiznos  Sun
Callaway  Adaptec  AOL
HP  Cutter & Buck  Intel
FedEx  Jenny Craig  Build-a-Bear
Outback Steakhouse  Nutri-systems  Adam's Respiratory (Mucinex)

Program Overview
Program Overview

How SBIC Leverage Works

Private Investor
- **LPA defines partnership structure, including management fees.** SBA strongly recommends using SBA’s [model LPA](#).
- **Minimum of $5 million in private capital**

Fund (SBIC)
- **Sets Strategy**
- **Makes Investment Decisions**
- **Monitors Investments**
- **Manages Fund**

Financing
- **Generally 2x private capital (but up to 3x); max of $150 million**
- **Semi-annual interest payments**
- **Selling agent fees: 0.425%**

SBA
- **Licenses Funds**
- **Regulates and monitors funds**
- **Guarantees Leverage**
- **Leverage Fees:**
  - 1% at commitment & 2% at draw
  - Annual fee set at commitment (no higher than 1.38%; historically lower)
- **Other Fees: Licensing & Exam**
SBICs must invest in Small Businesses, defined as:
- Businesses with a tangible net worth < $18 million AND average after-tax income for prior two years of < $6 million
- OR Businesses that qualify as “small” under SBA’s N.A.I.C.S. Industry Code standards (generally under 500 employees)

SBICs must make 25% of their financings in “Smaller Businesses”, defined as:
- Businesses with a tangible net worth < $6 million
- AND average after-tax income for prior two years < $2 million
## Other Major SBIC Investment Requirements

<table>
<thead>
<tr>
<th>Area</th>
<th>SBICs May Invest</th>
<th>SBICs May NOT Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments</td>
<td>• Loans</td>
<td>• More than 10% of the proposed total fund size in a single company without SBA approval</td>
</tr>
<tr>
<td></td>
<td>• Debt with Equity features</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Equity</td>
<td></td>
</tr>
<tr>
<td>Use of Proceeds</td>
<td>• Small businesses in non-prohibited areas</td>
<td>• Project Finance</td>
</tr>
<tr>
<td>Geography</td>
<td>• In businesses located anywhere in the U.S. or its territories</td>
<td>• Real Estate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Financial Intermediaries</td>
</tr>
<tr>
<td>Control</td>
<td>• Control small businesses for up to seven years, a limit that may be extended with SBA approval</td>
<td>• In businesses with over 49% of their employees located outside the U.S.</td>
</tr>
</tbody>
</table>
Typical SBIC Life Cycle

Step 1: Licensing
- Initial Review: 8 weeks
- Capital Raising: Up to 18 months
- Final Licensing: 6 months

Step 2: Operating as SBIC
- Typically 10-15 years

Step 3: SBIC Surrenders License
The SBA Life Cycle

Step 1: Licensing

Management Assessment Questionnaire ("MAQ")

Green Light Letter

Licensing Application & Minimum Capital

Initial Review

• Submit MAQ
  • Fund Strategy
  • Track Record
  • Review track record
  • Due Diligence
  • Investment Committee Decision

• Target Time Frame: 8 weeks

Raise Capital

• Must raise $5 million minimum prior to submitting Licensing application. (Applicants must raise sufficient capital to execute business plan prior to licensing decision.)

• Time: Up to 18 months

Licensing

• Submit Licensing Application
  • Due Diligence
  • Legal Review
  • FBI Background Check
  • Committees:
    • Divisional
    • Agency
    • Administrator approves.

• Target Time Frame: 6 months

Licensing Decision
Step 2: Operating as SBIC

- The Office of Operations acts as the primary point of contact for licensed SBICs.
  - Process leverage commitments & draws
  - Process requests (conflicts of interests, transfer of LP interests, etc...)
  - Monitor regulatory compliance and financial health.

### Monitoring Regulatory Compliance & Financial Health

#### Key SBIC Reporting:
- Financing Forms (Form 1031)
- Annual & Quarterly financials (SBA Form 468)

#### Examinations
- Annual for SBICs with leverage
- Every two years for SBICs with no leverage

#### Key Monitoring Metrics
- Portfolio company performance
- Portfolio Values relative to leverage
- Capital Impairment Percentage (“CIP”)

Small Business Administration
What is CIP?

- Key regulatory metric SBA uses to determine an SBIC’s financial health, defined by 13 CFR 107.1840, but in general:
  - Represents operating & investment losses as % of private regulatory capital.
  - Realized losses can typically be offset by unrealized appreciation only in qualifying securities. (Public securities or securities that received a substantial investment by outside investor within past 24 months.)

- Maximum allowable CIP:
  - Depends on leverage ratio (leverage to Private Regulatory Capital) and the percentage of equity, but typically 40 to 50%

- Key SBA rights if SBIC goes above maximum allowable CIP:
  - May deny leverage commitments and draws
  - May transfer to the Office of Liquidation
  - If settlement cannot be reached in Liquidation, SBA may utilize receivership.
Advantages of an SBIC

- Leverage Benefits

  ✓ **Flexible terms:** Ten year debenture term with semi-annual interest payments avoids problem of duration mismatch.

  ✓ **Rapid Deployment of Funds:** Ability to raise typically two-thirds of a fund’s capital from SBA, thereby minimizing the time they spend fundraising and focusing their efforts on investing.

  ✓ **Increased Financial Scale:** SBA leverage provides increased capital from which SBICs may fund more investments or increase funding to portfolio companies.

  ✓ **Low cost of capital:** SBA Debenture leverage interest rates based on 10 year treasury plus a market-based spread for liquidity and prepayment risk. See [website](#) for historic rates.

  ✓ **Enhanced Returns to Private Investors:** The low cost of capital increases returns to private investors in good performing funds. See appendix for historic SBIC Debenture performance.
More Advantages of an SBIC

• Organizational:

  ✓ **Flexible Fund Structure:** The SBA licenses a variety of fund structures, including SBICs established as “drop-down” or “side-car” funds attached to an existing investment fund.

  ✓ **SEC Registration Exemption Benefits:** SBICs are exempt from SEC registration requirements. Yet, LPs benefit from the careful monitoring done by the SBA, greatly reducing the risk for fraud and abuse.

• Friendly to Bank Investors:

  ✓ **Volcker Rule Exemption Benefits:** Bank investments into SBICs are exempt from the 3% cap set forth by the Volcker Rule enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (PL-111-203)”

  ✓ **Community Reinvestment Act:** Investments in Small Business Investment Companies are presumed qualified for Community Reinvestment Act credits.

• The Opportunity of “Small Business”:

  ✓ Despite being the bedrock of the American economy, the small business community is underserved and represents a value opportunity for investors.
## Table of Contents

- SBIC Program Introduction
- Early Stage SBIC Program
  - Introduction
  - Terms
  - Proposed Licensing Process
- Questions and Answers
Purpose: To Address Seed/Early Stage Investment Gap

- Over last 5 years less than 10% of all U.S. Venture Capital dollars went to seed investments*
- Almost 70% went to three states: California, Massachusetts, and New York*

As part of Start-Up America, SBA will commit

- Up to $1 billion of Debenture leverage over 5 year period
- To Early Stage SBICs

Early Stage SBIC Proposed Regulations

- Posted on December 9, 2011 at www.regulations.gov
- Comment closing period on February 7, 2012

*Source: Thomson
## Early Stage SBIC Proposed Key Terms

<table>
<thead>
<tr>
<th>Terms</th>
<th>Early Stage Debenture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>Annual Call&lt;br&gt;Commitments limited to $200 million per year up to $1 billion total&lt;br&gt;SBA has right to diversify across vintage years &amp; geography</td>
</tr>
<tr>
<td>Private Capital</td>
<td>$20 million minimum</td>
</tr>
<tr>
<td>Investments</td>
<td>50% of investment dollars into early stage (not yet achieved positive operating cash flow in any fiscal year prior to 1st financing)</td>
</tr>
<tr>
<td>Maximum Leverage</td>
<td>Up to 1 tier of leverage, no greater than $50 million</td>
</tr>
<tr>
<td>Term</td>
<td>Ten year maturity that may be repaid in full at any time without penalty</td>
</tr>
<tr>
<td>SBA Fees</td>
<td>1% Commitment Fee&lt;br&gt;2% Draw Fee&lt;br&gt;Annual Fee paid quarterly with interest payments&lt;br&gt;Licensing Fee: $25,000&lt;br&gt;Examination Fees: Per 107.692 of proposed rule</td>
</tr>
</tbody>
</table>
### Early Stage SBIC

#### Proposed Key Terms (continued)

<table>
<thead>
<tr>
<th>Terms</th>
<th>Early Stage Debenture</th>
</tr>
</thead>
</table>
| Leverage Description         | **Standard Early Stage Debenture:**  
  • Interest & charges due and payable Quarterly  
  • Requires 5 years interest reserve (may be held as unfunded private capital commitments or in restricted cash)  
  Or  
  **Discounted Debenture:**  
  • Interest & charges discounted for first 5 years  
  • Quarterly interest & charges payable after first 5 years |
| Distributions                | **Per § 107.1180 of Proposed Rule, but in general:**  
  • Interest & charges must be paid prior to distribution  
  • Below 50% Capital Impairment Percentage ("CIP"): Pro Rata on *cumulative* basis  
  • At or above 50% CIP: SBA gets distribution priority |
| Other Key Terms              | **Annual Examinations**  
  Above 50% CIP  
  • SBA has specific right to require valuations on your investments.  
  • SBA takes all distribution priority  
  Above 70% CIP  
  • SBA has right to promptly transfer SBIC to Office of Liquidation |
Example Early Stage Distribution

Amounts in $ Millions

<table>
<thead>
<tr>
<th>Capital &amp; leverage draws</th>
<th>Draws: $10 - Private $10 - SBA Lev.</th>
<th>No additional draws prior to next distribution.</th>
<th>Additional Draws: $10 - Private $10 - SBA Lev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution Amount</td>
<td>Distribution 1</td>
<td>Distribution 2</td>
<td>Distribution 3</td>
</tr>
<tr>
<td>$10.0</td>
<td>$15.0</td>
<td>$10.0</td>
<td>$10.0</td>
</tr>
<tr>
<td>10%</td>
<td>0%</td>
<td>15%</td>
<td></td>
</tr>
</tbody>
</table>

**SBA Share**
- $5.0
- $5.0
- $7.5

**Private Share**
- $5.0
- $10.0
- $2.5

**Cum. Distributions**
- **SBA**
  - $5.0
  - $10.0
  - $17.5
- **Private**
  - $5.0
  - $15.0
  - $17.5

**Cumulative basis allows “catch-up” by SBA and LPs.**
(See appendix for more examples.)

**Why?**
- **Pro rata distribution**
- **SBA can receive no more than its outstanding leverage.**
- **Allows SBA to catch up.**
# Key Differences Between Standard Debenture, Participating & Early Stage

<table>
<thead>
<tr>
<th>Term</th>
<th>Standard Debenture SBIC</th>
<th>Participating Sec. (not available)</th>
<th>Early Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>• Rolling</td>
<td>• Rolling</td>
<td>• Annual</td>
</tr>
<tr>
<td>Leverage</td>
<td>2 tiers up to $150 million max</td>
<td>2 tiers up to legislated max</td>
<td>1 tier up to $50 million max</td>
</tr>
<tr>
<td>Priv. Capital</td>
<td>$5 million minimum</td>
<td>$10 million minimum</td>
<td>$20 million minimum</td>
</tr>
<tr>
<td>Investments</td>
<td>Broad range, but generally later stage and mezzanine</td>
<td>Broad range of equity investments</td>
<td>At least 50% in early stage</td>
</tr>
<tr>
<td>Leverage Description</td>
<td>Standard with semi-annual interest and annual charges Or 5 or 10 Year Discounted if LMI or Energy Saving Investment (pending final regulations)</td>
<td>SBA paid Interest (known as prioritized payments) to bond holders; SBICs only owed and repaid SBA out of profits.</td>
<td>Standard with 5 year interest reserve and quarterly interest and annual charges OR 10 Year Discounted</td>
</tr>
<tr>
<td>Profit Participation</td>
<td>None</td>
<td>SBA typically received about 8% of any profits</td>
<td>None</td>
</tr>
<tr>
<td>Distributions</td>
<td>SBICs may distribute profits without SBA approval. Return of capital more than 2% in any year must be approved by SBA</td>
<td>Complicated, but in general, prioritized payments to the extent of profits, profits, return of capital.</td>
<td>• Below 50% CIP: Pro Rata on cumulative basis • At or above 50% CIP: SBA gets distribution priority</td>
</tr>
<tr>
<td>Surrender</td>
<td>Repay all leverage</td>
<td>Generally needs to repay leverage &amp; realize all earmarked assets prior.</td>
<td>Repay all leverage</td>
</tr>
</tbody>
</table>
# Unleveraged Opportunity

<table>
<thead>
<tr>
<th>Term</th>
<th>Non-Leveraged SBIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licensing</td>
<td>Rolling</td>
</tr>
<tr>
<td>Private Capital</td>
<td>$5 million minimum</td>
</tr>
<tr>
<td>Investments</td>
<td>Broad range, including early stage</td>
</tr>
<tr>
<td>Financial Reporting</td>
<td>Annual Only</td>
</tr>
<tr>
<td>Distributions</td>
<td>No distribution restrictions.</td>
</tr>
<tr>
<td>Other</td>
<td>• Examinations every other year</td>
</tr>
<tr>
<td></td>
<td>• Exempt from various regulatory rules that only apply to leveraged funds</td>
</tr>
<tr>
<td>Regulatory Advantages</td>
<td>• Volcker Rule</td>
</tr>
<tr>
<td></td>
<td>• SEC Registration Exemption</td>
</tr>
<tr>
<td></td>
<td>• CRA Credit</td>
</tr>
<tr>
<td>Timing</td>
<td>• Accepting application now</td>
</tr>
</tbody>
</table>
## Proposed Licensing Process

<table>
<thead>
<tr>
<th>Proposed Licensing Step</th>
<th>Remarks</th>
</tr>
</thead>
</table>
| 1. SBA Accepts Management Assessment Questionnaires          | • SBA will announce call through Federal Register Notice  
• Applications submitted to SBA by deadline  
• Same application as standard SBIC Program                    |
| 2. SBA Performs Initial Review / Investment Committee        | • Applicants preliminarily determined based on criteria  
• Applicants notified if qualified or not.                         |
| 3. Selected Applicants Submit Licensing Application         | • Selected applicants will submit additional licensing material, including the proposed non-refundable $25,000 licensing fee. |
| 4. SBA Due Diligence / Licensing Phase                      | • SBA will perform due diligence and license qualified applicants.                                                                      |

- **SBA reserves right to not license if none found qualified.**
- **SBA may diversify across geography and vintage years.**
## SBA Evaluation Criteria

### Manager Assessment
- Proven investment experience
- Balanced track record among principals
- Evidence indicating a cohesive & effective team
- Principals with strong, positive reputations
- Robust investment and due diligence process

### Performance Analysis
- High quality track record with transactions analogous to those proposed for the SBIC strategy
- Evidence past returns could have supported SBIC cost of leverage and met or exceeded targets
- Analysis of fund performance measured against peer funds

### Strategy Evaluation
- Clearly articulated focus and investment thesis
- Evaluation of targeted transaction size, investment themes and type instruments to be used
- Clear indications proposed investments will fund eligible “small businesses”

### Fund Structure & Economics
- Structure of LP preferred return
- GP carry, management fees and vesting schedules in line with industry norms
- Alignment of carry distribution with time dedication and level of responsibilities
- Investment and reserve strategy; strategy to make SBA interest payments

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*Same as in Standard SBIC Program*
### Historical U.S. Venture Performance

**U.S. Venture Funds Vintage Years 1986 - 2005**
**Median Net Multiples by Quartile**
**As of June 30, 2011**

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Median Net Multiples</th>
<th>Seed and Start-up (Fund Size = $40 to $100 million)</th>
<th>May Benefit from leverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.60</td>
<td>3.66</td>
<td>Likely</td>
</tr>
<tr>
<td>2</td>
<td>1.65</td>
<td>1.96</td>
<td>Likely</td>
</tr>
<tr>
<td>3</td>
<td>1.08</td>
<td>1.39</td>
<td>Unlikely</td>
</tr>
<tr>
<td>4</td>
<td>0.66</td>
<td>0.69</td>
<td>No</td>
</tr>
</tbody>
</table>

**Only Quartile 1 and 2 funds are likely to benefit from this program.**

Sample Size: 953
Source: Thomson One

- **Seed and start-up funds with fund sizes between $40 to 100 million have performed similar to the rest of venture.**
Timing

- February 7, 2012: Regulations closed for comments
- Spring 2012 Goal:
  - Issue final regulations
  - Call for Early Stage SBICs
- 2012 Goal:
  - License Early Stage SBICs that have raised Private Capital

If you are NOT seeking leverage
- SBA is accepting applications now.
- Applicants may apply as a non-leveraged SBIC anytime.
- Please contact Program Development at sbic@sba.gov for further information.
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<tr>
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</tr>
</tbody>
</table>

**Questions and Answers**
- Questions
- How to Comment on the Proposed Rule
Questions

- Frequently Asked Questions ("FAQs") will be posted at
  - www.sba.gov/content/early-stage-small-business-investment-company-sbic-initiative-0

- Questions from Participants?
How to Comment

- To post a comment, click on “Submit a Comment”
- Regulations closed for comments on February 7, 2012
- More information may be found at [www.sba.gov/inv](http://www.sba.gov/inv)
Appendix to Early Stage SBIC Presentation
### Standard SBIC Leverage Products

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount:</strong></td>
<td>Typically 2x (but up to a maximum of 3x) the capital raised from private investors</td>
</tr>
<tr>
<td><strong>Term:</strong></td>
<td>10 years with principal payment due at maturity NO prepayment penalty</td>
</tr>
<tr>
<td><strong>Interest:</strong></td>
<td>Semi-annual payment based on a spread above the 10-year Treasury note</td>
</tr>
<tr>
<td><strong>Fees:</strong></td>
<td>1% commitment fee; 2% drawdown fee Annual fee payable semi-annually</td>
</tr>
<tr>
<td><strong>Uses:</strong></td>
<td>Investments in small businesses as defined by the SBA Office of Size Standards and federal regulations, generally in later stage and “buyout” transactions. Real estate and project finance generally prohibited.</td>
</tr>
</tbody>
</table>
### Standard SBIC Leverage Products

<table>
<thead>
<tr>
<th><strong>Regular Debenture</strong></th>
<th><strong>Discounted Debenture</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount:</strong></td>
<td>Typically 2x (but up to a maximum of 3x) the capital raised from private investors</td>
</tr>
<tr>
<td><strong>Term:</strong></td>
<td>5 or 10 years with principal payment due at maturity NO prepayment penalty</td>
</tr>
<tr>
<td><strong>Interest:</strong></td>
<td>Semi-annual payment for last five years of 10 year note only; based on spread above 10 year Treasury note</td>
</tr>
<tr>
<td><strong>Fees:</strong></td>
<td>1% commitment fee; 2% drawdown fee Annual fee payable semi-annually for 10 year bond only</td>
</tr>
<tr>
<td><strong>Uses:</strong></td>
<td>The discounted debenture is appropriate for debt and equity funds with an investment focus on small businesses in low-to-moderate income areas OR (pending regulations in 2012) energy saving investments.</td>
</tr>
</tbody>
</table>
Historical Impact of SBA Leverage for Standard SBICs

Estimated Pooled Net IRRs for Standard Debenture SBICs

As of December 31, 2010

Total Leverage to Private Capital Drawn = 1.7 (Varies from year to year)

Source: Results tabulated by third party consultant based on Form 468 and Liquidations Data

Advantages of an SBIC
Historical Returns for Standard Debenture SBICs
(Avg. Leverage to Private Capital Drawn = 1.7x)

Returns by Vintage Year 1998 – 2007

* 2006 – 2007 data is presented as an arithmetic mean of the pooled IRRs for those years
(1) SBIC Vintage Year determined by date of license. Data as of 12/31/10; Returns calculated based on information collected as part of annual financial statement submissions to SBA; Returns include an assumed 20% carried interest payment to the GP after LPs have received distributions equal to paid-in capital.
(2) Source: Preqin Ltd. www.preqin.com. Data includes “Most up-to-date” figures and was accessed 8/04/10; Benchmark may include some funds licensed as SBICs
What is CIP?

- CIP is the key regulatory metric SBA uses to determine an SBIC’s financial health.
- CIP is defined by 13 CFR 107.1840, but in general
  - Represents operating and investment losses as a percentage of private regulatory capital.
  - Realized losses can typically be offset by unrealized appreciation only in qualifying securities:
    - 80% of Class I (Publicly traded and marketable securities)
    - 50% of Class II (Privately held securities that received a substantial investment by outside investor within past 24 months).
  - Other securities (not qualifying as Class I or Class II) cannot offset realized losses, but can offset unrealized losses.
- Maximum allowable CIP
  - Depends on leverage ratio (leverage to Private Regulatory Capital) and the percentage of equity
  - Typically 40 to 50% for most SBICs issuing Debentures
CIP Example

- Private Regulatory Capital = $25 million
- Operating & Investment Realized Losses = $10 million
- Net Appreciation = $5 million
  - Depreciation = $3 million
  - Appreciation = $8 million as follows:
    - Class I - $1 million
    - Class II - $2 million
    - Other - $6 million

Note: This equation changes based on amounts of Class I and II relative to Net Appreciation.

\[
\text{CIP} = \left[ \frac{-$10\text{ million} + 80\% \times $1\text{ million} + 50\% \times $2\text{ million}}{$25\text{ million}} \right] \times 100
\]

= 32.8%
Key SBA Rights if SBIC’s CIP Over Maximum Allowable

- Deny leverage commitments and draws
- Transfer to the Office of Liquidation
- If settlement cannot be reached in Liquidation, SBA may utilize receivership.
- 13 CFR Part 107, Subpart J discusses SBA’s rights in conjunction with a Licensee’s Noncompliance With Terms of Leverage
Early Stage Distribution Example 1: SBA Catch-Up First Distribution

First Early Stage SBIC Distribution

Proceeds are distributed pro-rata, but SBA can receive no more than the amount of leverage outstanding.

Early Stage SBIC Receives $20 million in proceeds available to be distributed at its discretion.

0% Capital Impairment Ratio
Early Stage Distribution Example 1: SBA Catch-Up Second Distribution

Second Early Stage SBIC Distribution

SBA receives proceeds to bring SBA in line with Private Investors.

0% Capital Impairment Ratio

Early Stage SBIC Receives additional $10 million in proceeds available to be distributed at its discretion.

Capital /Leverage in $Millions

<table>
<thead>
<tr>
<th>Private</th>
<th>SBA</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15</td>
<td>$15</td>
</tr>
</tbody>
</table>

Cumulative Distributions in $Millions

<table>
<thead>
<tr>
<th>Private</th>
<th>SBA</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15</td>
<td>$15</td>
</tr>
</tbody>
</table>

Additional $10 Million

Pro Rata Capital/Leverage Draw Down

1

2

$10 M Distributions

$15

$10

$5
Early Stage Distribution Example 2: LP Catch-Up First Distribution

First Early Stage SBIC Distribution

Proceeds go to SBA because the SBIC is over 50% impaired.

Early Stage SBIC Receives $4 million in proceeds available to be distributed at its discretion.

55% Capital Impairment Ratio
Early Stage SBIC Distribution Example 2: LP Catch-Up Second Distribution

Since SBIC’s CIP is now below 50%, Private Investors receive sufficient proceeds to catch up to SBA.

Early Stage SBIC Receives additional $10 million in proceeds available to be distributed at the discretion of the SBIC.

0% Capital Impairment Ratio