

SUPPORTING STATEMENT FOR SBA FORM 1031  
PORTFOLIO FINANCING REPORT

A. Justification

1. Circumstances necessitating the collection of information. The Small Business Investment Act of 1958, as amended (Act), authorizes the Small Business Administration (SBA) to license Small Business Investment Companies (SBICs) and to regulate their operations. Section 310(b) provides that each SBIC shall make such reports to SBA at such times and in such form as SBA may require. SBA regulations (13 CFR 107.640) require SBICs to submit a Portfolio Financing Report on SBA Form 1031 for each financing that an SBIC provides to a small business concern. The form is SBA's primary source of information for compiling statistics on the SBIC program as a provider of capital to small businesses; this information is needed to evaluate the program's contribution toward its public policy goal of furthering the growth of small business. SBA also uses the information provided on Form 1031 to evaluate SBIC compliance with regulatory requirements.

SBA is proposing minor changes to the form, primarily to make the data collected more useful for overall program evaluation purposes:

- A new question in Part A requests gender and race/ethnicity information for the portfolio company president or CEO. This will allow SBA to compare SBIC program performance in this area to studies of the broader venture capital industry, which typically look at portfolio company management rather than ownership.
- A new question in Part B asks the SBIC to use a pull-down menu to choose the stage of the portfolio company (start-up, later stage, etc.) at the time of the financing. This information will help SBA to assess program risk and compare the SBIC program to the venture capital industry as a whole.
- Another new question in Part B asks the SBIC to enter the "pre-money valuation" of the portfolio company (i.e., the value of the company immediately preceding the new round of investment). This information will allow SBA to track the impact of the SBIC program on value creation over time.
- In Part C, an existing question about the use of proceeds has been modified to request the percentage breakdown of the purposes for which the new funding will be used. This will give SBA a better understanding of the financing needs that are being met by the SBIC program.
- A new question in Part C asks for the total size of the financing going to the portfolio company. This will allow SBA to see the impact of the SBIC's financing relative to other participating investors and to better understand whether or not SBICs are filling financing needs that are not otherwise being met by the venture capital industry.
- A number of pre-financing information questions on the current form, such as the portfolio company's net assets, retained earnings, and employee payroll tax withholdings,

have been eliminated based on SBA's assessment that they are of marginal analytical value.

The new information being requested is readily available to SBICs completing the form shortly after a financing is closed, either in the financing documents that have just been executed or in the investment memorandum that SBICs prepare as part of their standard pre-investment due diligence.

2. How, by whom, and for what purpose information will be used. The information on Form 1031 is used by SBA staff to evaluate the investment activities of individual SBICs in terms of compliance with applicable regulations and consistency with the overall objectives of the program (to further the growth, expansion and modernization of small business). The information is also used in the aggregate by SBA to evaluate program effectiveness. The information collected can be compared to available financing statistics for the venture capital industry as a whole to determine the extent to which the SBIC program is filling a market gap by meeting the financing needs of business which otherwise do not have adequate access to private equity funding. In addition, the pre-financing information collected, including number of employees, revenues, profits and taxes paid, provides baseline figures which are then updated annually on SBA Form 468 in accordance with 13 CFR 107.630(e). This information helps SBA to measure the economic impact of the SBIC program over time.
3. Technological collection techniques. SBA provides all SBICs with a Windows-based electronic version of Form 1031 which can be installed on a PC. This software allows an SBIC to complete the form on the computer and transmit the completed data file to SBA via electronic mail or on diskette.
4. Avoidance of Duplication. Pre-financing financial information for small businesses financed by SBICs is not reported in any other format. Therefore, there is no duplication of information with this form.
5. Impact on small business or other small entities. The only entities required to complete Form 1031 are licensed SBICs, a majority of which are small entities; however, the economic impact on these entities is not significant. The information requested on Form 1031 is the type of information that any investment company must maintain in the ordinary course of business, i.e. information about the type of financing being provided and the company receiving the financing. An SBIC considering whether to make a debt or equity investment in a small business concern normally requests extensive financial and operating information from the concern as part of its due diligence process. SBA has attempted to limit the information collected on Form 1031 to areas which SBICs would ordinarily cover in their due diligence process.
6. Consequences if collection of information is not conducted. SBA Form 1031 is designed to provide information to evaluate the extent to which the SBIC program is helping to further the growth, expansion and modernization of small business, and to help ensure that SBICs are operating in compliance with program regulations. There is no similar information available which can be used to accomplish the purposes of this collection. If the collection were not

conducted, or were conducted less frequently, SBA would be significantly handicapped in its ability to fulfill its statutory oversight and program evaluation responsibilities. For example, SBA would not be able to determine the number or dollar amount of small business financings taking place, the industries and geographic regions in which financings are concentrated, or the intended uses of financing proceeds.

7. Existence of special circumstances. Respondents are required to file Form 1031 within 30 days after closing a financing to a small business. Therefore, depending on the number of financings completed, Form 1031 may be submitted to SBA more often than quarterly. In SBA's experience, this requirement benefits both SBA and the responding SBICs because the form is completed when all the necessary information is readily available from the closing documents. It is more difficult to complete Form 1031 long after an investment has been made, as the details are no longer fresh and relevant documents have been filed away, leading to a more time-consuming and error-prone completion process.
8. Solicitation of public comment. A notice was published in the Federal Register on May 23, 2007, Volume 72, Number 99, page 29028. No comments were received.
9. Payment or gifts. No payments or gifts are provided to respondents.
10. Assurance of confidentiality. The information collected includes financial data of the SBIC and portfolio company, which is protected from disclosure under the Freedom of Information Act; specifically, exemptions 4, 6 and 8 allow SBA to withhold financial data on individual companies. The information collected will be protected to the extent permitted by law.
11. Questions of a sensitive nature. Questions 13 through 15 ask about ethnicity and gender of portfolio company owners and top managers in order to evaluate the program's contribution to furthering the growth of small business in historically underserved communities. No individuals' names are collected in connection with this request, and SBA does not release information by individual portfolio company.
12. Estimate of the hourly burden of the collection of information. The total annual hour burden is 740 hours, determined as follows

Completion time per response	0.2 hours	(12 minutes)
Number of responses	<u>x 3,700</u>	
Total annual hour burden	740 hours	

Estimated completion time was based on consultation with a small sample of respondents.

The estimated cost of the hour burden for an SBIC to prepare SBA Form 1031 is \$5.00. The estimated aggregate cost is computed as follows:

Hours per response	0 .2
Hourly wage for bookkeeper	<u>x \$25</u>

Total preparation cost per form	\$ 5
Estimated number of responses	<u>x 3,700</u>
Total cost	\$18,500

13. Estimate of total annual cost burden. There is no annual cost burden resulting other than the cost of the hour burden. The equipment required to prepare and transmit Form 1031 (a personal computer with an Internet connection) would normally be purchased by an SBIC as part of customary and usual business practices.

14. Estimated annualized cost to the Federal government. The cost to the Federal Government to collect the information is estimated to be \$21,060 annually, or \$5.69 per form. Estimated annualized cost to Federal Government is computed as follows:

Verification and clean-up of transmitted data:	
GS-12 program assistant, 234 hrs/yr (4.5 hours weekly) @ \$35/hr	\$8,190
GS-14 supervisor, 234 hrs/yr (4.5 hours weekly) @ \$55/hr	<u>12,870</u>
Total annualized cost to Federal Government	\$21,060
Divided by number of forms	<u>3,700</u>
Cost per form	\$ 5.69

15. Explanation of program changes in Items 13 or 14 on OMB Form 83-I. The decrease in the hour burden in item 13 of OMB Form 83-I reflects recent decreases in the number of SBIC financings, primarily as a result of the wind-down of the participating securities program. There is no change in the estimated hour burden per response.

16. Collection of information whose results will be published. Results of this collection of information will not be published.

17. Expiration date for collection of information. Not applicable.

18. Exceptions to certifications in Block 19 on OMB Form 83-I. Not applicable.

B. Collection of Information Employing Statistical Methods

This collection of information does not employ statistical methods.