

SUPPORTING STATEMENT FOR SBA FORM 468
SBIC FINANCIAL REPORTS

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(d)(1)(C)(i) of the Act requires each SBIC to submit audited financial statements to SBA at least annually. 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 107.630) require SBICs to submit annual financial statements on SBA Form 468. Form 468.1 is used for corporations and Form 468.2 is used for partnerships. Under certain circumstances, 13 CFR 107.630 and 107.1220 also require SBICs to file quarterly financial statements on Form 468, using Form 468.3 for partnerships or Form 468.4 for corporations. The quarterly financial statements consist of selected pages from the annual financial statements.

SBA is proposing a number of additions to the forms, which can be divided into the following categories:

1. Expanded balance sheet and income statement information for the portfolio companies in which an SBIC has invested (included in Schedule of Loans and Investments, page 11).
2. For investments held by SBICs that have been transferred to the Office of Liquidation, information about various rights held by the SBIC that may affect its ability to realize value from the investment, and about whether the information has been reviewed or audited by an independent CPA (included in Schedule of Loans and Investments, page 11).
3. A schedule of cumulative investment performance to identify cash on cash returns generated by an SBIC's portfolio; collected only for partnership SBICs that have or intend to seek SBA leverage (new schedule, page 16P).
4. A "wind-up plan" for SBICs that have been transferred to the Office of Liquidation and other SBICs that have completed their investment period and moved into their investment harvesting phase (the wind-up plan will be a supplement to the annual Operating Plan Update, page 19C for corporate SBICs or 20P for partnership SBICs).

Details of these changes, by schedule, are as follows:

Schedule of Loans and Investments, page 11 (revised)

- **For all SBICs (both active operating SBICs and SBICs that have been transferred to the Office of Liquidation),** modify the field that currently asks if

each loan or debt security is delinquent. The modified field will have a pull-down menu allowing the SBIC to choose a status, such as “Delinquent”, “Restructured”, or “Interest Forbearance”, allowing more accurate reporting of the status of distressed borrowings.

- **For all SBICs with outstanding SBA leverage and/or leverage commitments (both active operating SBICs and SBICs that have been transferred to the Office of Liquidation),** add the following fields to the “Portfolio Company Financial Condition” section for each listed portfolio company:

- A comment field in which to provide a short business description
- Gross profit
- Interest charges
- Current assets, fixed assets, and total assets
- Current liabilities and total liabilities

The current version of Form 468 already includes financial statement information for portfolio companies, including revenues, EBITDA, net income, cash on hand and outstanding debt. Most SBICs obtain financial statements from portfolio companies on a monthly basis under the terms of their loan agreements, so the SBICs will not need to solicit additional information from their borrowers in order to fill in the new fields. These fields will enable SBA to calculate many of the standard measures used to analyze company performance (e.g. debt coverage ratios, liquidity ratios, etc.); this will improve SBA’s understanding of the basis for SBICs’ valuations of their investments and the prospects for repayment of an SBIC’s leverage. SBA expects to use this information as a basis for improving risk management, oversight and regulatory decision-making regarding individual SBICs, and also for conducting more detailed analysis of the financial condition and economic impact of the SBIC program as a whole.

- **For portfolio companies held by SBICs transferred to the Office of Liquidation,** improve SBA’s ability to assess the quality of the financial information presented by adding the following fields for each listed company:
 - Financial Statement Type: This field will be a drop down menu with the following choices: “Audited,” “Reviewed,” “Compiled,” and “Internally Prepared Only.” Knowing the extent to which financial information has already been reviewed by an independent accounting professional will help SBA decide how to act on the information.
 - Statement Opinion: This field will be filled in only if the financial statement type is “Audited”. It will consist of a drop down menu with “Unqualified” and “Qualified.” A “qualified” opinion from an auditor is a red flag, usually indicating problems in the financial performance or internal controls of the company.
 - Statement Notes: This will only be filled in if the financial statement type is “Audited”. The SBIC will indicate whether the auditor’s opinion identified any of the following concerns: “Significant Litigation,” “Going Concern

Issues,” and “Other.” The SBIC will be asked to explain any “Other” issues in a comment field.

- **For portfolio companies held by SBICs transferred to the Office of Liquidation**, improve SBA’s ability to assess the SBIC’s rights as an investor by adding the following fields for each listed company:
 - Negative Covenants: The SBIC will indicate whether it has any of the following rights: ROFR – Right of First Refusal; COA – Co-sale Agreement; and Other. If “Other” is selected, the SBIC will need to explain in a comment field.
 - Board Rights: The SBIC will indicate whether it holds a Board Seat; has Board observation rights; appoints the Board Chairperson.
 - Other Rights: The SBIC will indicate whether it has any of the following rights: Veto and “Springing” (right that comes into existence upon the occurrence of an event).

- **For portfolio companies held by SBICs transferred to the Office of Liquidation**, improve SBA’s ability to identify all assets held by the SBIC and assess the recoverability of assets by adding the following fields for each listed company:
 - Warrant Information: The SBIC will check a box if it holds warrants in the company; if the box is checked, the SBIC will be asked to give the expiration date of the warrants and a short description of the terms.
 - Additional Loan/Debt Information: Date of last payment made by the borrower; balloon payment date, if any; and percentage of the loan to be repaid in a balloon payment at maturity.
 - Other Asset Information: SBICs transferred to the Office of Liquidation sometimes own or control various types of non-financial assets (real estate, furniture and fixtures, etc.) that may be sold to help pay amounts due to SBA. The SBIC will check a box if such assets exist; if the box is checked, the SBIC will be asked for a description of the asset, its dollar value, and whether there are any liens against it.

- **Frequency of collection:** On the current version of the form, the unaudited “Portfolio Company Financial Condition” section of page 11 is required to be updated on an annual basis only, on corporate Form 468.1 and partnership Form 468.2. The revised forms will require the “Portfolio Company Financial Condition” section to be updated quarterly on corporate Form 468.4 and partnership Form 468.3 for those SBIC required to file the quarterly forms. Most SBICs have this information readily available because they obtain monthly financial statement updates from their portfolio companies as part of their normal investment monitoring procedures. By collecting this information, SBA will be alerted on a timely basis to portfolio company performance trends that may affect an SBIC’s ability to repay its leverage.

SBIC Cumulative Investment Performance, page 16P (new schedule, annual Form 468.2 and quarterly Form 468.3 for partnership SBICs only)

- SBA is proposing a new schedule, for partnership SBICs only, to identify cash on cash returns generated by an SBIC's portfolio. The SBA software will use these data to calculate overall gross fund performance measures that are customarily used to evaluate private equity funds. Data entry requirements will be minimized by providing SBICs the option to automatically populate several fields with information previously submitted electronically on the Portfolio Financing Report (Name of Small Business, Employer ID, Date 1st Invested, and Total Dollars Invested). The SBIC will be able to change this information in response to subsequent events such as portfolio company mergers. Only two other fields (Cash Receipts and Equity Receipts) will require the SBIC to enter data quarterly as needed. The SBA reporting software will calculate the remaining fields. The information collected in this schedule will aid SBA in assessing the risks within individual SBIC portfolios and determining the characteristics of investments that are successful or unsuccessful in the program.
- This schedule will be required only for investments made since October 1, 1993 in order to utilize the available Form 1031 data for automated calculations.
- This schedule is not required for partnership SBICs that have never issued SBA leverage and have no outstanding SBA leverage commitments.

Operating Plan Update, page 19C for corporate SBICs or 20P for partnership SBICs (revised for Forms 468.1 and 468.2 only)

- 13 CFR 107.590 requires an SBIC to maintain active operations unless it has filed a "wind-up plan" approved by SBA. As set forth in 13 CFR 107.590(c), it is appropriate for an SBIC to prepare a wind-up plan when it has decided to cease new investment activity and make only follow-on investments as needed in its existing portfolio companies. Currently, SBICs file wind-up plans on an ad hoc basis in varying formats with varying information, resulting in inconsistent quality. In addition, an SBIC that files a wind-up plan and is later transferred to the Office of Liquidation often must submit different information needed by that office to develop its strategy to recover the SBIC's outstanding leverage. Adding a standardized wind-up plan format to the existing Operating Plan Update will eliminate these differing requirements and improve SBA's ability to evaluate prospects for leverage repayment. The wind-up plan supplement will be completed only by leveraged partnership SBICs in wind-up status as defined in §107.590(c) and both partnership and corporate SBICs that have been transferred to the Office of Liquidation. After the initial filing, the wind-up plan will be updated as needed on an annual basis.
2. How, by whom, and for what purpose information will be used. SBA Form 468 contains financial statements and supplementary information which are reviewed and

analyzed by SBA staff to evaluate the financial condition of individual SBICs and determine an individual SBIC's compliance with its business plan and with overall program requirements. The information in Form 468 is the primary source of information used to determine the creditworthiness of SBICs seeking Federal financial assistance and to monitor the financial condition of these SBICs after such assistance is provided. In addition, the information on Form 468 is used to evaluate an individual SBIC's regulatory compliance. Such information is essential for the protection of the government's financial interest.

SBA also pools financial information provided by individual SBICs to analyze the SBIC program as a whole with respect to the risk of financial loss to the government and the impact of SBIC financings on the growth of small business.

3. Technological collection techniques. SBA currently provides all SBICs with a Windows-based electronic version of Form 468 which can be installed on a personal computer. This software allows an SBIC to prepare the schedules on the computer and transmit the completed data files to SBA via electronic mail or on diskette. SBA has engaged a contractor to create a Web-based version of the Form 468 reporting software that is scheduled to be introduced in 2011. SBA believes this move to online form completion and submission will be more convenient for respondents.
4. Avoidance of Duplication. Most SBICs are privately held and SBA Form 468 is generally the only financial report prepared by such SBICs. A few SBICs prepare other financial reports; those are typically SBICs that are owned by public companies regulated by the Securities and Exchange Commission (SEC). Form 468 is designed to provide information specific to SBIC regulatory and program requirements and does not duplicate financial information required by the SEC.
5. Impact on small business or other small entities. The only entities required to complete Form 468 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 468 is primarily the type of information that any investment company must maintain in the ordinary course of business, i.e., basic financial statements plus information about the company's investments and their current value. The remainder of the collection is limited to the information needed to show whether the SBIC is in compliance with specific regulations such as those governing permitted distributions, capital impairment, and activity requirements.
6. Consequences if collection of information is not conducted. SBA Form 468 is designed to provide information needed to evaluate the operating effectiveness, regulatory compliance, and financial soundness of SBICs. SBA requires such information in order to protect the government's financial interest (as the largest investor or creditor of most SBICs) and to ensure that SBICs are operating in accordance with the regulatory requirements and public purposes of the program.
7. Existence of special circumstances. There are no special circumstances that would

cause the conditions described.

8. Solicitation of public comment. A notice was published in the Federal Register on July 14, 2010, Volume 75, Number 134, page 40856. 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 SBICs and their portfolio companies, which are 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. No questions of a sensitive nature are asked.
12. Estimate of the hourly burden of the collection of information. A small sample of respondents was consulted regarding the amount of time required to complete the forms. SBA identified two major factors affecting burden: (1) Is the SBIC required to report quarterly or only on an annual basis? (2) Is the SBIC required to complete the wind-up plan supplement? Because of these variations in reporting requirements, SBA has developed separate burden estimates for the following categories of SBICs:
 - SBICs that do not have or intend to seek SBA leverage (“non-leveraged SBICs”). These SBICs report to SBA on an annual basis only, using corporate Form 468.1 or partnership Form 468.2, and are not required to complete the wind-up plan.
 - SBICs that have outstanding SBA leverage or leverage commitments (“leveraged SBIC”) and are required to complete the wind-up plan, because they either have been transferred to the Office of Liquidation or are no longer making new investments. These SBICs file corporate Form 468.1 or partnership Form 468.2 on an annual basis, **including** the wind-up plan, and file corporate Form 468.4 or partnership Form 468.3 at the end of each fiscal quarter other than Q4, which is covered by the annual filing.
 - Leveraged SBICs that are not required to complete the wind-up plan because they are still actively investing. These SBICs file corporate Form 468.1 or partnership Form 468.2 on an annual basis, **excluding** the wind-up plan, and file corporate Form 468.4 or partnership Form 468.3 at the end of each fiscal quarter other than Q4, which is covered by the annual filing.

The estimated hour burdens for the forms are shown in the following table:

Form Number	Number of respondents	x	Frequency	x	Hours per response	=	Total Hour Burden
Form 468.1 – with wind-up plan	10		1		35		350
Form 468.1 – without wind-up plan	50		1		25		1,250
Form 468.2 – with wind-up plan	170		1		35		5,950
Form 468.2 – without wind-up plan	145		1		25		3,625
Form 468.3	210		3		23		14,490
Form 468.4	15		3		23		1,035
TOTAL COLLECTION							0

Note 1: The total number of respondents shown on OMB Form 83-I (item 13a) is 375, calculated as the sum of the respondents shown in the first four lines of the table above for Forms 468.1 and 468.2. The respondents shown for Forms 468.3 and 468.4 are a subset of the same group, and therefore have been excluded from the total number of respondents to avoid double-counting.

Note 2: The total number of responses shown on OMB Form 83-I (item 13b) is 1,050, calculated as follows:

- Form 468.1, 10 with wind-up plan + 50 without 60
- Form 468.2, 170 with wind-up plan + 145 without 315
- Form 468.3, 210 respondents x 3 630
- Form 468.4, 15 respondents x 3 45
- Total responses 1,050

Note 3: The quarterly partnership Form 468.3 and quarterly corporate Form 468.4 are somewhat shorter than the year end forms, consisting of pages 2-13, 15, 16 for partnership SBICs only, and a modified quarterly version of the Certifications that deletes the references to annual audited financial statements. In addition, the quarterly reports do not include a wind-up plan. Therefore the estimated hours per response for these forms are slightly lower than the estimated hours for the year end forms without wind-up plan.

The cost to respondents of the estimated hour burden is shown in the following table:

Form Number	Number of responses	x	Hours per response	x	Cost per hour	=	Total Cost
Form 468.1 – with wind-up plan	10		35		\$35		\$12,250
Form 468.1 – without wind-up plan	50		25		\$35		\$43,750
Form 468.2 – with wind-up plan	170		35		\$35		\$208,250
Form 468.2 – without wind-up plan	145		25		\$35		\$126,875
Form 468.3	630		23		\$35		\$507,150
Form 468.4	45		23		\$35		\$36,225
TOTAL COLLECTION							\$0

The cost per hour is based on estimated annual compensation of \$70,000 per year for an accounting professional who would be preparing the forms.

13. Estimate of total annual cost burden. The annual cost burden resulting from the collection of information is estimated at \$35,000 per year end respondent. This amount represents the cost of the required audit of the financial statements by an independent public accountant. No capital and start-up costs have been included in the cost burden estimate because SBA expects that all licensees would acquire and use the necessary equipment (primarily a personal computer) in the ordinary course of business, even in the absence of any information collection requirements.

\$35,000 cost per respondent x 375 year-end respondents = \$13,125,000

14. Estimated annualized cost to the Federal government. The Federal government's cost

to review and analyze each SBA Form 468 filed is estimated at \$200. The aggregate cost is computed as follows:

Analyst performing financial and regulatory review of SBA Form 468:	
GS-13: 4 hours @ \$50 per hour	\$ 200
Estimated number of responses (annual and quarterly combined)	x 1,050
Total cost to Federal government	\$ 210,000

15. Explanation of program changes in Items 13 or 14 on OMB Form 83-I. The increase in the hour burden in item 13 of OMB Form 83-I reflects (1) the increase from 20 to 25 hours (without wind-up plan) or 35 hours (with wind-up plan) in the estimate of the time needed to complete the annual report on Form 468.1 or 468.2, and (2) the increase from 15 to 23 hours in the estimate of the time needed to complete the quarterly report on Form 468.3 or 468.4. The additional time is needed to provide the new portfolio company information requested on page 11 and to complete the wind-up plan, if applicable. The need for this new information is discussed in item 1 above.

The increase in the cost burden in item 14 of Form 83-I, from \$11,000,000 to \$13,125,000, reflects an increase in the estimated cost of engaging a certified public accountant to perform the annual audit of the financial statements, partially offset by a decrease in the number of year end respondents from 440 to 375. The smaller number of respondents resulted from the continuing wind-down of the participating securities program.

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.