



409 3rd St., SW • Washington, DC 20416 • (202) 205-6510

THE SBIC PROGRAM

Choose from Drop-Down Menu

Form 2181: Applicant Narrative

Application Type: *(Check one)*

Standard SBIC Applicant Non-Leveraged SBIC Applicant

Early Stage SBIC Applicant Impact Investment SBIC Applicant

Leverage Request: *(Check one)*

No Leverage 2 tiers

1 tier Other: Number of tiers or \$ amt.

Name of Applicant:	Enter Fund Name
Address:	Address 1 Address 2 City, State ZIP
Name of Primary Contact:	Enter First and Last Name of Primary Contact
Telephone:	(123) 456-7890
E-mail:	name@emailaddress.com
Date of MAQ Submission:	Click here to enter a date.
Date of License Application Submission:	Click here to enter a date.

The estimated combined burden for completing this form and Form 2181: Excel Supplement is 70 hours per response. You are not required to respond to any collection of information unless it displays a currently valid OMB approval number. Comments on the burden should be sent to the US Small Business Administration, Chief, Administrative Information Branch, Washington, DC 20416 and Desk Officer for the Small Business Administration, Office of Management and Budget, New Executive Office Building, Room 10202, Washington, DC 20503. OMB Approval 3245-0062.

Please do not send forms to OMB. Refer to Instructions for information on how and where to submit the requested information.

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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.](#)

1.2. Structure & Pricing

Please identify the three or four primary types of securities you intend to use as part of your investment strategy (e.g. first lien, second lien, revolvers, subordinated debt with warrants, preferred equity, etc.) and explain both the structure and pricing strategy for each. Reference the following items where relevant:

- Contractual Tenor vs. Expected Holding Period of Securities
- Current vs. Accrued (PIK) Interest/Dividends
- Fee Revenue
- Key Covenants
- Collateral

Security Type	Est. % of Portfolio	Description of Structure & Pricing
Subordinated Debt with Warrants		Structure: Unsecured debt, 5-7 year maturity with detachable warrants. Expected actual duration of 3-5 years. Pricing: 10-12% cash interest, 4-5% PIK, warrants worth 4-5% of fully diluted ownership Fees: 2% closing fee Key Covenants: Interest Coverage, Fixed Charge Coverage, Debt/EBITDA Collateral: Unsecured

1.3. Leverage at the Portfolio Company Level

Whether you are primarily an equity or debt investor, discuss your view of the use of leverage at the portfolio company level. Identify the key leverage metrics you evaluate when making an investment and state your preferred leverage level for a typical investment.

[Click here to enter text.](#)

1.4. Market Opportunity

Please explain the market dynamics underlying your strategy. What are the key macroeconomic or industry specific factors that will drive deal flow for your strategy? What key factors will determine your opportunities for exit?

[Click here to enter text.](#)

1.5. Competition

Identify your direct competitors and explain your competitive advantage(s).

[Click here to enter text.](#)

1.6. Risks & Mitigants

Please identify at least three of the major risks to the success of your investment strategy. For each risk identified, explain any factors or efforts you may take to mitigate the risk.

[Click here to enter text.](#)

1.7. Economic Impact

The SBIC Program was created to facilitate the flow of long-term capital to American small businesses. Please discuss the economic impact you expect your investment activities will have on American small businesses and their employees. Please use data to support your response.

[Click here to enter text.](#)

2. Firm and Team

2.1. Firm Overview

Please provide a brief history of your firm (including any affiliates) and describe all investing, advisory or other business activities the firm currently conducts, or will conduct in addition to managing the SBIC.

Click here to enter text.

2.2. Principals

For each principal please provide a brief biography and a description of his/her role within the team. Please use the suggested format, ensuring you include all previous employment and associated time periods.

Jane Doe – Senior Managing Partner

Jane is the Senior Managing Partner for SBIC Investors, LLC and is primarily responsible for portfolio management. She first joined SBIC Investors, LLC in 1995 as an Associate, was promoted to Partner in 2002 and Senior Managing Partner in 2005.

Prior to joining SBIC Investors, Doe was an Associate with Small Business Bank's leveraged lending group, where she worked from 1993 to 1995. She began her career as an Investment Banking Analyst with Big Behemoth Bank in 1990.

Doe earned a B.A. in Economics from Small College in 1990 and an MBA from Big University in 1993.

2.3. Team History

Briefly describe the origins of this team and any shared work history of the Principals. Please include dates, the context in which the Principals met and the firms for which each principal worked at the time of the meeting.

Jane Doe and Peter Partner first met in 1990 when they were both hired as Analysts at Small Business Investment Bank. Doe left the bank in 1996 to join the buyout firm ABC Investors, where she worked with Sharon Synergy until 2010. In early 2011, Doe and Synergy decided to launch their own fund, the current SBIC proposal, and reached out to Peter Partner to join the team. The three principals have been working together since.

2.4. Other Principal Activities

In worksheet 2.3 of Form 2181: Excel Supplement, you are asked to indicate the percentage of each principal's time that will be devoted to the management of the SBIC. Use the space below to account for the time each principal will not be devoting to the management of the SBIC. If applicable,

- List all active funds (with their vintage years) for which the principals, either jointly or separately, have management responsibility
- List the seats each principal currently holds on for-profit or non-profit boards and indicate if and when these board commitments are expected to end
- List any other fund-related or non-fund-related activities expected to require meaningful commitments of the principals' time

[Click here to enter text.](#)

2.5. Team Cohesion

If you reply "yes" to either of the questions listed below, please provide an explanation in the space provided:

- a. Are there any known conditions (health, litigation, financial, personal, etc.) of any of the Principals that might affect their ability to execute their duties to the firm or the SBIC? YES NO
- b. In the past 5 years, have any senior members of your team departed the firm? YES NO
If yes, please provide their names, titles and briefly explain the reasons for their departure. *Note: Form 2182 - Exhibit D requires you to provide the names and contact information for all employees that have left your firm within the last five years.*

[Click here to enter text.](#)

3. Investment Process

3.1. Overview of the Investment Process

Using a numbered list, please identify the steps in your fund's investment process from deal origination to portfolio monitoring and note any decision points. Please include no more than three to four sentences explaining each step.

1. Deal Origination
Each principal conducts business development activities which results in the collection of business proposals and investment opportunities.

2. Initial Screening
Each new proposal is assigned to one principal for review. That principal then prepares an initial assessment and presents it at the next meeting of the investment committee
3. Due Diligence
If the investment committee agrees that a proposal is worth pursuing, a principal is assigned to run diligence on the opportunity.
4. ...

3.2. Business Development

Discuss your primary marketing programs or strategies. Compare your proposed deal sourcing strategy with the ones used in prior years/funds.

[Click here to enter text.](#)

3.3. Due Diligence

Describe your due diligence process, specifically indicating the type and extent of your inquiries and research. Indicate how this responsibility is allocated among principals, staff, committees, personnel from affiliated organizations and outside consultants.

[Click here to enter text.](#)

3.4. Decision-Making Process

Describe the decision-making process used to make new investments, exit current investments, make follow-on investments or otherwise manage the operations of the fund. In your response please refer to the following:

- Periodicity of Management Team Meetings
 - Voting Power of Principals
 - Number of votes required for approval/disapproval of new investments, follow-on investments, exist or other fund operations
 - Any special voting rights, such as veto rights, held by one or more principals
 - Any requirements to obtain the consent of one or more principals
-

[Click here to enter text.](#)

4. Portfolio Management & Monitoring

4.1. Investment Monitoring

Discuss the process you use to monitor investments in your portfolio. Please refer to the following items in your response:

- Reporting required of portfolio companies
 - Firm's approach to board representation
 - Number of deals each principal will be responsible for at peak
 - Periodicity of portfolio reviews
 - Level of engagement with portfolio company management
 - Provision of consulting services to portfolio company management
-

[Click here to enter text.](#)

4.2. Troubleshooting

Discuss your approach to managing underperforming investments. If you maintain a "watch list," describe the criteria used to place investments on the list. Explain the measures you take to turn around poor-performing investments, with references to specific examples from your track record. For those investments that cannot be turned around, explain how and when you decide to mark-down or write-off your position.

[Click here to enter text.](#)

4.3. Recycling, Reserves and Follow-On Financing

Describe the fund's policies regarding the recycling of proceeds, including any applicable time restrictions, and the maintenance of capital reserves for follow-on investing. Describe your process for evaluating follow-on investment opportunities and the criteria you use to determine whether or not to proceed with new financing.

[Click here to enter text.](#)

4.4. Regulatory Compliance

Describe the processes you will use to monitor your compliance with SBIC Program Regulations. Please identify the person(s) that will have primary responsibility for regulatory compliance.

[Click here to enter text.](#)

5. Fund Economics

5.1. Carried Interest

Please provide a detailed description of the carried interest provisions of your fund, identify the basis of the calculation (e.g. whole fund or deal-by-deal) and explain your vesting policy. Explain how these provisions compare with your previous funds.

[Click here to enter text.](#)

5.2. Management Fee

Please describe the formula you will use to calculate the management fee that the SBIC will be charged. Describe any changes that may occur over the course of the fund's life. (Please review 13 CFR 107.900 and SBIC TechNote #7A, revised April 2008).

[Click here to enter text.](#)

5.3. Fee Allocation

Please describe your policy on the allocation of fees, such as transaction fees, investment banking fees, monitoring fees, directors' fees, etc., between the SBIC and any management or other affiliated entities.

[Click here to enter text.](#)

6. Capitalization

6.1. Minimum Fundraising Threshold

Justify the “Minimum to close” fundraising threshold you have indicated in “Form 2181: Excel Supplement” worksheet 6.1. Discuss how your investment strategy, fund operations or other SBIC-related activities would change if you fail to reach your target fundraising level and must operate with this lower amount of capital.

[Click here to enter text.](#)

6.2. Placement Agent

Have you hired or do you intend to hire a Placement Agent? YES NO

If you have responded “Yes” to the question above, please complete worksheet 6.3 of “Form 2181 – Excel Supplement.” Describe below the duties called for by any placement agreements. State who will be responsible for payment of placement agent compensation, the basis for compensation, and how and when such compensation will be paid.

[Click here to enter text.](#)

6.3. Third-Party Borrowings

Do you have or do you intend to have any third party borrowing arrangements in place at any time prior to being licensed? YES NO

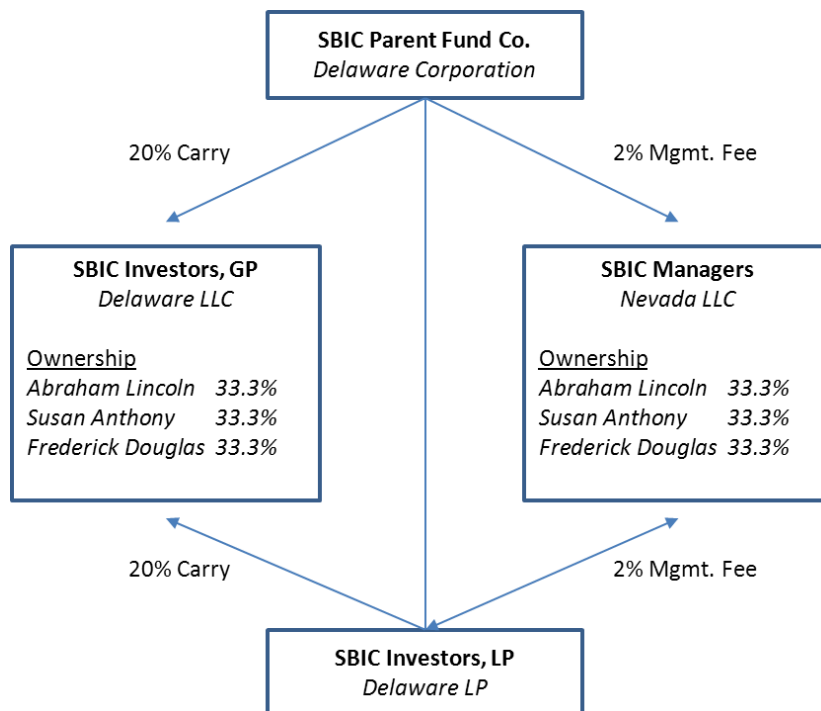
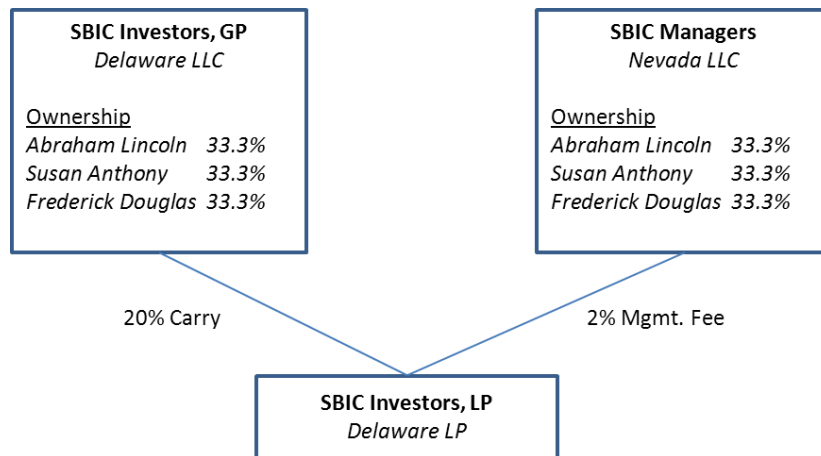
If “Yes,” please provide a description of your current or expected borrowing arrangements. If this is a licensing application, please complete Exhibit R and provide any associated borrowing agreements. (Please review 13 CFR 107.550)

[Click here to enter text.](#)

7. Governance

7.1. Organizational Chart

Provide an organizational chart of all entities and persons related to the SBIC in the space provided below. Ensure ownership percentages are included for the Applicant’s management company and general partner. Include any parent fund(s) or “side-car” vehicles if relevant. Use the examples as a guide, then delete before submission. You may use the drawing tools available in word or insert an image.



7.2. Associates and Affiliated Entities – Service Providers

Read the definition of Associate (13 CFR 107.50) and Affiliate (13 CFR 121.103). Identify any Associates and Affiliated individuals and entities that will provide services to the Applicant in connection with the Applicant’s activities as an SBIC, such as due diligence, deal sourcing, administration, or portfolio consulting, and explain how they will be compensated.

[Click here to enter text.](#)

7.3. Associates and Affiliated Entities – Organizational Structure

Read the definition of Associate (13 CFR 107.50) and Affiliated Entity (13 CFR 121.103). Indicate whether any individual or entity identified in your organizational chart or in the previous question is an Associate or Affiliate of any other SBIC applicant or currently licensed SBIC.

[Click here to enter text.](#)

7.4. Conflicts of Interest

Describe current or proposed methods to identify any potential conflicts of interest and the procedures for resolving those potential conflicts.

[Click here to enter text.](#)

7.5. Advisory Committee

Do you intend to have an LP Advisory Committee? YES NO

Do you intend to have any other type of corporate, advisory or governance committee? YES NO

If “Yes” to either question, please provide a brief description of the membership of each committee, if known. Explain the role and responsibilities of each committee, and any compensation you expect to provide to its members.

[Click here to enter text.](#)

7.6. Personal Co-Investments

Describe your policies regarding personal investments by principals and/or other employees in portfolio companies. If personal investments are permitted, please indicate whether “hard” dollars or “soft” dollars will be used and discuss.

[Click here to enter text.](#)

7.7. Limited Partner Co-Investments

Describe your policies regarding co-investments made by limited partners. If you plan to offer limited partners the opportunity to co-invest alongside the fund, explain the circumstances under which such an offer would be made.

(Note: Please review your response to this question prior to filing your License Application. SBA is aware that your policies regarding co-investments will be negotiated with your limited partners and the response you provide in Phase I of the application process is subject to change.)

[Click here to enter text.](#)

7.8. Other Co-Investments

Provide details regarding any Affiliates and/or Associates, as defined in 13 CFR 107.50 and 13 CFR 121.103, respectively, that are likely to participate in SBIC investments. Please specify the nature of the affiliation or association of the entity.

[Click here to enter text.](#)

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.

Due Diligence Checklist:

Please submit the standard due diligence checklist you will use for the SBIC.

Term Sheets:

Please submit one sample term sheet for each of the security types you have identified in section 1.2 of this form.

Deal Pipeline:

Provide a copy of the firm's deal pipeline for investment opportunities sourced over the past year. Include any deals in which the firm expressed interest, commenced diligence and/or issued a letter of intent. For each deal, indicate the source of the opportunity, the principal who sourced the deal and the estimated transaction size.

9. Additional Information (Optional)

Instructions

Please use this page to provide additional information not requested, but which you feel is relevant to your qualifications for an SBIC License. If you are adding to a response included elsewhere in this form, please be sure to cite the section number. This section is optional.

Appendix 1. Early Stage SBIC Applicants ONLY

Is this an Early Stage SBIC Application? YES NO If “No,” skip this section

Before completing this section, please review the regulations governing the Early Stage SBIC Initiative (Available here: [Early Stage SBICs – Final Rule](#))

A1.1. Investment Rounds

Describe your approach to financing early stage companies through multiple rounds of investment.

Please address the following in your response:

- Your typical progression from the first financing round to your last financing round
 - Your approach to milestone financing
 - How you protect yourself against dilution
-

[Click here to enter text.](#)

A1.2. Pricing

Describe the methodology you use to price an investment opportunity in which the portfolio company has not yet achieved cash-flow breakeven.

[Click here to enter text.](#)

A1.3. SBA Leverage

Discuss your strategy for the use of SBA leverage. Indicate whether you intend to use the discounted debenture, the standard debenture or both. If you plan to use the standard debenture, explain the method you will use to maintain the required interest reserve.

[Click here to enter text.](#)

Appendix 2. Impact Investment SBICs ONLY

Are you applying as an Impact Investment SBIC? YES NO If "No," skip this section

Please explain why you qualify for consideration as an impact applicant, with reference to the specific qualification criteria of the SBIC Program Impact Investment Initiative (i.e. Place-based or Sector-based). Also identify and explain the following:

- Any sector or geographic focus of your impact strategy
- Any explicit social or economic impact goals you are targeting
- Any impact metrics you intend to track and report back to LPs
- Will you be rated on your social impact by a third party? If so, identify the third party and the ratings process that will be employed.

[Click here to enter text.](#)

Appendix 4. Discussion of Issues for Public SBICs ONLY

Will the SBIC be a public entity or a subsidiary of a public entity? YES NO

If "No," skip this section.

A4.1. Valuation Policies

Are you aware of the differences between the valuation requirements of the SEC (or state regulators) for publicly traded companies and the valuation policy for the SBIC Program, which is available on the SBIC Program website (www.sba.gov/inv). YES NO

A4.2. Public Offering

Describe your plans for an initial public offering. If the SBIC or parent fund is already public, give a brief history of its formation and operation as a public company.

[Click here to enter text.](#)

A4.3. Distribution Policies

Describe your proposed distribution policies in full. If you are seeking access to leverage, please discuss the compatibility of SEC and tax laws, as well as state securities laws, regarding distributions from investment companies with SBA regulations governing distributions and return of capital from SBICs.

Are you planning to elect to be taxed as a regulated investment company pursuant to section 851 of the Internal Revenue Code? YES NO

[Click here to enter text.](#)