



**U.S. SMALL BUSINESS ADMINISTRATION**  
OFFICE OF INVESTMENT AND INNOVATION  
409 THIRD STREET, SW SUITE 6300  
WASHINGTON, D.C. 20416

**DATE:** February 23, 2021  
**TO:** Licensed Small Business Investment Companies  
**SUBJECT:** Year-end Financial Reporting Requirements

Under §107.630 of the SBA regulations, each Small Business Investment Company (SBIC) must file an audited Annual Financial Report, SBA Form 468, within three months from the close of its fiscal year. For example, if your fiscal year-end is December 31<sup>st</sup>, you must file your audited Annual Financial Report, SBA Form 468 no later than March 31<sup>st</sup>.

In accordance with §107.504(a), you must prepare SBA Form 468 electronically using the SBIC-Web application provided by SBA. SBA recommends you download the “SBIC-Web Application Reference Guide for External User” Version 4.0, dated September 15, 2017 (“Reference Guide”), which includes information on using SBIC-Web and preparing the SBA Form 468, from the “External User’s Manual” link at the bottom of the screen once you have logged into SBIC-Web.

This memo provides information concerning the SBIC-Web reporting platform, preparation of the SBA Form 468 and guidance on SBIC audit and financial reporting issues. If the SBA Form 468 is not completed in accordance with this memo (including Section III, paragraph 1 of this letter), the SBIC regulations and the Reference Guide, the SBIC may be subject to civil penalties under 13 CFR §107.665.

This memo also provides clarifications on how SBICs should address Paycheck Protection Program (PPP) loans and Economic Injury Disaster Loans (EIDL) that its portfolio concerns might have received within both Schedule 8 and its valuation reports (see Sections 3 and 4 of this notice, respectively). SBICs should disclose such information to help SBA correctly interpret presented financial information and valuations.

Please read this memo carefully as there are changes from last year. You should provide your independent public accountant with a copy of this memorandum.

### **Section 1: SBIC-Web**

1. The SBIC-Web application is best viewed in one of the following Web browsers: Internet Explorer 9 and later; Microsoft Edge, Google Chrome; Firefox; or Safari.

2. To access SBIC-Web, please ensure that you have a current SBA Connect account. If you do not have a current SBA Connect account, please go to <https://connect.sba.gov/> to set up an account. If you need assistance with setting up an account, please click on “Help” in the upper right-hand corner after you have landed on the SBA Connect page to view the User Manual, FAQs, or to contact the SBA Connect helpdesk.
3. Please note that the fund primary contact for your SBIC is the only individual who can approve your account before you can access the SBIC record using the SBIC Web application. If your fund primary contact does not have an SBA Connect account, they should set up their account first, so they will receive your SBA Connect account request and have the ability to approve it. **NOTE:** SBA no longer approves all users for a given SBIC; only the fund primary contact can approve access to all other SBIC users.
4. **We are no longer using** [sbicWebsupport@sba.gov](mailto:sbicWebsupport@sba.gov). If you experience any issues with SBIC Web, please send an email to [ITSC@sba.gov](mailto:ITSC@sba.gov) and include “SBA – SBICWEB Support” in the subject line along with a short description of your issue. In the body of the email include as much detail about the issue you are experiencing and include screenshots if possible.
5. Please review the Rules of Behavior for all users of SBIC-Web in Attachment 1.

## **Section 2: Filing Requirements – SBA Form 468**

1. A complete filing of the audited Annual Financial Report, SBA Form 468, consists of the following:
  - The data files created and submitted in the SBIC-Web application
  - An uploaded .pdf file that includes the Independent Auditor's Report and the Notes to Financial Statements (see Section 6, paragraph 3 of this letter for further details regarding the contents of this file)
  - An uploaded .pdf file containing the Operating Plan Update narrative (for Licensees with outstanding SBA leverage or commitments)
  - An uploaded .pdf file of the signed Certifications page
  - Any other supplementary uploaded .pdf files (such as valuation meeting minutes, valuation reports, capitalization information, wind-up plan updates, etc.)

*Please note that your independent auditor may want to combine all the above documents into one .pdf file to upload into SBIC-Web. SBA has no objection to uploading these documents in this manner.*

2. SBA Form 468 data files created and submitted in the SBIC-Web are automatically transmitted to SBA. Submitted SBA Form 468s are listed on the SBIC’s SBIC-Web Home Page and the date stamp serves as the official confirmation of receipt of the filing. Previous filings, along with a calculated capital impairment worksheet, can also be found under the SBIC-Web SBIC Profile – Form 468 Filings page.

3. **CIVIL PENALTY: Under §107.665, an SBIC that violates any regulation or written directive issued by SBA requiring the filing of any regular or special report shall be fined a civil penalty of not more than the amount set forth in such regulation for each day the Licensee fails to file such report.**
4. Under §107.670, an SBIC may apply for an exemption from the civil penalty for late filing of reports when extenuating circumstances make it impracticable to file a required report within the allowed time.

The request for an extension of time to file a required report must:

- a. Be in writing (email is acceptable).
- b. Submitted to SBA before the filing due date.
- c. Certify to an extraordinary occurrence, not within your control, that makes timely filing of the report impractical, and
- d. Be accompanied by written evidence of such occurrence, where appropriate (See Section 1, Item 4).

Upon receipt of your request, SBA may exempt you from the civil penalty provision of §107.665, in such manner and under such conditions as SBA determines. ***Be advised that a request for an extension of time to file required reports must be justified and approval is not routine.***

If the extenuating circumstance is related to the SBIC-Web application, your request for an exemption under §107.670 should include evidence that you contacted the SBIC-Web support team (at [ITSC@sba.gov](mailto:ITSC@sba.gov)) prior to the filing due date.

5. Industry information shown on Form 468 Schedule of Loans and Investments must be reported using 2017 NAICS Codes. You can find the NAICS Code for a given industry on the Web at <https://www.census.gov/naics>. Enter an industry description and click on the button titled NAICS Search on the left side of the page to find the NAICS Code for a given industry.
6. Mature funds that are no longer making new investments are reminded to comply with §107.590(c) which requires the submission of a wind-up plan to your assigned financial analyst. If you are already operating under an SBA-approved wind-up plan, your SBA Form 468 filing must include any updates to your wind-up plan, such as changes in the expected timing or amounts of liquidity events and distributions to SBA and your investors.

### **Section 3: Form 468 Supplemental Information**

#### **1. Schedule 8 - Portfolio Company Financial Information:**

- a. Trailing Twelve-Month Basis. SBICs must report portfolio company information on a trailing twelve-month (TTM) basis for the most recent period available. See pages 19

and 55 in the Reference Guide, which provide detailed descriptions regarding required unaudited portfolio company information. ***If the required portfolio company information is not provided as identified in these sections, the SBIC may be subject to a civil penalty, as described above, until the required information is filed with SBA.***

- b. PPP Loans. In order for SBA to better interpret the portfolio concern financials presented in Schedule 8 and assess the financial condition of the portfolio concern for all portfolio concerns that are active (with any unrealized assets), SBICs should disclose any PPP loans/grants the portfolio concern received in the Schedule 8 comments field. SBA considers a PPP loan to be a liability unless it is forgiven and is therefore a financing cashflow. SBICs should minimally include the amount of the PPP loan and its forgiveness status/disposition and status as of the report date (12/31) and if the status changes post 12/31/2020 they should identify the new status and the date it applies. They should continue to update this field in subsequent Form 468s as applicable. Example:

For 12/31/2020:

- PPP: \$10 million; as of 12/31/20 not forgiven; 100% forgiven 1/05/21

For 03/31/2021:

- PPP: \$10 million; 100% forgiven 1/05/21

- c. EIDL loans should be addressed in a similar manor as PPP loans.

2. SBICs are asked to upload one (1) .pdf document containing the following information to the extent that it is applicable to them:

- a. Capitalization/Waterfall: For each portfolio company, in any format, provide a capitalization table (including debt and equity) and distribution “waterfall” (the hierarchy delineating the order in which funds will be distributed, including the priority of payment of the different types of securities). Once information has been uploaded for a given portfolio company, the SBIC will not need to re-submit unless and until there is a material change, such as a new round of financing.

- b. For SBICs that have been transferred to the Office of Liquidation, provide the following information for each portfolio company (if no such rights exist, please indicate “None”):

- i. Negative Covenants: ROFR – Right of First Refusal; COA – Co-sale Agreement; and Other.
- ii. Board Rights: Whether the SBIC holds a Board Seat; has Board observation rights; appoints the Board Chairperson.
- iii. Other Rights: Whether the SBIC has any of the following rights: Veto and “Springing” (right that comes into existence upon the occurrence of an event).

3. Schedule 9 (partnership SBICs only): In accordance with page 56 of the Reference Guide, this information must be completed by any partnership SBIC licensed on or after October 1, 1993, that has outstanding leverage, a leverage commitment, or Earmarked Assets. As discussed in the Reference Guide:

- a. Include all investments, both realized and unrealized, made by the SBIC since the fund commencement date or October 1, 1993, whichever is later. If historical information is unavailable in the format requested, you may omit (1) investments realized or written off before January 1, 2012, and (2) for investments held as of January 1, 2012, gross receipts received earlier than January 1, 2012.
  - b. Schedule 9 information is required on an annual basis only.
4. For any SBIC that has unrealized depreciation (i.e., has taken a reserve) on non-cash gains/income, we encourage you to upload a supplementary schedule detailing such depreciation under the Notes to Financial Statements. SBA recognizes that the standard capital impairment and READ calculations penalize an SBIC in these circumstances (because the calculations exclude the non-cash gains/income while including the related depreciation) and would appreciate having this information readily available.
  5. For any SBIC that reports management fee expense net of offsets on the Statement of Operations Realized as permitted by SBIC TechNote 7A, the notes to the financial statements must include a disclosure of the total management fee expense prior to offsets (calculated in accordance with the SBIC's limited partnership agreement and any applicable side letters) and the amounts of all offsets for fees received by affiliates of the SBIC under §§107.860 and 107.900.
  6. For any SBIC that has a waived management fee provision in its limited partnership agreement, the notes to the financial statements must include a disclosure of the total capital committed by the SBIC's general partner (or any affiliated persons/entities that may satisfy capital calls via waived fees), the amount of management fees waived during the reporting year and cumulatively, and the amount of waived fees that were used to reduce the general partner's (or affiliate's) capital commitment during the reporting year and cumulatively. Finally, the amount of waived management fee that may be applied under this provision is limited to 50% of the general partner's capital commitment to the SBIC.

#### **Section 4: Valuation Reporting**

1. You are required to submit the valuation reports you prepare internally to support the valuations shown on your SBA Form 468 for each portfolio company. There is no SBA-mandated format for these reports. Upload these reports to the SBIC-Web as one document in .pdf format.
2. You are required to submit, in .pdf format to the SBIC-Web, the minutes of the meeting at which your valuations were determined. The minutes must include a resolution adopted by the General Partners or Board of Directors confirming that each portfolio security was valued in accordance with the SBIC's duly adopted valuation guidelines. The minutes must also incorporate by reference the valuation report signed by each General Partner or Director along with any dissenting valuation opinions. See SBIC TechNote 4 for additional guidance on reporting portfolio valuations.

3. If a portfolio concern received a PPP loan, an SBIC should disclose the PPP loan, including the amount, the current status and how the SBIC considered the PPP loan in valuing its loans and investments. SBA considers the PPP loan a liability and a financing cashflow *unless* the loan is forgiven. While SBA does not believe that the PPP standard certifications by the small business concern, on their own, prevent an SBIC from writing up an asset that otherwise meets SBIC valuation guidelines, SBA believes that PPP proceeds that result from PPP forgiveness should not be used to write up SBIC assets. SBA considers this forgiveness a “one-time event” similar to an EBITDA adjustment.
4. If a portfolio concern received an EIDL loan, SBICs should disclose in the same manner as the PPP loan.

### **Section 5: Other Filing Requirements – SBA Form 1031A and Interim SBA Form 468**

1. You must file SBA Form 1031A – Portfolio Financing Report Certification to certify the completeness and correctness of previous electronic filings of SBA Form 1031. SBICs with Leverage or a Leverage commitment must file SBA Form 1031A semi-annually, with their semi-annual valuation report and with their audited Annual Financial Report, SBA Form 468. SBICs without Leverage or a Leverage commitment must file SBA Form 1031A annually with their audited Annual Financial Report, SBA Form 468.

To submit an SBA Form 1031A, generate and print the form in the SBIC-Web application. The form will list all investments for which the SBIC filed an SBA Form 1031 during the applicable certification period. An authorized official of the SBIC must sign and date the form. Then upload the signed SBA Form 1031A in .pdf format to the SBIC-Web application.

2. If you are submitting a request to draw Leverage more than 30 days after the end of your fiscal year, but before the due date of your audited Annual Financial Report, SBA Form 468, you must file an unaudited quarterly SBA Form 468 (select the Q4 quarterly filing option) as of your fiscal year end through the SBIC-Web. Please include a hard copy of the quarterly SBA Form 468 with your draw request. The interim SBA Form 468 must be signed and may not be stamped or marked in any manner.

### **Section 6: Conduct of the Annual Audit**

1. **Confirmations.** As part of the annual audit of a leveraged SBIC, Independent public accounts typically ask SBA to confirm the SBIC’s outstanding leverage balance. Your independent public accountant may e-mail confirmation requests to Patrick Henning in SBA’s Denver Finance Center at [patrick.henning@sba.gov](mailto:patrick.henning@sba.gov). Please include the SBIC’s license number and allow five (5) business days for a response.

In prior years, SBA provided independent public accountants the option to request a signed original confirmation to be returned by mail. Due to COVID-19, confirmation requests for 2020 can only be fulfilled by e-mail. E-mailed confirmations will be certified by secured electronic signature.

Please note that the Denver Finance Center can confirm an SBIC's outstanding Participating Securities balance but is not able to confirm accumulated Prioritized Payments. SBA recommends that all SBICs with Participating Securities leverage complete the Prioritized Payment section of the Participating Securities Distribution Worksheet for this purpose.

2. **Auditing Standards.** Audits are to be performed in accordance with Generally Accepted Auditing Standards (GAAS). It is not necessary to follow Government Auditing Standards.
3. **Auditor's Opinion.** The financial statements contained in the Annual Report, SBA Form 468, are the subject of the independent public accountant's opinion and must be referred to specifically in the opinion. SBA recognizes that various changes to Generally Accepted Accounting Principles (GAAP) have resulted in several significant differences between SBA Form 468 and GAAP financial statements (including, but not limited to, the treatment of unrealized gain/loss, presentation of financial highlights, valuation of certain loans and investments, treatment of Participating Securities, prioritized payments and SBA profit participation). As a result, the financial statement presentation on SBA Form 468, based on SBA's "Accounting Standards and Financial Reporting Requirements for SBICs" and this memo, may be considered an Other Comprehensive Basis of Accounting (OCBOA). Auditors may elect to provide SBA with an OCBOA opinion rather than a GAAP opinion, with the auditor's report stating that the financial statements have been prepared in accordance with accounting practices prescribed or permitted by the U.S. Small Business Administration. SBA encourages this practice in preference to the issuance of a qualified GAAP opinion. The notes to the financial statement should include an appropriate description of the SBIC's basis of accounting.

SBA will accept an auditor's opinion stating that an SBIC's financial statements are presented fairly in accordance with US GAAP (in particular, SBA notes that a number of non-leveraged SBICs have received SBA approval to value their investments on a GAAP basis; in addition, some leveraged SBICs may provide types of financing for which the valuations under GAAP and SBA guidelines are not materially different). SBA will also accept a qualified GAAP opinion if the qualification is not material to the financial statements. SBA will **not** accept an auditor's opinion that is qualified because the investments in portfolio companies included in the financial statements have been valued by the general partners using the SBA valuation guidelines applicable to the SBIC, which are not in accordance with GAAP (ASC 820). Because investments in portfolio companies typically represent a very high percentage of an SBIC's assets, these qualified opinions do not provide SBA with adequate assurance regarding the financial statements as a whole.

The auditor's opinion must be uploaded to the SBIC-Web system in a .pdf document that also includes the notes to the financial statements that are the subject of the opinion. It is within the auditor's discretion to include the audited SBA Form 468 schedules and the unaudited Schedules 8 and 9.

4. **Special Reporting Requirement for SBICs.** The annual audit of an SBIC must include a statement by the independent certified public accountant that an SBIC's valuations were prepared in conformity with its SBA-approved valuation policy. This is required by section 310(d) of the Small Business Investment Act of 1958, as amended, and §107.503(e)(2) of the

SBA regulations. SBA has determined that this legal requirement can be satisfied through the use of the following explanatory paragraph in the auditor's report on the Form 468 financial statements: "As discussed in Note [number], the investment securities included in the financial statements have been valued by the [board of directors, or general partner(s)] using valuation criteria applicable to the licensee. These criteria were established in accordance with section 310(d)(2) of the Small Business Investment Act of 1958, as amended." The referenced section 310(d)(2) states that each valuation submitted by an SBIC must be prepared in accordance with valuation criteria that (1) shall be "established or approved" by SBA, and (2) "include appropriate safeguards to ensure that the noncash assets of a licensee are not overvalued." For further information, please see section IV, paragraph B, of "Accounting Standards and Financial Reporting Requirements for SBICs". Please note that this requirement applies only to reports on SBA Form 468 and not to reports on any other financial statements that an SBIC may prepare.

## **Section 7: Accounting Matters – General**

- 1. Reporting Valuations on SBA Form 468.** The FASB has issued **FAS 157** (now codified as ASC Topic 820), "Fair Value Measurements", which provides a framework for measuring fair value under GAAP. SBA has not adopted FAS 157 for reporting valuations on SBA Form 468, and SBICs are not required to include FAS 157 valuation disclosures in the footnotes to their SBA Form 468 financial statements. SBICs should continue to determine and report portfolio valuations in accordance with SBA's "Valuation Guidelines for Small Business Investment Companies" and SBIC TechNote 12, "Guidelines Concerning Valuation Issues". Please review Attachment 2 to this letter which addresses questions SBA has received about how to interpret the guidance in TechNote 12 concerning liquidation preferences.
- 2. Financial Highlights.** SBA does not require "Financial Highlights" of the type described in AICPA Statement of Position 95-2 (ASC Topic 946).
- 3. Organization Costs.** In accordance with AICPA Statement of Position 98-5(ASC Topic 720), organization costs of an SBIC are to be expensed as they are incurred. This accounting treatment applies only to organization costs, not to SBA leverage fees or partnership syndication costs.
- 4. Debt Issuance Costs.** In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset. SBA has not adopted ASU 2015-03. On SBA Form 468, SBICs must continue to present unamortized debt issuance costs related to SBA leverage as "Net Leverage Fees" in the Other Assets section of the Statement of Financial Position. Amortization of debt issuance costs will continue to be reported as "Amortization of Leverage Fees" in the Expenses section of the Statement of Operations Realized.
- 5. Investments in Flow-through Entities.** The Statement of Operations Realized (page 4P or 4C of Form 468) includes a line for "Income (Loss) from Investments in Partnerships/Flow-



through Entities” (line 3). Investors in such entities typically use the equity method of accounting, under which the cost basis of the investment is adjusted at the end of each accounting period to recognize the investor's allocated share of earnings or losses, and the amount of the adjustment is included in the net income of the investor. However, SBA has determined that this method is not appropriate for SBICs.

Under SBA’s guidelines, instead of using the equity method, SBICs with portfolio investments in flow-through entities must report these investments at their fair value in the Statement of Financial Position, with the difference between cost and value reflected as unrealized appreciation or depreciation. Any income or loss allocated to the SBIC may, if appropriate, be a factor in the SBIC's estimate of the investment's fair value, but such allocations are not recognized as income or loss in the Statement of Operations Realized. Furthermore, the SBIC's cost basis is not adjusted to reflect such allocations. SBICs are to recognize income or loss when realized upon disposition or liquidation of all or part of their ownership interest. Income is also recognized when the SBIC receives a cash dividend or other distribution from the investee (unless the distribution represents a return of capital, which does not result in the recognition of income, but is treated as a reduction of the SBIC's cost basis).

6. **Consolidation of Portfolio Companies.** For most SBICs, the reporting entity is the SBIC only (for exceptions, see section V, paragraph C, of “Accounting Standards and Financial Reporting Requirements for SBICs”). Portfolio companies should not be consolidated.
7. **“Passive Business” Entity.** Under §107.720(b)(2) (exception for pass-through of proceeds to subsidiary) and §107.720(b)(3) (exception for certain Partnership Licensees), an SBIC may finance passive businesses under the circumstances set forth in those regulations. Under these circumstances, the SBIC should report its investment on page 11P or 11C of Form 468 under the name of the eligible small business that is the ultimate recipient of the financing. In the “Comments” field, the SBIC must indicate the name of each passive business entity through which it holds the investment and the qualifying exception under which the passive business Financing was performed (either §107.720 (b)(2) or §107.720 (b)(3)).

## **Section 8: Accounting Matters – Participating Securities SBICs**

1. **Classification of Participating Securities under FAS 150.** The FASB has issued FAS 150 (ASC Topic 480), “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” SBA’s view is that this Statement requires the outstanding principal balance of Participating Securities to be reported as a liability. SBA Form 468 classifies outstanding Participating Securities as a liability to conform to this requirement.
2. **Treatment of Prioritized Payments and Leverage Fees.** FAS 150 also affected the accounting treatment of Prioritized Payments and leverage fees related to the Participating Securities. **“Earned” Prioritized Payments, Charges and Adjustments**, which an SBIC is obligated to pay to SBA based on its profits, are reported as interest expense in the Statement of Operations Realized (line 11a). Any amount that is “Earned” but unpaid as of December 31, 2020 will be reported on line 33b of the Statement of Financial Position. This presentation requires an adjustment to net income in the Participating Securities Distribution

Worksheet; see Section 9, paragraph 4 of this memo. **“Accumulated” Prioritized Payments**”, which an SBIC is not obligated to pay, should not be accrued because of their contingent nature but must be disclosed in a footnote to the financial statements. Consistent with the characterization of Participating Securities as a liability, leverage fees from 2005 and later years that are associated with these instruments must be treated as deferred financing costs, not as syndication costs. SBA encourages but does not require reclassification of leverage fees paid in 2004 and earlier years. The summary of significant accounting policies accompanying the financial statements should clearly describe the accounting treatment of leverage fees, including any differences in the treatment of fees paid before and after December 31, 2004.

3. **Prioritized Payments and Profit Participation Not Subject to FAS 133.** SBA is aware that some SBIC accounting practitioners have considered whether the Prioritized Payment and/or Profit Participation features of the Participating Securities may be subject to the requirements of **FAS 133** (ASC Topic 815), “Accounting for Derivative Instruments and Hedging Activities.” If applicable, FAS 133 would require SBICs to report prioritized payments and Profit Participation potentially due to SBA as liabilities measured at estimated fair value. For the purpose of reporting on SBA Form 468, SBICs should not treat potential SBA Prioritized Payments or Profit Participation as a derivative instrument per FAS 133. Prioritized Payments are to be presented in accordance with Section 8, paragraph 2 of this memo. Any actual Profit Participation that has been calculated as of December 31, 2020 and is payable to SBA as a required annual distribution by the May 1, 2020 is to be shown in the Statement of Financial Position on line 33c.
4. **Noncash Gains from Installment sales, Earnouts, etc.** SBA is aware that the definition of “Earmarked Profit” under §107.1510 may cause a Participating Securities SBIC that records Noncash Gains/Income to have Earned Prioritized Payments, even though the SBIC may not have sufficient cash available to pay the required amount. Should this situation occur, please contact your assigned financial analyst in the Office of SBIC Operations for guidance.
5. **Tax Identification Number.** If you have issued Participating Securities and are preparing a K-1 for SBA, the SBA’s tax identification number for such purpose is 53-0215587.

### **Section 9: Participating Securities Distribution Worksheet (PSDW)**

1. **Required Submission of Distribution Worksheet.** If you have issued Participating Securities, complete and submit the PSDW in addition to your SBA Form 468. The PSDW should be uploaded, as a .pdf file, to the SBIC-WEB system. You must use the PSDW to do the calculations required by §§107.1510 through 107.1560 at the end of each fiscal year, beginning with the first year in which you issued Participating Securities. Even if you have no profits as of the end of a particular year and will not be making any distributions, you must go through the applicable sections of the PSDW, such as the computation of Accumulated Prioritized Payments and Adjustments. Specifically, you are required to complete the following sections:
  - The preliminary information at the very beginning of the PSDW (lines 1 through 5)
  - Section I: Earmarked Profit (Loss)

- Section II: Liquidity
  - Section III: Prioritized Payments
  - Section IV: Profit Participation (Parts IV-1 and IV-2 only)
2. **Requirements for SBICs Making a Required or Optional Distribution.** If the PSDW indicates you must make a required year-end distribution, or if you wish to make an optional distribution, please telephone or email both your assigned financial analyst and Marilyn Kapila (202-205-7504, [marilyn.kapila@sba.gov](mailto:marilyn.kapila@sba.gov)) as soon as possible. SBIC program regulations require that you notify SBA (i.e., submit a completed PSDW and any necessary supporting documentation) at least **10 business days** prior to any distribution. Required year-end distributions for Calendar Year 2020 must be made no later than May 1, 2021
  3. **Obtaining the PSDW software.** The PSDW software is unchanged from prior years. To request a copy, please contact Marilyn Kapila at [marilyn.kapila@sba.gov](mailto:marilyn.kapila@sba.gov). **[The software can be installed on PCs running all 32-bit Microsoft operating systems. For operation under a 64-bit operating system, installation within a 32-bit virtual environment will be necessary.]**
  4. **Calculation of “Earmarked Profit”.** If you had Earned Prioritized Payments, Charges and/or Adjustments during 2020 (i.e., Prioritized Payments, etc. that you were obligated to pay to SBA based on your profits), you must report these amounts on SBA Form 468 as interest expense in the Statement of Operations Realized, in accordance with FAS 150 (see Section 8, paragraph 2 of this memo). For the purpose of completing section I-3 of the PSDW, this interest expense must be added back to year-to-date net income on line 1 to calculate Earmarked Profit correctly and avoid double-counting.
  5. **Calculation of “Excess Management Expense”.** In the calculation of Excess Management Expense (section I-2 of the PSDW), on line 5 you must enter the gross management fee computed under your approved management fee formula, before any offsets for fee income earned by Associates. If you report your management fee expense net of offsets on SBA Form 468, include a reconciliation of the gross and net management fee figures with your PSDW submission. Note: If you have previously made one or more distributions based on PSDWs in which Excess Management Expense was calculated using a net management fee, you will not be required to restate those worksheets.

## **Section 10: Other Available Information**

1. The following accounting-related documents are available at <https://www.sba.gov/partners/sbics/operate-sbic#section-header-2>: (1) Accounting Standards for SBICs; (2) Chart of Accounts for SBICs; (3) Valuation Guidelines for SBICs. These items were published in August 1999 as appendices to SBA SOP 10 06, “Oversight and Regulation of Small Business Investment Companies.” In addition, SBIC TechNote 12, “Guidelines Concerning Valuation Issues”, issued August 2007, is available at <http://www.sba.gov/sites/default/files/files/SBICTechnote12.pdf>. We encourage you to download and review these materials.

2. If you have any questions concerning SBIC accounting or financial reporting, contact Judith Taylor on (202) 205-7083 or at [judith.taylor@sba.gov](mailto:judith.taylor@sba.gov)
3. If you have any questions concerning the Participating Securities Distributions Worksheet or distribution, contact Marilyn Kapila on (202) 205-7504 or [marilyn.kapila@sba.gov](mailto:marilyn.kapila@sba.gov).
4. For questions concerning SBA Connect, please send an email to [connect\\_admin@sba.gov](mailto:connect_admin@sba.gov)
5. For questions concerning SBIC-Web, please send an email to [ITSC@sba.gov](mailto:ITSC@sba.gov) and include “SBA – SBICWEB Support” in the subject line along with a brief title of your issue. In the body of the email, please include the SBIC Name and any detailed and pertinent information related to your issue.
6. For other matters, including valuation reporting, contact your area chief or financial analyst.

## **Attachment 1**

### **Rules of Behavior**

#### **All Users**

#### **Small Business Investment Company Information System (SBICWEB)**

**Unauthorized Use** – Users of the Small Business Investment Company Information System (SBICWEB) are responsible for the appropriate use and protection of sensitive information to which they have authorized access. You are prohibited from disclosing, without proper authorization, sensitive or Privacy Act information to individuals who have not been authorized to access the information.

**IDs and Passwords** – User IDs are assigned to individuals and should not be shared with other persons or groups. You must maintain the secrecy of your password. If you suspect your password has been compromised, you must change it immediately.

**Accountability** – You are accountable for all actions associated with the use of your assigned User ID and may be held liable for unauthorized actions found to be intentional, malicious, or negligent.

**Unauthorized Access** – You are prohibited from accessing or attempting to access SBICWEB information for which you are not authorized. You are prohibited from changing access controls to allow yourself or others to perform actions outside your authorized privileges. You may not imitate another system, impersonate another user, misuse another user's credentials (user ID, password, etc.) or read, store, or transfer information for which you are not authorized. Abuse of access capabilities will result in the removal of access to SBICWEB.

**Denial of Service Action** – You are not allowed to initiate actions that limit or prevent other users from performing authorized functions.

**Data or Software Modification or Destruction** – Unless otherwise authorized, you are not allowed to intentionally modify or delete system software, programs, or data.

## Attachment 2

### Valuations When an SBIC Has Liquidation Preferences

The Form 468 Schedule of Loans and Investments requires an SBIC to list and value separately each security of a portfolio company that it holds.

Many equity securities have a liquidation preference associated with the order and amount the security is entitled to receive when distributions are made.

SBA's model valuation policy does not allow for unrealized appreciation above cost based on liquidation preferences, even if it is allowed for GAAP purposes. SBIC TechNote #12 provides the following supplemental guidance on how SBICs may consider the downside protection that a preference provides:

If the SBIC's investment provides for liquidation preferences, the SBIC's valuation should take into account the downside protection afforded by the preferences, up to the cost of the investment, in the event that the value of the underlying company deteriorates. When considering the protective impact of its own preferences, the SBIC must also consider the potential unfavorable impact of preferences held by other investors.

It is not uncommon for new rounds of funding to include liquidation preferences used to preserve the total investment that a fund has in the portfolio company. SBA has been asked how the valuation of multiple securities should be reported on the SBA Form 468 if the most senior security has a liquidation preference that recovers the cost, or part of the cost, of all the outstanding securities. Specifically, applying the above guidance from SBIC TechNote #12, can all or part of the cost of the junior securities be protected to the extent that the senior security has a liquidation preference that is expected to return the cost of both the senior and junior securities?

SBA's response to this question is yes, as illustrated in the following examples, subject to the documentation requirements listed at the end of this attachment.

#### **Example #1:**

The investor syndicate has one or more investors who are not able or willing to put more money into a company. The syndicate puts a liquidation preference on the new round of funding to penalize the syndicate members who are not participating in the newest round.

	Price Per Share	Total round Size	Post-Money Enterprise Value	Seniority	Liquidation Preference X	Liquidation Preference \$
<b>Series A</b>	\$ 1.00	\$ 2,500,000	\$ 4,000,000	2	1	\$ 2,500,000
<b>Series B</b>	\$ 1.00	\$ 2,000,000	\$ 6,000,000	1	3	\$ 6,000,000
		\$ 4,500,000				
<b>Liquidation Value</b>						
<b>Enterprise value</b>		\$ 6,000,000				
<b>Series B</b>		\$ 6,000,000				
<b>Series A</b>		\$ -				
<b>Total value</b>		\$ 6,000,000				

In this case, assuming the \$6M enterprise value can be supported, the fund will get more than cost basis of its total investment in the portfolio company, based on the liquidation preference on the Series B, but

nothing would go specifically to the Series A. Because the SBIC's total cost basis is protected by the Series B preference, the SBIC would show both the Series A investment and the Series B investment at cost on the Form 468 Schedule of Loans and Investments.

### Example #2

The investor syndicate has one or more investors who are not able or willing to put more money into a company. The syndicate puts a liquidation preference on the new round of funding to penalize the syndicate members who are not participating in the newest round. The newest round was also done at a lower pre-money enterprise value.

	Price Per Share	Total round Size	Post-Money Enterprise Value	Seniority	Liquidation Preference X	Liquidation Preference \$
Series A	\$ 1.00	\$ 2,500,000	\$ 4,000,000	2	1	\$ 2,500,000
Series B	\$ 1.00	\$ 2,000,000	\$ 4,000,000	1	3	\$ 6,000,000
		\$ 4,500,000				
<b>Liquidation Value</b>						
<b>Enterprise value</b>		\$ 4,000,000				
<b>Series B</b>		\$ 4,000,000				
<b>Series A</b>		\$ -				
<b>Total value</b>		\$ 4,000,000				

In this case, assuming the \$4M enterprise can be supported, the fund will get all its cost in Series B (\$2.0M) and some of its cost basis from Series A (\$2.0M of the \$2.5M) based on the liquidation preference on the Series B, but nothing would go specifically to the Series A. Because the SBIC's Series A cost basis is partially protected by the Series B preference, the SBIC would show both the Series A investment at \$2.0M (written down from cost of \$2.5M) and the Series B investment at its cost of \$2.0M on the Form 468 Schedule of Loans and Investments.

SBA believes that reporting in accordance with these examples will allow an SBIC to appropriately represent the total value of its position in a company, not to exceed cost, in accordance with SBA valuation guidelines.

### Documentation Requirements

For any security that is reported on Form 468 at a value that depends on the estimated value of a liquidation preference, the SBIC must note the basis for the valuation in the comments section. The comment must describe the preference and indicate the specific security that has the preference.

Upon request, an SBIC must provide documentation satisfactory to SBA of its calculation of the enterprise value on which the value of a liquidation preference is based. The calculation of enterprise value must consider any down round that has taken place, whether or not outside investors were involved. If SBA is not satisfied that the enterprise value is reasonable and appropriately supported, we can require adjustment of the value based on an independent third-party valuation, either by a contractor of our choosing or a valuation firm engaged by the SBIC and acceptable to SBA. Licensees are strongly cautioned that merely holding a preference does not provide downside protection if the value of the portfolio company is insufficient to cover the preference.