

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, with some pages modified to collect less information than at year end.

SBA is proposing substantive changes to the form for the following purposes:

- To eliminate collection of information that SBA has found to be of marginal analytical value.
- To treat SBA participating securities leverage as a liability rather than an equity instrument on the financial statements, in conformity with current GAAP (FASB Statement No. 150). These are minor line changes found in the basic financial statement portion of the form (pages 2-7).
- To collect additional financial information about SBIC portfolio companies that will give SBA a better understanding of the basis for SBICs' valuations of their investments. 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. These changes are found primarily on the Schedule of Loans and Investments, page 11.
- To consolidate information collected about SBIC investments into fewer schedules, for greater ease of reporting. To this end, the Schedule of Participations/Joint Financings (current page 17) and the Economic Data Schedule (current page 22) will be eliminated and selected questions transferred to new page 11.
- To standardize reporting and reduce the incidence of data entry mistakes by allowing respondents to select from pull-down menus wherever possible.

Following are the proposed changes to each individual schedule currently included in the forms:

Current page no.	New page no.	Description of Changes
1	1	Eliminated collection of Total Assets at Cost and Industry Concentration. Replaced with Fund Focus and Fund Net IRR. Fund Focus is answered via a pull-down menu indicating the SBIC's primary stage of investment and is an indicator of portfolio risk level. Fund Net IRR is a standard measure of financial performance to date that is used throughout the private equity industry.
2	2	Minor change in Other Assets section to provide a separate line for presentation of the unamortized balance of Leverage Fees.
3	3	Rearranged to present SBA participating securities leverage and 4% redeemable preferred stock as liabilities in conformity with FASB Statement No. 150.
4	4	Revised to provide separate lines for presentation of interest on SBA debenture and participating securities leverage and amortization of leverage fees. Other expense lines condensed to eliminate unnecessary detail.
5	5	Revised to provide a separate line for presentation of SBA profit participation paid.
6	6	No changes.
7	7	In Part I, Deductions condensed to eliminate unnecessary detail. In Part II, separate line provided for presentation of interest on SBA participating securities leverage
8	-	Eliminated.
9	8	New Part III adds two lines for cumulative private capital contributions made to the SBIC and cumulative distributions back to the SBICs investors. This information will enable SBA to compute the ratio of distributions to paid-in capital, a widely accepted measure used to analyze private equity fund performance, for individual SBICs and for the SBIC program as a whole.
10	9	Eliminated old column 7 as unnecessary detail. Added field for portfolio company employer ID which will be filled in automatically from data entered on page 11.
11	10	No changes.
12	11	Redesigned and expanded. New information requested for each portfolio company includes current stage of company (chosen from a pull-down menu); SBIC's IRR on its total investment in the company; a description of each round of financing received from the SBIC and/or other investors; EBITDA, cash flow from operations, cash on hand and cash burn rate; company's total debt; and company's total equity value. Although the schedule displays three years of selected financial information for the portfolio company, it should be noted that SBICs will be required to enter only current year information; the 468 software will cumulate information as it is entered over time and will display historical data automatically as it becomes available. Also, portfolio company financial information and financing rounds will be collected only on annual reports, not on the quarterly form. Information transferred from old page 22 includes number of employees, federal and state income taxes paid, revenues and net income. New information requested for each individual investment includes classifying any unrealized appreciation into the appropriate regulatory category and a yes/no question identifying whether or not the investment meets the regulatory definition of a start-up financing. These two questions will enable SBA to calculate an SBIC's precise capital impairment percentage (the primary regulatory measure of an SBIC's financial condition) directly from the Form 468; currently available data allow only an approximate calculation.
13	12	No changes.
14	13	Cash/non-cash breakdown of realized gains eliminated as unnecessary detail. Replaced with breakdown of sale proceeds into cash, notes, and equity securities to facilitate evaluation of liquidity and collectibility. Added field for portfolio company employer ID which will be filled in automatically from data entered on page 11.
15	14	No changes.

16	15	No changes.
17	-	Eliminated.
18	16	No changes. Some information on co-investors transferred to page 11.
19	17	No changes.
20	18	No changes.
21	19	Added request for brief management comment on any anticipated distributions and investment write-offs.
22	-	Eliminated. Some information transferred to page 11.
23	20	No changes.

The new information being requested, except for the few questions that specifically reference regulatory terms, is maintained by SBICs in the ordinary course of business and should be readily available to SBICs completing the form.

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 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.
4. Avoidance of Duplication. Most SBICs are privately held and SBA Form 468 is generally the only financial report prepared by such SBICs. Only a few SBICs prepare other financial reports and those are typically publicly held SBICs that are regulated by the Securities and Exchange Commission (SEC) in addition to SBA. 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 at least annually in order to protect the government's financial interest (as the largest 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 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 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. The total annual hour burden is 21,175 hours, determined as follows

	<u>Year-end</u>	<u>Quarterly</u>	<u>Total</u>
Hours per response	20	15	
Number of responses	<u>x 440</u>	<u>x 825</u>	
Total annual hour burden	8,800	12,375	21,175

The number of “year-end” responses is based on the number of licensed SBICs (excluding those in a receivership liquidation status, which are not required to file the form). SBICs are required to submit a year-end Form 468 (either 468.1 for a corporation or 468.2 for a partnership, as appropriate).

Some, but not all, SBICs, will submit “quarterly” responses as well, consisting of pages 2-12 (with page 11 modified to eliminate most portfolio company financial information which is only collected at year end), 13 and 15, plus a modified quarterly version of page 20 (Certifications) that deletes the references to annual audited financial statements. Since 1998, SBA has offered financial assistance (“leverage”) to SBICs using a “just-in-time” funding mechanism that allows an SBIC to obtain a 5-year leverage commitment from SBA and then draw funds as needed to

finance individual investment transactions. Because of the short turnaround time for processing these draw requests, it is essential for SBA to have reasonably current financial information available at all times for participating SBICs. Therefore, 13 CFR 107.1220 requires all SBICs that have leverage commitments to file unaudited quarterly financial statements (either Form 468.3 for a partnership or Form 468.4 for a corporation, as appropriate). In addition, 13 CFR 107.630(b) requires other SBICs to submit Form 468 on an interim (normally quarterly) basis when requested by SBA.

The quarterly Form 468 is a somewhat condensed version of the year end Form 468, and therefore the estimated hours per response are slightly lower. SBA estimates that 275 SBICs will file Form 468 quarterly in a given fiscal year, with each one filing three quarterly reports (the fourth quarter of the fiscal year is covered by the annual Form 468 filing).

The estimated cost of the hour burden for an SBIC to prepare SBA Form 468 is \$500 for a year-end report or \$375 for a quarterly report. The estimated aggregate cost is computed as follows:

	<u>Year-end</u>	<u>Quarterly</u>	<u>Total</u>
Hours per response	20	15	
Hourly wage for bookkeeper	<u>x \$25</u>	<u>x \$25</u>	
Total cost per response	\$ 500	\$ 375	
Estimated number of responses	<u>440</u>	<u>825</u>	
Estimated annualized cost	\$220,000	\$309,375	\$529,375

13. Estimate of total annual cost burden. The annual cost burden resulting from the collection of information is estimated at \$25,000 per 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.

Cost per SBIC	\$25,000
Number of respondents	<u>x 440</u>
Total annual cost burden	\$11,000,000

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 \$180. The aggregate cost is computed as follows:

Analyst performing financial and regulatory review of SBA Form 468:	
GS-13: 4 hours @ \$45 per hour	\$ 180
Estimated number of responses (annual and quarterly combined)	<u>x 1,265</u>
Total cost to Federal government	\$ 227,700

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 the increase from 17 to 20 hours in the estimate of the time needed to complete the annual report on Form 468.1 or 468.2. The additional time is needed primarily to provide the additional information requested on page 11 for the SBIC's portfolio companies. 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 \$6,600,000 to \$11,000,000, reflects an increase in the estimated cost of engaging a certified public accountant to perform the annual audit of the financial statements.

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.