



U.S. Small Business  
Administration

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**DATE:** January 29, 2024

**FROM:** Bailey DeVries, Associate Administrator, Office of Investment and Innovation

**TO:** Licensed Small Business Investment Companies

**SUBJECT:** Year-end Financial Reporting Requirements

Under Title 13 Part 107 of the Code of Federal Regulations (CFR), each Small Business Investment Company (SBIC) must file an audited Annual Financial Report, SBA Form 468, within 90 calendar days from the close of its fiscal year. For example, if your fiscal year-end is December 31<sup>st</sup>, under 13 CFR 107.630 you must file your audited Annual Financial Report, SBA Form 468, no later than 90 calendar days thereafter<sup>1</sup>.

In accordance with 13 CFR 107.504(a), you must submit the SBA Form 468 electronically using the SBIC-Web application provided by SBA. SBA has provided upload instructions and information on using SBIC-Web. Once you have logged into SBIC-Web, SBA recommends you download the “Instructions for Uploading new MS Excel and .PDF Files in the SBIC WEB Application” Version 1.0, dated September 29, 2023 (“Upload Instructions”) from the “External User’s Manual” link at the bottom of the SBIC-Web page. Also, SBA has provided information on completing the SBA Form 468 (“Form 468”) and recommends you review the most recently published [Instructions for Form 468 Small Business Investment Company \(SBIC\) Licensee Financial Statements and Investment Performance](#). SBA intends to publish updated Form 468 Instructions during January 2024.

SBA will accept the legacy Form 468 for the period ended December 31, 2023, only if you submit with the legacy Form 468 the following items using the Excel-based Form 468 (OMB Approval # 3245-0063):

- S11 Cumulative Performance Worksheet (note demographic data is optional)
- Executive Summary Worksheet Sections A, B and C only.

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<sup>1</sup> If a filing deadline falls on a weekend, SBA will accept submissions the first business day immediately following the deadline without penalty.

Before you upload any filings, make sure that the version of the Excel filing that you are uploading is the most recent version of the Form 468 because SBA is making updates to these forms based on user feedback. Check the [SBA website](#) for the most recently published version of the Excel Form 468 and related instructions.

The first time you upload your annual or quarterly Form 468 filing, please select the correct filing period (annual or quarterly) and select that you are uploading a 'New' filing. If you need to upload an amended version of the filing, please select that you are uploading an 'Amended' filing.

Again, be certain that the version of the Excel Form 468 that you are uploading is the most recent version of the form, which you can access on [SBA's website](#).

The remainder of 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.

Please read this memo carefully as there are changes from last year. If the SBA Form 468 is not completed in accordance with this memo (including Section 3, paragraph 1), the Code of Federal Regulations, the Upload Instructions, and the Form 468 Instructions, the SBIC may be subject to civil penalties under 13 CFR 107.665.

Please 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. 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 and request access to the SBIC record. 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.
2. 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. Your fund primary contact must set up their SBA Connect account so that they can receive and approve your SBA Connect account request. **NOTE:** SBA no longer approves all users for a given SBIC; only the fund primary contact can approve access to all other users from your SBIC.

3. If you experience any issues with SBIC-Web, please send an email to [ITSC@sba.gov](mailto:ITSC@sba.gov) and include “SBA – SBIC-Web 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.
4. Please review the Rules of Behavior for all users of SBIC-Web in [Attachment 1](#) to this memo.

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

1. A complete filing of the audited Annual Financial Report, SBA Form 468, consists of the following:

### Legacy Form 468 Requirements

- Legacy Long Form 468
- Auditor’s Opinion
- Auditor’s Notes
- Valuation Meeting Minutes
- Valuation Report
- Operating Plan Update
- Management Certification
- Unaudited Portfolio Company Information
- Updated wind down plan if applicable
- Excel-based Schedule 11 (S11cumperf)
- Excel-based Executive Summary (ExecSum)

### Excel-based Form 468

- Excel-based Long Form 468
  - PDF document complete with auditor’s opinion, audited financial statements, audited schedules, and auditor’s notes
  - Valuation Meeting Minutes
  - Valuation Report
  - Operating Plan Update
  - Management Certification
2. **CIVIL PENALTY:** Under 13 CFR 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 as stated therein for each day the Licensee fails to file such report. **Under 13 CFR 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. Be 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).
- e. Provide a time frame for when you expect to submit the required report.

Upon receipt of your request, SBA may exempt you from the civil penalty provision under 13 CFR 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 13 CFR 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.

3. Industry information shown on Form 468 Schedule of Loans and Investments must be reported using 2022 NAICS Codes. You can find the NAICS Code for a given industry 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. NAICS codes are also included at the end of the Excel Form 468.
4. Mature funds that are no longer making new investments are reminded to review 13 CFR 107.590(c) to determine if you are required to submit a wind-down plan for SBA's review and approval. If you are already operating under an SBA-approved wind-down plan, your SBA Form 468 filing must include updates to your wind-down plan, such as changes in the expected timing or amounts of liquidity events and distributions to SBA and your investors. SBA prefers Licensees use the wind down plan format in the Excel Form 468 for submitting your updates.
5. SBA is in the process of improving the method for collecting Form 468 data from a web-based format to an Excel-based format. SBA anticipates fully transitioning to the Excel-based format in 2024. Note that SBA is finalizing technical improvements to the Excel Form 468 versions currently available on SBA's website and plans to upload the updated Excel SBA Form 468 (and instructions) to SBA's website during January 2024. As part of this data collection improvement process, SBA requests that SBICs voluntarily submit Form 468 data using the Excel SBA Form 468 for the period ended December 31, 2023. SBICs submit Excel SBA Form 468 to SBA by upload to the SBIC-Web application.

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

1. **Schedule 12 - Portfolio Company Update (Legacy Form 468 Schedule 8 – Portfolio Company Information):**
  - a. Provide financial information for the last three fiscal year endings (or each fiscal year since initial financing if your investment is less than three years old) and for a 12 trailing month period ending no less than three months prior to the end of your reporting period. All periods presented should reflect a twelve-month period, unless at closing the portfolio company had been in business less than 1 year. Section K. Schedule 12: Portfolio Company Update in the Excel Form 468 Instructions 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.***
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 Secondaries & Liquidation Division, 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 or passage of time).
3. Schedule 11: SBIC Cumulative Performance: In accordance with Section B. Schedule 11:

SBIC Cumulative Performance Excel Form 468 Instructions, this information must be completed by all SBICs. As discussed in the Excel Form 468 Instructions:

- 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 June 30, 2011, and (2) for investments held as of July 1, 2011, gross receipts received on or before June 30, 2011.
4. For SBICs reporting unrealized depreciation (i.e., has taken a reserve) on non-cash gains/income, SBA encourages 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 SBICs 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 SBICs reporting management fee expense net of offsets on the Statement of Operations Realized as permitted by S.O.P. Number: 10 10 0 (“SOP”), 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 13 CFR 107.860 and 13 CFR 107.900.
6. For SBICs that have a waived management fee provision in the 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 concern. 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 concern 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 the SOP for additional guidance on reporting portfolio valuations.

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

1. You must file SBA Form 1031 per the Instructions for Form 1031 Small Business Investment Company (SBIC) Portfolio Financing Report available on SBA's website at [Portfolio Financing Report | U.S. Small Business Administration \(sba.gov\)](#). Note that the new Form 1031 filing requirements eliminate the requirement for SBICs to submit the Form 1031A.
2. **Interim Form 468 for Leverage Draws:** 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 upload an unaudited SBA Form 468 as of your fiscal year end to the SBIC-Web. Please be sure to upload a signed .PDF of the Form 468 certification for this interim filing. Although the filing deadline for quarterly Form 468s was changed to 45 days after the end of the quarter, the 30-day requirement for draw applications in §107.1230(d)(2) was not changed.

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

1. **Confirmations.** As part of the annual audit of a leveraged SBIC, SBA is typically asked to confirm the SBIC's outstanding leverage balance. Your independent public accountant may email confirmation requests to [sbicauditconfirmations@sba.gov](mailto:sbicauditconfirmations@sba.gov). Please include the SBIC's license number in the request and allow five (5) business days for a response.

Confirmation requests can only be fulfilled by email. Emailed confirmations will be certified by secured electronic signature.

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) in recent years 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 audited financial statements, notes to the financial statements that are the subject of the opinion, and audited schedules. It is within the auditor's discretion to include the unaudited schedules.

- 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 13 CFR 107.503 (e)(2) of the SBA regulations. SBA has determined that this legal requirement can be satisfied using 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 [Appendix 15: Valuation Guidelines for SBICs](#)” and the SOP. See [Attachment 2](#) to this memo for supplemental guidance concerning how SBICs may consider the downside protection that a liquidation preference may provide.
- 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 (tab 4-NI of Excel Form 468) includes on line 3 “Income (Loss) from Investments in Partnerships/Flow- through Entities.” 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 the equity method is not appropriate for SBICs and SBICs must report these investments under SBA guidelines.

SBA requires that 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. **“Blocker” Entity.** Under 13 CFR 107.720(b)(3), an SBIC may form one or more wholly owned blocker entities through which it provides financing to small businesses organized as LLCs, limited partnerships, or other flow-through entities, in order to avoid causing tax-exempt investors in the SBIC to incur “unrelated business taxable income” or foreign investors to incur “effectively connected income.” Under these circumstances, the SBIC should report its investment on the Schedule 1 – Schedule of Loans and Investments of Form 468 under the name of the eligible small business that is the ultimate recipient of the financing. In the “Financing Description” field of the Excel Form 468 (or in a comment field of the legacy Form 468), the SBIC must indicate the name of the blocker entity through which it holds the investment. If the SBIC performed a financing under 13 CFR 107.720(b)(3)(ii), the SBIC must indicate in that field both the name of the blocker entity and the passive Small Business through which it holds the investment.

## **Section 8: Other Available Information**

1. SBA encourages you to download and review the accounting-related documents, which 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.

2. SBA encourages you to download and review the SOP, which is available at <https://www.sba.gov/document/sop-10-10-0-small-business-investment-companies-sbic-program>
3. If you have any questions concerning SBIC accounting or financial reporting, contact your Investment Analyst.
4. For questions concerning SBA Connect accounts, please send an email to [connect\\_admin@sba.gov](mailto:connect_admin@sba.gov)
5. For questions concerning SBIC-Web filing/technical issues, please send an email to [ITSC@sba.gov](mailto:ITSC@sba.gov) and include “SBA – SBIC-Web 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 Investment Officer or Investment Analyst.

## **Attachment 1**

### **Rules of Behavior for All Users Small Business Investment Company Information System (SBIC-Web)**

**Unauthorized Use** – Users of the Small Business Investment Company Information System (SBIC-Web) 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 SBIC-Web 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 SBIC-Web.

**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.

**Excel Form 468 Limitations or Modifications** - In order to reduce any risk of document corruption or loss of data, SBA has locked the workbook and corresponding formulas. SBA requires that data be presented in the format provided in the workbook. As such, ***SBA will reject any submission that alters the format or placement of the 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. The following is 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, 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 \$
<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	\$ 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.