2. Business Description

2.1 Overview

In 1958, Congress passed legislation creating the Small Business Investment Company Program. Back then, almost all innovation, job creation, and economic growth was thought to come from large corporations. The SBIC program literally created the venture capital industry – a new asset class – to bridge the gap between entrepreneurs, looking to start or grow their businesses, and traditional financing. Forty-five years and over $37.7 billion in small business financings later, the program's mission remains the same:

> ***Our mission is to improve and stimulate the national economy in general and the small business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and long term loan funds which small business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply: Provided, however, That this policy shall be carried out in such manner as to insure the maximum participation of private financing sources.***

We accomplish our mission by:

- licensing top fund managers with exceptional deal flow;
- seeking participation from major private investors;
- managing risk to taxpayers through standardized risk management procedures;
- communicating understandable program ground rules;
- offering funds time to develop results, given the cyclical nature of venture investing; and
- focusing on profit maximization

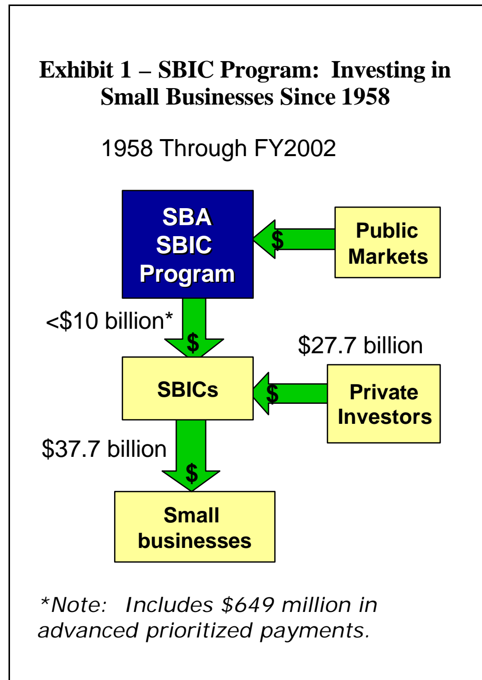
One of the most common misperceptions about the SBIC program is that it is a *credit* program only. While not a true venture capital program where all limited partners' commitments would be equally at risk (the government has the ability to limit its financial exposure in certain circumstances), it is nonetheless a unique public-private *investment* program. Typical tools and methods for limiting "credit risk" to taxpayers – essentially by monitoring interest payments – are not suitable for the equity portions of the SBIC portfolio.

Today there are two types of SBICs - the original SBICs, licensed under Section 301(c) of the Small Business Investment Act ("Act") and Specialized Small Business Investment Companies ("SSBICs"), licensed under Section 301(d) of the Act. SSBICs specifically target entrepreneurs who have been denied the opportunity to own and operate a business because of social or economic disadvantage. The Small Business Program Improvement Act of 1996 repealed Section 301(d) and, as a result, no new SSBIC licenses are being issued. However, existing 301(d) licensees were "grandfathered" and are still in operation. With few exceptions, the same rules and regulations apply to both "regular" SBICs and SSBICs. Therefore in general in this report, the SBIC name is used to refer to both SSBICs and original SBICs simultaneously.

Although the government doesn't invest money directly in small businesses, the SBIC program ensures that funds are available to small businesses by providing comparatively inexpensive capital to professional privately managed venture funds that provide equity capital, long-term loans, and debt-security investments, as illustrated in Exhibit 1.

In addition, as shown in Exhibit 1, the SBIC program harnesses private capital alongside its SBA-guaranteed funds (in the form of either debentures or participating securities), providing a much larger base of capital for investments. While over $37.7 billion in small financings have taken place through this program, less than $10 billion came from SBA-guaranteed funds.[8]

Exhibit 1 – SBIC Program: Investing in Small Businesses Since 1958



From a venture investment standpoint, both the federal government and private equity investors put money into SBICs with the understanding that under a worst case, that there could be a total loss of their investment. Sophisticated private investors are willing to assume that risk based on their confidence in SBIC management teams to produce acceptable returns. When participating securities are used, the government assumes the risk of total loss of investment based on its sharing in the same prospective returns as private investors – to help the program remain self-financing – but also on the expectation that SBIC investments will contribute significantly to U.S. economic productivity, job growth, and innovation.

Not only does private investor capital provide a larger financing base, but it also ensures that all SBIC fund managers are profit-motivated. As with traditional venture funds, the managers of the funds earn incentive fees that are tied to fund profitability (known as the "carry"). The funds make their money on the success of their investments. Thus, their success is closely aligned with that of the small businesses in which they invest.

For that reason, SBICs, in addition to investing capital, provide hands-on involvement in their portfolio companies, including:

- board participation;
- corporate governance;
- strategic planning and marketing;
- recruitment;
- financial support;
- capital raising; and
- company exit support.

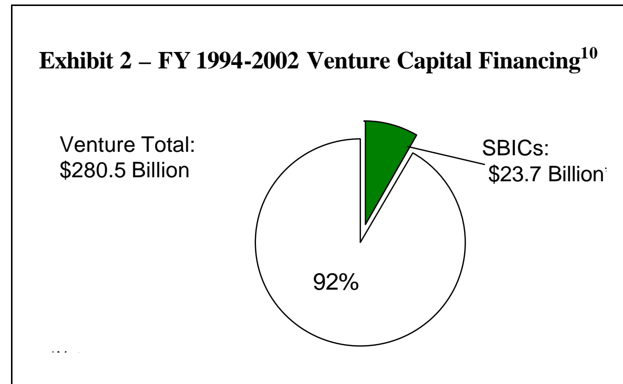
A 2002 study conducted by Stanford University stated: "Evidence strongly points in one direction: venture capitalists provide value-added services, help to professionalize the companies they finance, and help their companies establish themselves in the marketplace."[9] Therefore, small businesses not only receive capital, but critical expertise to grow their company.

[8] Financing data received from Data Management as an update to Table 1 from the Statistical Package and Table 36 – Disbursements from 1959 through September 30, 2002. Disbursements include $9.3 billion in leverage and $648.9 million in advanced prioritized payments.
[9] Hellmann, Thomas and Puri, Manju, On the Fundamental Role of Venture Capital, *Federal Reserve Bank of Atlanta Economic Review*, Fourth Quarter 2002, page 22.

2.2 Venture Capital Industry

Industry Description. As shown in Exhibit 2, SBICs form a subset of the overall Venture Capital ("VC") industry that provided over $280 billion in financing between fiscal years 1994-2002. VCs address the funding needs of entrepreneurial companies that for reasons of size, assets, and stage of development cannot seek capital from more traditional sources, such as public markets and banks.

Exhibit 2 – FY 1994-2002 Venture Capital Financing[10]

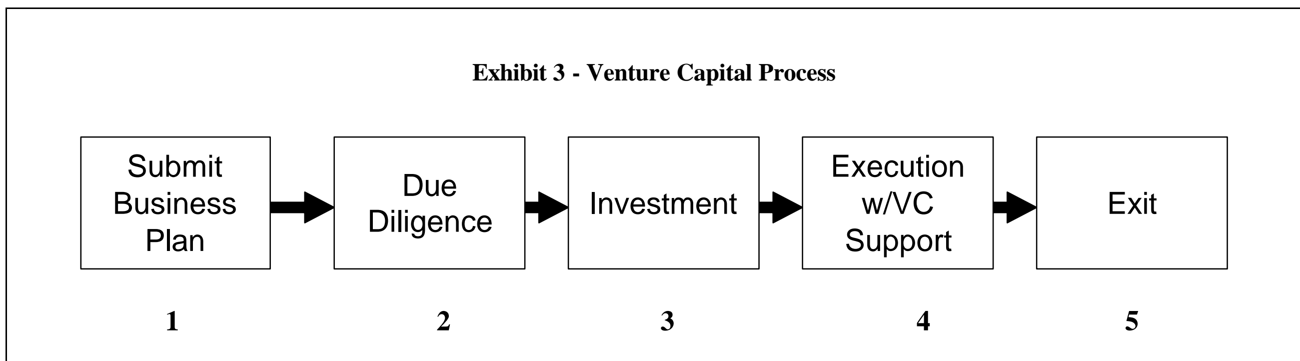


Venture capital differs from traditional financing sources in that venture capital typically:

- focuses on young, high-growth companies ;
- invests equity capital, rather than debt;
- takes higher risks in exchange for potential higher returns;
- has a longer investment horizon than traditional financing; and
- actively monitors portfolio companies via board participation, strategic marketing, governance, and capital structure

How Venture Capital Returns are Generated. A business looking for venture capital typically can expect the following process:

Exhibit 3 - Venture Capital Process



1. **Submit Business Plan:** The venture fund reviews an entrepreneur's business plan, and talks to the business if it meets the fund's investment criteria. Most funds concentrate on an industry, geographic area, and/or stage of a company (e.g., Start-up/Seed, Early, Expansion, and Later).

2. **Due Diligence:** If the venture fund is interested in the prospective investment, it performs due diligence on the small business, including looking in great detail at the company's management team, market, products and services, operating history, corporate governance documents, and financial statements. This step can include developing a term sheet describing the terms and conditions under which the fund would make an investment.

[10] Note 1: Total 2002 Venture Capital Financing figure as reported by PriceWaterhouseCoopers (PWC) (www.pwcMoneyTree.com), Full Year and Q4 2002 Results MoneyTree Survey and Historical Trend Data file: National_Aggregate_Data 95Q_02Q4.xls. All SBIC financings may not have been covered within the PWC survey.
Note 2: SBIC figures include only SBIC financings with equity features, based on financing/disbursement date. This figure may be incomplete, as the Investment Division receives reports of financings for a particular fiscal year only after the end of that year.
Note 3: All SBIC financings may not have been covered within the PWC survey from which the total Venture Capital financings figure was derived. The Investment Division expects to work to improve SBIC coverage in these statistics for future reports.

3. **Investment:** If at the completion of due diligence the venture fund remains interested, an investment is made in the company in exchange for some of its equity and/or debt. The terms of an investment are usually based on company performance, which help provide benefits to the small business while minimizing risks for the venture fund.

4. **Execution with VC Support:** Once a venture fund has invested, it becomes actively involved in the company. Venture funds normally do not make their entire investment in a company at once, but in "rounds." As the company meets previously-agreed milestones, further rounds of financing are made available, with adjustments in price as the company executes its plan.

5. **Exit**: While venture funds have longer investment horizons than traditional financing sources, they clearly expect to "exit" the company (on average, 4-6 years after an initial investment) – since that is generally how they make money! Exits are normally performed via mergers, acquisitions, and IPOs. In many cases, venture funds will help the company exit through their business networks and experience.

<u>**Venture Fund Investment Cycles**</u>. Since it can take 4-6 years for a venture fund to exit a business, investors in the fund must be willing to wait for their returns. This is why venture funds typically experience what is known as the "J" curve (Exhibit 4) in terms of returns to the investor. Returns tend to be negative for a few years at the beginning of a fund's investment cycle because cash is used for investment and management fees, and investments are carried at cost or occasionally written down.[11]

Exhibit 5 shows the average number of years before investors' capital is returned from a venture fund by "vintage year" – the year the fund was formed and started to invest. As shown, it took as long as ten years during the early 1980s, but only three years for vintage year 1997 funds, before investors saw positive returns. One can also see that in general, the shorter the time to payback, the higher the cumulative IRR for the fund. It is difficult to predict how long it will take the more recent venture funds to return capital to investors. For example, as of December 2001, the 1998 funds on average distributed 58% of paid-in capital. Therefore, it is possible that the payback time could stretch anywhere from 5-10 years for funds in the 1998-2001 vintage years.

Exhibit 4 – Typical Venture Capital "J" Curve[9]

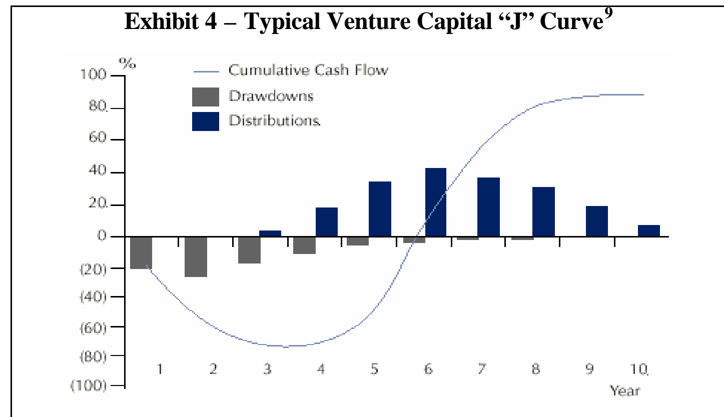
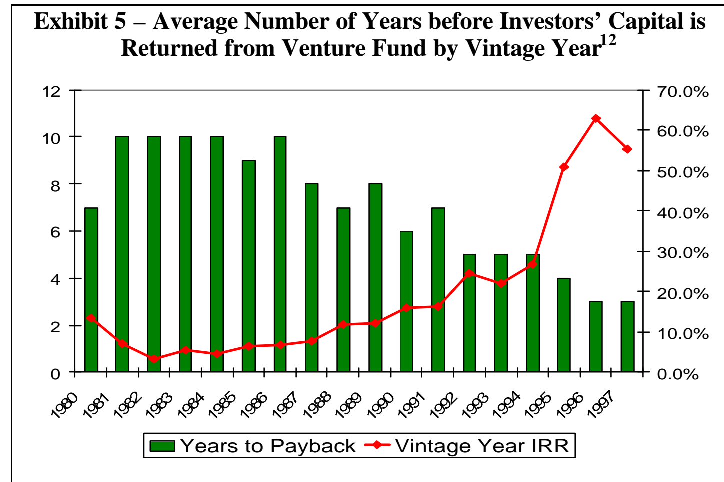


Exhibit 5 – Average Number of Years before Investors' Capital is Returned from Venture Fund by Vintage Year[12]



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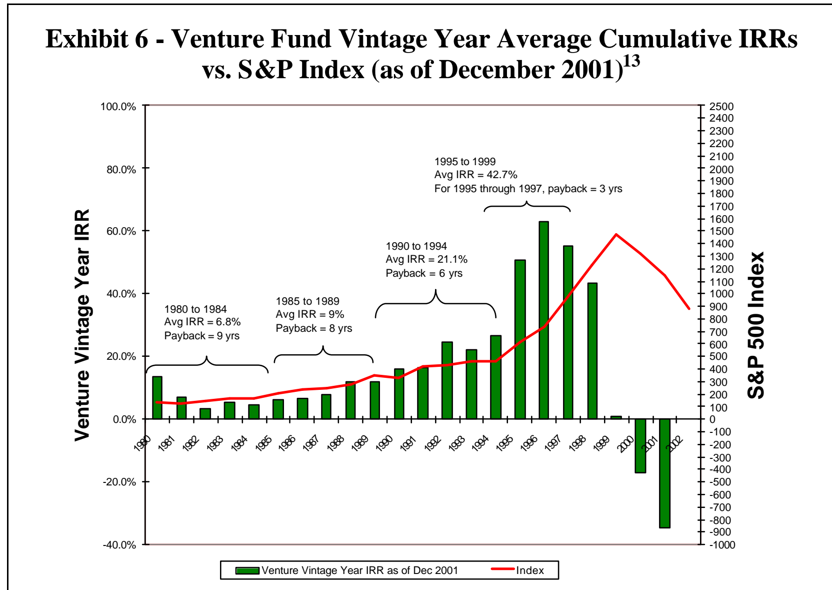
[11] EVCA website: http://www.evca.com/html/investors/inv_why_03.asp

[12] Data derived from Thomson Financial Venture Economics 2002 Investment Benchmarks Report, Page 46, Figure 3.012, Vintage Year Results by Fund Age (in Years) After Formation, Cumulative Average Distribution to Paid-In. Payback years were identified as the year when Cumulative Average Distribution to Paid-In ratio exceeded 1.

"Time to exit" can depend on the nature of the company in terms of both its operating history and its position in the industry, but the overall economy and stock market usually drive the outcome. The chart to the right (Exhibit 6) shows the average fund cumulative internal rate of return ("IRR") as of December 2001. Vintage year appears as columns on the left axis, alongside the S&P Index as a line on the right axis across the years 1980-2001. In general, the IRRs of venture funds are tied to the rise and fall of the stock market.

Exhibit 6 - Venture Fund Vintage Year Average Cumulative IRRs vs. S&P Index (as of December 2001)[13]

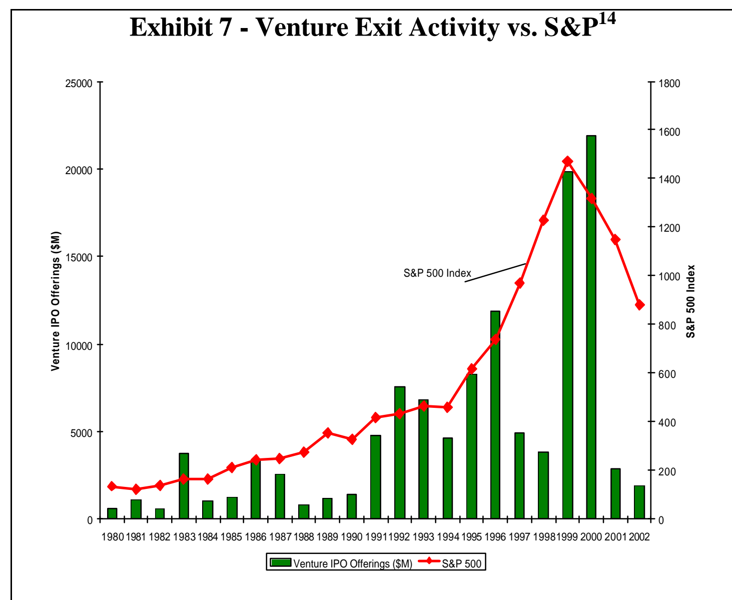


An example is vintage year 1996, when the highest average return preceded the high S&P index by three years. In other words, it would appear that the time to invest in venture capital is roughly two to three years prior to a peak in the market – when company valuations are lower – following the classic "buy low – sell high" theory.

Vintage years 2000 and 2001 cumulative IRR measures are negative, but this might be expected following the "J" curve. The question is whether the decline in the stock market over the last three years will lengthen the time before the average cumulative IRR turns positive for vintage year 2000 and 2001 funds.

Exhibit 6 shows that the ideal time for a venture capital fund to invest is an estimated two to three years before a market upswing. Exhibit 7 shows when venture capital exits actually occurred, in terms of IPO activity. Just as there is an optimal time to get in, there is an optimal time to get out of an investment. Following the "buy low - sell high" principle, venture funds attempt to time the exit of their portfolio companies at market peaks.

Exhibit 7 - Venture Exit Activity vs. S&P[14]



However, as shown by the chart, venture IPOs tend to lag the market by about one or two years. When the S&P peaked in 1999, for example, venture IPOs peaked one year later. It is therefore possible that, following historic trends, once the current stock market rebounds, venture IPOs may follow one to two years later.

[13] S&P Data derived from Commodity Systems Incorporated via Yahoo.com, using December monthly historical prices (symbol SPB) through 2002. Venture Vintage Year IRRs taken from Thomson Financial Venture Economics 2002 Investment Benchmarks Report, Page 39, Figure 3.002, Cumulative Benchmark Results as of December 31 2001 Overall Sample By Vintage Year.

[14] S&P Data derived from Commodity Systems Incorporated via Yahoo.com, using year end historical prices. Venture IPO data taken from Thomson Financial Venture Economics 2002 Investment Benchmarks Report, Page 353, Appendix C, U.S. Venture Capital Statistics.

2.3 SBIC Role in the Venture Capital Industry

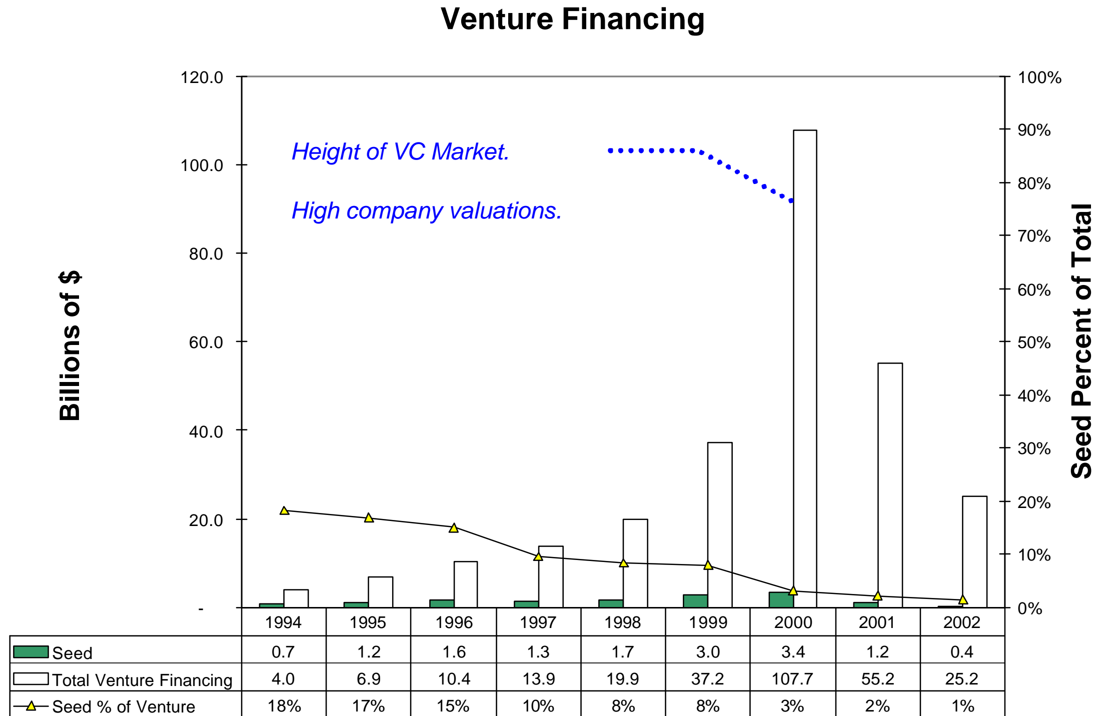
While SBIC financings currently represent over 58% of actual venture financings[15], they represent only about 8% of all venture capital dollars (see Exhibit 2). Given the overall dollar impact, some observers have asked: Why do we need SBICs? What is the importance of SBICs to the venture capital industry? The answer lies in SBICs' unique ability to span the gap between start-up/early stage venture capital and larger venture transactions, and to reach a greater number and broader composition of small businesses through the leverage provided by the SBA.

Filling the Gap in Private Equity. Because SBICs focus on small businesses, they naturally invest in more start-ups than the average venture capital fund, as shown in Exhibit 8 on the following page. The top chart shows total venture financing since FY 1994. The bottom chart shows the percentage of SBIC seed financing of venture seed during this same timeframe.

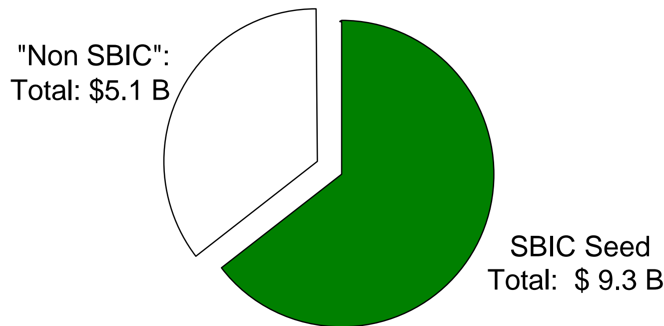
The top chart shows how venture financing dollars peaked in FY 2000 and that the overall contribution to seed stage financing has decreased since FY 1994, down to about 1% in FY 2002. The bottom chart shows that about 64% of all seed financing during this timeframe was performed by SBICs.

[15] Table 10 from SBIC Statistical Package February 2003, based on Calendar year 2002. Venture benchmark data utilizes VentureOne data from www.ventureone.com . SBIC data utilizes financings reported in FY 2002, not the date financings actually occurred. Each SBA Form 1031 (Portfolio Financing Report) is defined as one financing. VentureOne "financing" definition may be different.

Exhibit 8 – Comparison of Overall Venture and Seed Venture



	1994	1995	1996	1997	1998	1999	2000	2001	2002
Seed	0.7	1.2	1.6	1.3	1.7	3.0	3.4	1.2	0.4
Total Venture Financing	4.0	6.9	10.4	13.9	19.9	37.2	107.7	55.2	25.2
Seed % of Venture	18%	17%	15%	10%	8%	8%	3%	2%	1%



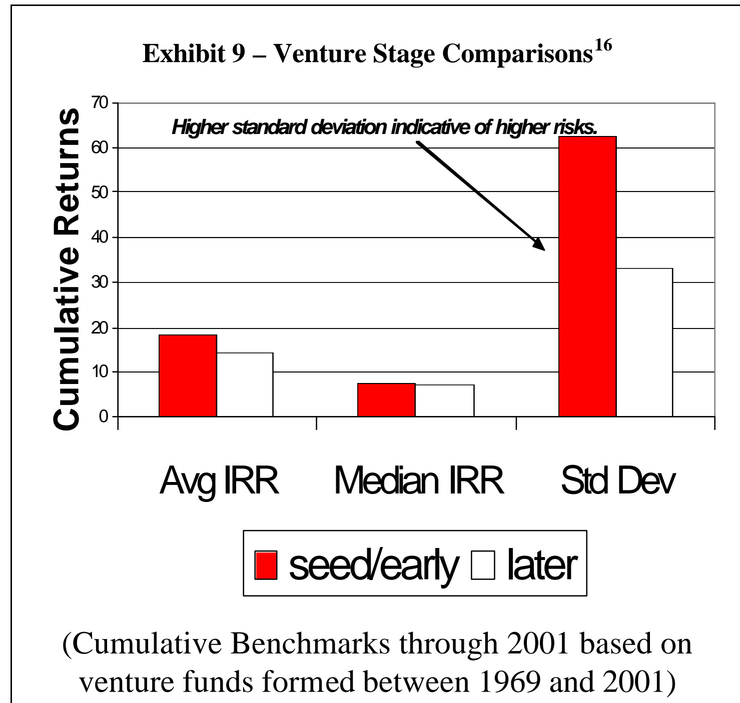
Notes:

- *The Investment Division does not currently characterize SBIC financings by funding stages (seed, early, later, etc). PWC's definition of seed is "The initial stage. The company has a concept or product under development, but is probably not fully operational. Usually in existence less than 18 months." The above SBIC "seed" financings were all financings of companies under 18 months old.*
- *All SBIC financings may not be part of PWC's survey group. Therefore, SBIC venture and seed financings may be greater than indicated.*
- *The Investment Division tends to receive reports on a fiscal year basis. Therefore, SBIC financings for FY 2002 will go up if new reports are received. It should be noted that other sources of venture capital information, including Venture Economics, PWC, and Venture One all have this same disclaimer and change data for time periods retroactively based on new data received.*

Influence of SBA Leverage in Attracting Private Capital. The gap in financing described above is not likely to be filled by non-SBICs, based on the fact that less than half a percent of non-SBIC venture capital dollars went into seed/start-ups in FY 2002. The reason is the risk/return ratio of seed and early stage investments compared to other transactions.

Exhibit 9 shows comparisons of seed/early stage funds with later stage funds. As shown, while the average IRR is higher for seed/early stage than later stage, the median IRR is almost the same. In fact, the standard deviation (a risk indicator) for seed/early stage is almost twice as high as later stage. Since money is invested on a risk and return basis, an investor might question whether the return on a start-up investment is commensurate with the risk.

Exhibit 9 – Venture Stage Comparisons[16]



(Cumulative Benchmarks through 2001 based on venture funds formed between 1969 and 2001)

How does SBA leverage work? An SBIC in good standing, with a demonstrated need for funds, may request leverage up to 200% of its private capital. The maximum amount of leverage varies according to the SBIC's private capital. To obtain leverage, SBICs issue debentures or participating securities, which are purchased or guaranteed by the SBA. Pools of these SBA-guaranteed debentures or participating securities are formed and sold to investors through a public offering. Under current procedures, debentures have a term of ten years, with semi-annual interest payments and a lump sum payment of principal at maturity. The ten-year debenture allows prepayment with penalty during the first five years and prepayment without penalty thereafter. The interest rate on the debenture is determined by market conditions at the time of the sale.

Participating securities are similar to debentures, however, the participating security provides for payment of dividends or interest and profit participation to SBA only when an SBIC has earnings. A unique feature of the participating securities is that SBA shares in the profits of the SBIC.

Exhibit 10 illustrates the benefits of this leverage to the SBICs and private investors. As shown, without SBA leverage, if the gross portfolio return were 35% (after management expenses and carried interest), the return to the investor would only be 25.2%. However, with SBA leverage, the returns would be 42.5%, commensurate with what private investors in a non-SBIC venture fund might expect given the risk.

SBA leverage provides the increased return potential that private investors demand for taking the risk of early-stage investing, thereby increasing the access to capital for small businesses that might not otherwise obtain financing.

[16] Venture data taken from Thomson Financial Venture Economics 2002 Investment Benchmarks Report, Page 303, Cumulative Benchmark Results Funds Formed 1969 to 2001 by Fund Stage Calendar Year..

Exhibit 10 – Impact of SBIC Leverage

Impact of SBIC Leverage

(Source: National Association of Small Business Investment Companies)

Gross Portfolio Return	Return to Investors without SBIC Leverage	Return to Investors with SBIC Leverage	% Yield Enhancement
10.0%	4.4%	0.0%	NA
15.0%	8.4%	12.7%	51.2%
20.0%	12.5%	19.5%	56.0%
25.0%	16.7%	27.3%	63.5%
30.0%	20.9%	35.2%	68.4%
35.0%	25.2%	42.5%	68.7%
40.0%	29.4%	49.6%	68.7%
45.0%	33.8%	56.2%	66.3%
50.0%	38.1%	63.7%	67.2%

Notes:

1) All returns refer to compound annual returns, i.e. IRR

2) Assumes returns are net of 2.5% annual expenses, 20% management carried interest, 15% uninvested capital, 4-year investment and 4-year holding period

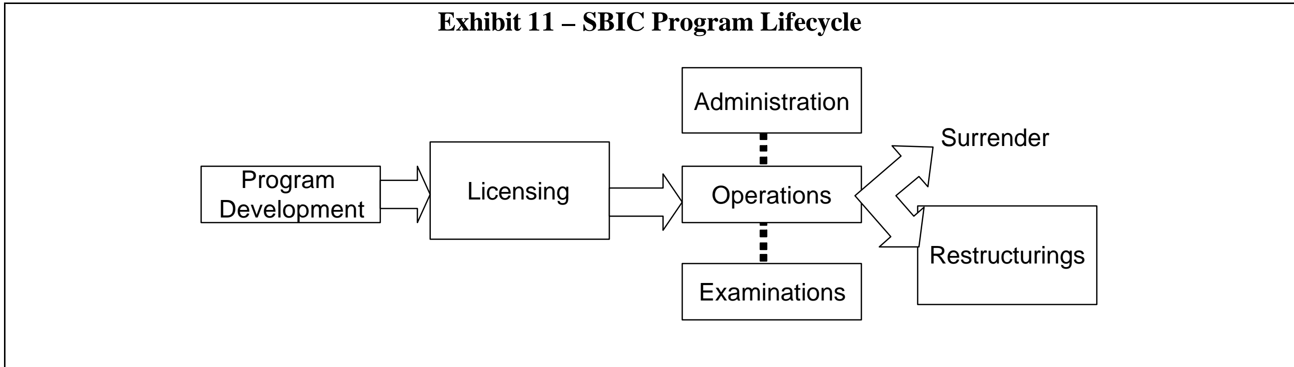
3) Assumed leverage: Participating securities (2X Private Capital), 7.75% Prioritized Payments and 9% Profit Participation Rate

2.4 Management and Oversight of the SBIC Program

In February 1992, an SBIC Investment Advisory Council, composed of members from the venture capital industry, the National Association of Small Business Investment Companies (NASBIC), and other stakeholders in the SBIC program, submitted a report to the SBA Administrator regarding the SBIC Program. One of the findings of this report stated, "Perhaps the most important lesson is the need to match authority with responsibility, and to establish long-term accountability at all levels of the SBIC management process." Because the government guarantees the funds used in the SBIC program, the SBA holds a fiduciary responsibility to ensure that SBICs utilize these funds in the best interest of the taxpayer. The SBA's Investment Division provides the necessary oversight for this program.

Exhibit 11 depicts the typical process for obtaining an SBIC license and the lifecycle of an SBIC as it moves through the various oversight functions of the Investment Division. As indicated, SBIC Program Development screens applicants and conducts preliminary evaluations of prospective SBIC venture fund management teams and their proposals. Once they pass initial hurdles, SBIC applicants then face a rigorous licensing process. If they receive their license, they are transferred to the Office of SBIC Operations. The Offices of SBIC Administration and SBIC Examinations play key roles during this timeframe. At the end of a fund's life (typically ten years), the SBIC surrenders its license if it was not previously transferred to the Office of SBIC Liquidations. Further detail regarding each step and the related office are described below.

Exhibit 11 – SBIC Program Lifecycle



SBIC Program Development. One of the recommendations from the 1992 SBIC Program Study was to "Establish a Marketing/Business Development function reporting to the Associate Administrator for Investment (AAI) to sell the SBIC program nationally to potential new sources of private capital and prospective management teams." Program Development, under the Office of Chief Administrative Officer, performs this function. This team looks for venture management teams with established track records in venture capital. Program Development ideally looks for the following attributes in SBIC candidates:

- Private equity experience relevant to proposed fund
- Investment experience as a principal rather than an agent (i.e., investment banker, consultant, broker)
- Realized track record of superior returns relative to funds of same vintage year and style
- Hands-on experience adding value at the portfolio company level
- Cohesive team, with complementary skills, history and strong chemistry

Candidates going through Program Development typically follow these steps:

- Management Assessment Questionnaire ("MAQ"): This comprehensive evaluation form is a series of structured questions concerning management's plans for the prospective SBIC and the detailed experience and qualifications of the management team.

- Analyst Review and Preliminary Due Diligence: Once the MAQ is submitted, the Investment Division assigns a program development specialist to the case. The specialist works with the applicant to clarify and analyze the MAQ in detail, especially with regard to the applicant's strengths and weaknesses, and performs initial due diligence.

- Preliminary Investment Committee Review: Generally, within one to two months, the assigned staff person makes a recommendation to the Investment Committee of Investment Division (composed of senior members of the Division) whether to invite the principals to the SBA for a formal interview.

- Investment Committee Presentation: If the initial impression and supporting documentation and due diligence show that the management team may be qualified for a license, the entire team is invited to an interview with approximately 7-15 SBA personnel in attendance. This allows the applicant to expand on their strengths and discuss any weaknesses identified through the MAQ.

- Assessment: After the interview, the Investment Committee decides whether or not to issue a "go forth letter," which moves the applicant into a more rigorous licensing phase. A go-forth letter does not mean that the SBA has determined that the applicant qualifies to receive an SBIC license, only that they qualify for further consideration and due diligence.

Licensing. Another recommendation of the 1992 SBIC Program Study was, "Establish stringent new licensing regulations and standards, and allow the SBA to reject applications for licenses when those standards are not met." The study noted that as of 1992, "…the SBA hasn't declined many license applications over the SBIC program's 30-year history" and "Had the SBA felt secure in its authority to decline license applications, some of the SBA's exposure to loss might have been avoided." Since licensed SBICs hold the investment decision, management, and oversight of the SBA-guaranteed funds, ensuring that only qualified applicants are licensed is critical to minimize potential financial losses of the program.

The Office of Licensing and Program Standards holds this crucial responsibility:

- License Application and Private Capital Commitments: The applicant must raise so-called "regulatory capital" in the form of commitments from private sources. Prior to filing its license application, the applicant is required to raise a minimum private capital commitment of $5 million for a debenture fund, and $10 million for an equity, or so-called "participating securities" fund. A minimum of 30% of this capital must come from sources unaffiliated with the fund management.

- Analyst Review: The Office of Licensing assigns a lead analyst to review each application. The analyst performs an in-depth review of the application, business plan, financial projections, legal documentation and final due diligence on the management team. When the review is complete, the applicant then undergoes three levels of approval before actually receiving its license.

- Divisional Approval: The lead analyst presents the application to the Investment Division Licensing Committee, which generally meets on a monthly basis. This committee is composed of senior managers of the Investment Division.

- Agency Licensing Approval: If Divisional Licensing approves the application, it is then presented to the Agency Licensing Committee, which is composed of certain senior managers of the SBA.

- SBA Administrator Final Approval: Finally, if the Agency Licensing Committee approves, the application is submitted to the SBA Administrator for final approval. If signed, the applicant receives an SBIC license and is transferred to the Office of SBIC Operations.

Operations. The 1992 SBIC Program study noted the importance of continuous monitoring of the SBICs' portfolios, in terms of "clear and timely analysis of financial statements," "…balance sheet, cash flow and income statement analysis with particular emphasis on key indicators of potential problems in SBICs, and " .. spotting potential problems early." The study's emphasis was to maintain a relationship such that potential problems could be identified early to give time for SBIC management and the Investment Division to work towards possible solutions. The Office of SBIC Operations addresses these concerns through its oversight.

The Director of SBIC Operations is responsible for regulatory and financial oversight, and leverage (funding) to the SBICs. Each licensee is assigned an operations analyst who serves as their primary contact. The operation analyst is responsible for the analysis of all financial statements, examinations, and investigation reports covering the operations and practices of individual SBICs. In addition, the analyst evaluates the financial stability and reliability of the SBICs, and their compliance with the Small Business Investment Act of 1958, as amended, and other related rules and regulations.

Administration. The 1992 SBIC Program study stressed the importance of data collection and analysis, suggesting "simple off-the-shelf financial reporting models and analytical software" and "quarterly financial reporting… in a format that most closely resembles a venture capital fund's normal quarterly reporting, with additional data provided annually to the Agency on companies backed, and jobs, wealth, and taxes created." Data Management provides this responsibility as part of the Office of Chief Administrative Officer. In addition, Funding Administration as part of this office directs, administers, and coordinates the periodic pooling and funding of both SBIC debentures and participating securities for the program.

Examinations. The 1992 SBIC Program Study also recommended, "The examination function provided in Section 310 of the Small Business Investment Act should be returned to the Investment Division to assure control over the frequency, scope, and performance of compliance exams." The intent of this recommendation was to put the responsibility back in the program office directly responsible for administering the program.

The Office of SBIC Examinations plans, directs and coordinates the Agency's program for examining SBICs that operate under the provisions of the Small Business Investment Act of 1958, as amended. Primary goals of examinations include:

- Determining whether licensees are complying with the Small Business Investment Act and implemented regulations;
- Assessing the financial condition of licensees and SBA's financial vulnerability; and
- Ensuring the accuracy of information that licensees submit to SBA.

The Office of SBIC Examinations is headed by a Director in the Washington headquarters, and supported by 29 examiners in six field offices. Examiners independently gather and report factual information to the Office of SBIC Operations, so that the Office of SBIC Operations can monitor and regulate the activities of the licensees.

Liquidations. The Office of SBIC Operations proactively monitors the SBICs to determine as soon as possible any possible problems in the portfolio. If severity of problems warrants action, the operations analyst recommends transfer of the SBIC into "Restricted Operations" mode (for participating securities SBICs). If the severity of the fund's condition worsens, the Office of SBIC Operations may recommend transfer of the SBIC to the Office of SBIC Liquidations. For debenture SBICs, the process is less complex: when an SBIC defaults, it is usually transferred directly to the Office of Liquidations. (In some instances, the note may be put on "demand" and the SBIC will continue in the Office of Operations.)

The Office of SBIC Liquidations' primary goal is to maximize the net recoveries in an appropriate amount of time on these SBICs, while recognizing the interests of other parties affected (i.e., small business concerns funded by SBICs) and furthering program integrity. The Office of SBIC Liquidations manages, oversees, and takes necessary action on behalf of SBA, both as creditor and as Receiver.

Surrender. The Office of SBIC Liquidations is neither the typical nor preferred way for an SBIC to exit the program. Usually, the SBIC requests approval to surrender its license, accompanied by an offer of immediate repayment of all outstanding leverage (including any prepayment penalties thereon), or by a plan satisfactory to the SBA for the orderly liquidation of the Licensee. An SBIC may not surrender its license without SBA's prior written approval.