APPENDIX 6-4

Three Year Financial Spreadsheet and Ratio Analysis

BALANCE SHEET

	AS OF 03/31/2003 (Q)	%	AS OF 12/31/2002 (Q)	%	AS OF 10/31/2002 (Q)	%
LOANS & INVESTMENTS as corrected by analyst						
(At Cost)						
Loans	0	#Num!	0	#Num!	0	#Num!
Debt Securities	0	#Num!	0	#Num!	0	#Num!
Equity Interests	0	#Num!	0	#Num!	0	#Num!
Receivable-Assets Acquired	0	#Num!	0	#Num!	0	#Num!
Assets Acquired	0	#Num!	0	#Num!	0	#Num!
Operating Concerns at Cost	0	[illegible]	0	#Num!	0	#Num!
Notes etc. at Cost	0	[illegible]	0	#Num!	0	#Num!
Total	0	[illegible]	[illegible]	[illegible]um!	0	#Num!
Investment in 301(d) SBIC	0	[illegible]	[illegible]	[illegible]um!	0	#Num!

corporation

CURRENT ASSETS						
Cash and Cash Equivalents	[illegible]	[illegible]	[illegible]	#Num!	0	#Num!
Invested Idle Funds	[illegible]	[illegible]	[illegible]	#Num!	0	#Num!
Interest & Dividends Receivable	0	#Num!	[illegible]	#Num!	0	#Num!
Notes & Accounts Receivables	0	#Num!	[illegible]	#Num!	0	#Num!
Receivable Parent/Other Assoc.	0	#Num!	0	#Num!	0	#Num!
Minus: Allowance for Losses	0	#Num!	0	#Num!	0	#Num!
Receivables, Net	0	#Num!	0	#Num!	0	#Num!
Other Current Assets	0	#Num!	0	#Num!	0	#Num!
TOTAL CURRENT ASSETS	0	#Num!	0	#Num!	0	#Num!
OTHER ASSETS						
Fixed Assets, Net	0	#Num!	0	#Num!	0	#Num!
Other	0	#Num!	0	#Num!	0	#Num!
TOTAL OTHER ASSETS	0	#Num!	0	#Num!	0	#Num!
TOTAL ASSETS, COST	0	#Num!	0	#Num!	0	#Num!
Minus: Unreal Depreciation	0		0		0	
Plus: Unreal Appreciation	0		0		0	
TOTAL ASSETS, VALUE	0		0		0	

BALANCE SHEET

	AS OF 03/31/2003 (Q)		AS OF 12/31/2002 (Q)		AS OF 10/31/2002 (Q)	
LIABILITIES						
Long Term Debt						
Notes & Debentures (SBA)	0	#Num!	0	#Num!	0	#Num!
Notes & Debenturess (Other)	0	#Num!	0	#Num!	0	#Num!
Total Long Term Debt	0	#Num!	0	#Num!	0	#Num!
CURRENT LIABILITIES						
Accts Payable & Accrd Expense	0	#Num!	0	#Num!	0	#Num!
Due Parent/Other Assoc	0	#Num!	0	#Num!	0	#Num!
Accrued Interest Payable	0	#Num!	0	#Num!	0	#Num!
Accrued Taxes	0	#Num!	0	#Num!	0	#Num!
Current Maturity on L/T Debt	0	#Num!	0	#Num!	0	#Num!
Distributions Payable	0	#Num!	0	#Num!	0	#Num!
Short-Term Notes Payable						
Line of Credit	0	#Num!	0	#Num!	0	#Num!
Other Current Liabilities	0	#Num!	0	#Num!	0	#Num!
TOTAL CURRENT LIABILITIES	0	#Num!	0	#Num!	0	#Num!
OTHER LIABILITIES	0	#Num!		#Num!	0	#Num!
TOTAL LIABILITIES	0	#Num!	0	#Num!	0	#Num!
REDEEMABLE SECURITIES						
4% Redeem Preferred Stock	0	#Num!	0	#Num!	0	#Num!
Cum Undeclared 4% Dividend	0	#Num!	0	#Num!	0	#Num!
TOTAL REDEEM SECURITIES	0	#Num!	0	#Num!	0	#Num!
CAPITAL						
Private Capital	0	#Num!	0	#Num!	0	#Num!
Restricted Contributed	0	#Num!	0	#Num!	0	#Num!
Capital Surplus						
Preferred Stock/SBA	0	#Num!	0	#Num!	0	#Num!
Non-Cash Gains/Income	0	#Num!	0	#Num!	0	#Num!
Undist Net Realized Earnings	0	#Num!	0	#Num!	0	#Num!
TOTAL	0	#Num!	0	#Num!	0	#Num!
Less: Treasury Stock	0	#Num!	0	#Num!	0	#Num!
TOTAL CAPITAL	0	#Num!	0	#Num!	0	#Num!
TOTAL LIAB & CAPITAL	0	#Num!	0	#Num!	0	#Num!
Unrealized Gain (Loss)	0		0		0	
TOTAL LIAB & CAP/VALUE	0		0		0	

06/25/2003

INCOME STATEMENT

	AS OF ()	%	AS OF ()	%	AS OF ()	%
INVESTMENT INCOME						
Interest Income	0	#Num!	0	#Num!	0	#Num!
Dividend Income	0	#Num!	0	#Num!	0	#Num!
Income(Loss) from Investments in Partnership Flow-through	0	#Num!	0	#Num!	0	#Num!
Income(Loss) from Investments in Section 301(d) Licensee	0	#Num!	0	#Num!	0	#Num!
Fees for Management Services	0	#Num!	0	#Num!	0	#Num!
Application & Other Fees	0	#Num!	0	#Num!	0	#Num!
Int/Invested Idle Funds	0	#Num!	0	#Num!	0	#Num!
Income from Assets Acq in Liq	0	#Num!	0	#Num!	0	#Num!
Other Income	0	#Num!	0	#Num!	0	#Num!
GROSS INVESTMENT INCOME	0	#Num!		#Num!		#Num!
EXPENSES						
Interest Expense	0	#Num!	0	#Num!	0	#Num!
Commitment Fees	0	#Num!	0	#Num!	0	#Num!
Other Financial Costs	0	#Num!	0	#Num!	0	#Num!
Officers' Comp and Benefits	0	#Num!	0	#Num!	0	#Num!
Employee Comp and Benefits	0	#Num!	0	#Num!	0	#Num!
Invest. Advisory & Mgt Services	0	#Num!	0	#Num!	0	#Num!
Directors/Stockholders Meetings	0	#Num!	0	#Num!	0	#Num!
Advertising and Promotion	0	#Num!	0	#Num!	0	#Num!
Appraisal and Investigation	0	#Num!	0	#Num!	0	#Num!
Communication	0	#Num!	0	#Num!	0	#Num!
Travel	0	#Num!	0	#Num!	0	#Num!
Cost of Space Occupied	0	#Num!	0	#Num!	0	#Num!
Depreciation/Amortization Expense	0	#Num!	0	#Num!	0	#Num!
Insurance	0	#Num!	0	#Num!	0	#Num!
Payroll Taxes	0	#Num!	0	#Num!	0	#Num!
Other Taxes (exc. income tax)	0	#Num!	0	#Num!	0	#Num!
Provision for Losses on Rece'bles	0	#Num!	0	#Num!	0	#Num!
Legal Fees	0	#Num!	0	#Num!	0	#Num!
Audit and Exam Fees	0	#Num!	0	#Num!	0	#Num!
Miscellaneous Expenses	0	#Num!	0	#Num!	0	#Num!
TOTAL EXPENSES		#Num!		#Num!		#Num!
NET INVEST INCOME	0	#Num!	0	#Num!	0	#Num!
NET REALIZED GAIN (LOSS)	0	#Num!	0	#Num!	0	#Num!
NET INCOME (LOSS)	0	#Num!	0	#Num!	0	#Num!
Income Tax Expense (Benefit)	0		0		0	
NET INVEST. INCOME/LOSS		#Num!		#Num!		#Num!
Extraordinary Item	0		0		0	
Cumulative Effect of Change	0		0		0	
NET INCOME (LOSS)	0		0		0	

FINANCIAL RATIOS

	AS OF ()	AS OF ()	AS OF ()	3 Period Average
CAPITAL				
Capital Impairment (%) (1)	N/A	N/A	N/A	N/A
Maximum Permissable Capital Impairment (%) (2)	N/A	N/A	N/A	
Capital Impairment (%) (2)	N/A	N/A	N/A	
Capital Adequacy	0.0	0.0	0.0	0.0
LIQUIDITY				
Burn Ratio				
Current Ratio				
Total Cash Flow From Operations				
ASSET QUALITY				
Non-Performing Assets/ Total Capital (%)				
Unrealized Depreciation to Total Portfolio (%)				
Days Interest and Dividends Earned (Annualized)				
PROFITABILITY				
Annualized Return on Invested Assets (%)				
Return on Equity (%) (Annualized)				

DEDUCTIONS TO UNDISTRIBUTED REALIZED EARNINGS (pg. 7, part II)

Dividends--Cash

Dividends--Stock

Dividends--In-kind(@fair valu

Capitalization of READ

Other

(1) For Leverage Issued Prior to April 25, 1994

(2) For Leverage Issued On or After to April 25, 1994

BALANCE SHEET

AS OF
03/31/2003 (Q) %

LOANS & INVESTMENTS as corrected by analyst		
(At Cost)		
Loans	0	#Num!
Debt Securities	0	#Num!
Equity Interests	0	#Num!
Receivable-Assets Acquired	0	#Num!
Assets Acquired	0	#Num!
Operating Concerns at Cost	0	#Num!
Notes etc. at Cost	0	#Num!
Total	0	#Num!
Investment in 301(d) SBIC	0	#Num!
CURRENT ASSETS		
Cash and Cash Equivalents	0	#Num!
Invested Idle Funds	0	#Num!
Interest & Dividends Receivable	(	
Notes & Accounts Receivables	(	
Receivable Parent/Other Assoc.		
Minus: Allowance for Losses		
Receivables, Net		
Other Current Assets		
TOTAL CURRENT ASSETS		
OTHER ASSETS		
Fixed Assets, Net	0	#Num!
Other	0	#Num!
TOTAL OTHER ASSETS	0	#Num!
TOTAL ASSETS, COST	0	#Num!
Minus: Unreal Depreciation	0	
Plus: Unreal Appreciation	0	
TOTAL ASSETS, VALUE	0	

corporation

BALANCE SHEET

	AS OF 03/31/2003 (Q)	
LIABILITIES		
Long Term Debt		
Notes & Debentures (SBA)	0	#Num!
Notes & Debenturess (Other)	0	#Num!
Total Long Term Debt	0	#Num!
CURRENT LIABILITIES		
Accts Payable & Accrd Expense	0	#Num!
Due Parent/Other Assoc	0	#Num!
Accrued Interest Payable	0	#Num!
Accrued Taxes	0	#Num!
Current Maturity on L/T Debt	0	#Num!
Distributions Payable	0	#Num!
Short-Term Notes Payable		
Line of Credit	0	#Num!
Other Current Liabilities	0	#Num!
TOTAL CURRENT LIABILITIES	0	#Num!
OTHER LIABILITIES	0	#Num!
TOTAL LIABILITIES	0	#Num!
REDEEMABLE SECURITIES		
4% Redeem Preferred Stock	0	#Num!
Cum Undeclared 4% Dividend	0	#Num!
TOTAL REDEEM SECURITIES	0	#Num!
CAPITAL		
Private Capital	0	#Num!
Restricted Contributed	0	#Num!
Capital Surplus		
Preferred Stock/SBA	0	#Num!
Non-Cash Gains/Income	0	#Num!
Undist Net Realized Earnings	0	#Num!
TOTAL	0	#Num!
Less: Treasury Stock	0	#Num!
TOTAL CAPITAL	0	#Num!
TOTAL LIAB & CAPITAL	0	#Num!
Unrealized Gain (Loss)	0	
TOTAL LIAB & CAP/VALUE	0	

06/25/2003

INCOME STATEMENT

	AS OF ()	%
INVESTMENT INCOME		
Interest Income	0	#Num!
Dividend Income	0	#Num!
Income(Loss) from Investments in Partnership Flow-through	0	#Num!
Income(Loss) from Investments in Section 301(d) Licensee	0	#Num!
Fees for Management Services	0	#Num!
Application & Other Fees	0	#Num!
Int/Invested Idle Funds	0	#Num!
Income from Assets Acq in Liq	0	#Num!
Other Income	0	#Num!
GROSS INVESTMENT INCOME	0	#Num!
EXPENSES		
Interest Expense	0	#Num!
Commitment Fees	0	#Num!
Other Financial Costs	0	#Num!
Officers' Comp and Benefits	0	#Num!
Employee Comp and Benefits	0	#Num!
Invest. Advisory & Mgt Services	0	#Num!
Directors/Stockholders Meetings	0	#Num!
Advertising and Promotion	0	#Num!
Appraisal and Investigation	0	#Num!
Communication	0	#Num!
Travel	0	#Num!
Cost of Space Occupied	0	#Num!
Depreciation/Amortization Expense	0	#Num!
Insurance	0	#Num!
Payroll Taxes	0	#Num!
Other Taxes (exc. income tax)	0	#Num!
Provision for Losses on Rece'bles	0	#Num!
Legal Fees	0	#Num!
Audit and Exam Fees	0	#Num!
Miscellaneous Expenses	0	#Num!
TOTAL EXPENSES		#Num!
NET INVEST INCOME	0	#Num!
NET REALIZED GAIN (LOSS)	0	#Num!
NET INCOME (LOSS)	0	#Num!
Income Tax Expense (Benefit)	0	
NET INVEST. INCOME/LOSS		#Num!
Extraordinary Item	0	
Cumulative Effect of Change	0	
NET INCOME (LOSS)	0	

06/25/2003

FINANCIAL RATIOS

	AS OF ()
CAPITAL	
Capital Impairment (%) (1)	N/A
Maximum Permissable Capital Impairment (%) (2)	N/A
Capital Impairment (%) (2)	N/A
Capital Adequacy	0.0
LIQUIDITY	
Burn Ratio	
Current Ratio	
Total Cash Flow From Operations	
ASSET QUALITY	
Non-Performing Assets/ Total Capital (%)	
Unrealized Depreciation to Total Portfolio (%)	
Days Interest and Dividends Earned (Annualized)	
PROFITABILITY	
Annualized Return on Invested Assets (%)	
Return on Equity (%) (Annualized)	

DEDUCTIONS TO UNDISTRIBUTED REALIZED EARNINGS (pg. 7, part II)

Dividends--Cash

Dividends--Stock

Dividends--In-kind(@fair valu

Capitalization of READ

Other

(1) For Leverage Issued Prior to April 25, 1994

(2) For Leverage Issued On or After to April 25, 1994

00/00-0000 Test SBIC 06/25/2003

BALANCE SHEET

AS OF
03/31/2003 (Q) %

LOANS & INVESTMENTS as corrected by analyst		
(At Cost)		
Loans	0	#Num!
Debt Securities	0	#Num!
Equity Interests	0	#Num!
Receivable-Assets Acquired	0	#Num!
Assets Acquired	0	#Num!
Operating Concerns at Cost	0	#Num!
Notes etc. at Cost	0	#Num!
Total	0	#Num!
Investment in 301(d) SBIC	0	#Num!
CURRENT ASSETS		
Cash and Cash Equivalents	0	#Num!
Invested Idle Funds	0	#Num!
Interest & Dividends Receivable	0	#Num'
Notes & Accounts Receivables	0	#Num
Receivable Parent/Other Assoc.	0	#Nur
Minus: Allowance for Losses	0	#Nu
Receivables, Net	0	#N
Other Current Assets	0	#N
TOTAL CURRENT ASSETS	0	#N
OTHER ASSETS		
Fixed Assets, Net	0	#Num!
Other	0	#Num!
TOTAL OTHER ASSETS	0	#Num!
TOTAL ASSETS, COST	0	#Num!
Minus: Unreal Depreciation	0	
Plus: Unreal Appreciation	0	
TOTAL ASSETS, VALUE	0	

partnership

BALANCE SHEET

	AS OF 03/31/2003 (Q)	
LIABILITIES		
Long Term Debt		
Notes & Debentures (SBA)	0	#Num!
Notes & Debenturess (Other)	0	#Num!
Total Long Term Debt	0	#Num!
CURRENT LIABILITIES		
Accts Payable & Accrd Expense	0	#Num!
Due Parent/Other Assoc	0	#Num!
Accrued Interest Payable	0	#Num!
Accrued Taxes	0	#Num!
Current Maturity on L/T Debt	0	#Num!
Distributions Payable	0	#Num!
Short-Term Notes Payable	0	#Num!
Other Current Liabilities	0	#Num!
TOTAL CURRENT LIABILITIES	0	#Num!
OTHER LIABILITIES	0	#Num!
TOTAL LIABILITIES	0	#Num!
REDEEMABLE SECURITIES		
4% Redeem Preferred Stock	0	#Num!
Cumulative Unpaid 4% Dividend	0	#Num!
Participating Securities	0	#Num!
Earned Prioritized Pmts	0	#Num!
SBA Profit Participation	0	#Num!
TOTAL REDEEM SECURITIES	0	#Num!
CAPITAL		
Private Capital	0	#Num!
Other (specify)	0	#Num!
Non-Cash Gains/Income	0	#Num!
Undist Net Realized Earnings	0	#Num!
TOTAL CAPITAL	0	#Num!
TOTAL LIAB & CAPITAL	0	#Num!
Unrealized Gain (Loss)	0	
TOTAL LIAB & CAP/VALUE	0	

06/25/2003

INCOME STATEMENT

	AS OF	
	()	%
INVESTMENT INCOME		
Interest Income	0	#Num!
Dividend Income	0	#Num!
Income(Loss) from Investments	0	#Num!
Income(Loss) from Investments	0	#Num!
Fees for Management Services	0	#Num!
Application & Other Fees	0	#Num!
Int/Invested Idle Funds	0	#Num!
Income from Assets Acq in Liq	0	#Num!
Other Income	0	#Num!
GROSS INVESTMENT INCOME	0	#Num!
EXPENSES		
Interest Expense	0	#Num!
Commitment Fees	0	#Num!
Other Financial Costs	0	#Num!
Partners' Comp and Benefits	0	#Num!
Employee Comp and Benefits	0	#Num!
Invest. Advisory & Mgt Services	0	#Num!
Partners Meetings	0	#Num!
Advertising and Promotion	0	#Num!
Appraisal and Investigation	0	#Num!
Communication	0	#Num!
Travel	0	#Num!
Cost of Space Occupied	0	#Num!
Depreciation/Amortization Expense	0	#Num!
Insurance	0	#Num!
Payroll Taxes	0	#Num!
Other Taxes (exc. income tax)	0	#Num!
Provision for Losses on Rece'bles	0	#Num!
Legal Fees	0	#Num!
Audit and Exam Fees	0	#Num!
Miscellaneous Expenses	0	#Num!
TOTAL EXPENSES		#Num!
NET INVEST INCOME	0	#Num!
NET REALIZED GAIN (LOSS)	0	#Num!
NET INCOME (LOSS)		#Num!
Extraordinary Item	0	
Cumulative Effect of Change	0	
NET INCOME (LOSS)	0	
Days for the last fiscal period	#Error	

06/25/2003

FINANCIAL RATIOS

	AS OF ()
CAPITAL	
Capital Impairment (%) (1)	N/A
Maximum Permissable Capital Impairment (%) (2)	N/A
Capital Impairment (%) (2)	N/A
Capital Adequacy	0.0
LIQUIDITY	
Burn Ratio	
Current Ratio	
Total Cash Flow From Operations	
ASSET QUALITY	
Non-Performing Assets/ Total Capital (%)	
Unrealized Depreciation to Total Portfolio (%)	
Days Interest and Dividends Earned (Annualized)	
PROFITABILITY	
Annualized Return on Invested Assets (%)	
Return on Equity (%) (Annualized)	

DEDUCTIONS TO UNDISTRIBUTED REALIZED EARNINGS (pg. 7, part II)

Dividends--Cash

Dividends--Stock

Dividends--In-kind(@fair valu

Capitalization of READ

Other

(1) For Leverage Issued Prior to April 25, 1994

(2) For Leverage Issued On or After to April 25, 1994

BALANCE SHEET

	AS OF 03/31/2003 (Q)	%	AS OF 12/31/2002 (Q)	%	AS OF 10/31/2002 (Q)	%
LOANS & INVESTMENTS as corrected by analyst (At Cost)						
Loans	0	#Num!	0	#Num!	0	#Num!
Debt Securities	0	#Num!	0	#Num!	0	#Num!
Equity Interests	0	#Num!	0	#Num!	0	#Num!
Receivable-Assets Acquired	0	#Num!	0	#Num!	0	#Num!
Assets Acquired	0	#Num!	0	#Num!	0	#Num!
Operating Concerns at Cost	0	#Num!	0	#Num!	0	#Num!
Notes etc. at Cost	0	#Num!	0	#Num!	0	#Num!
Total	0	#Num!	0	#Num!	0	#Num!
Investment in 301(d) SBIC	0	#Num!	0	#Num!	0	#Num!
CURRENT ASSETS						
Cash and Cash Equivalents	0	#Num!	0	#Num!	0	#Num!
Invested Idle Funds	0	#Num!	0	#Num!	0	#Num!
Interest & Dividends Receivable	0	#Num!	0	#Num!	0	#Num!
Notes & Accounts Receivables	0	#Num!	0	#Num!	0	#Num!
Receivable Parent/Other Assoc.	0	#Nur	0	#Num!	0	#Num!
Minus: Allowance for Losses	0	#Nu	[illegible]	#Num!	0	#Num!
Receivables, Net	0	#N	[illegible]	[illegible]	0	#Num!
Other Current Assets	0	#N	[illegible]	[illegible]	0	#Num!
TOTAL CURRENT ASSETS	0	#N	[illegible]	!	0	#Num!
OTHER ASSETS						
Fixed Assets, Net	0	[illegible]	[illegible]	m!	0	#Num!
Other	0	#Num!	[illegible]	um!	0	#Num!
TOTAL OTHER ASSETS	0	#Num!	[illegible]	um!	0	#Num!
TOTAL ASSETS, COST	0	#Num!	0	#Num!	0	#Num!
Minus: Unreal Depreciation	0		0		0	
Plus: Unreal Appreciation	0		0		0	
TOTAL ASSETS, VALUE	0		0		0	

partnership

BALANCE SHEET

	AS OF 03/31/2003 (Q)		AS OF 12/31/2002 (Q)		AS OF 10/31/2002 (Q)	
LIABILITIES						
Long Term Debt						
Notes & Debentures (SBA)	0	#Num!	0	#Num!	0	#Num!
Notes & Debenturess (Other)	0	#Num!	0	#Num!	0	#Num!
Total Long Term Debt	0	#Num!	0	#Num!	0	#Num!
CURRENT LIABILITIES						
Accts Payable & Accrd Expense	0	#Num!	0	#Num!	0	#Num!
Due Parent/Other Assoc	0	#Num!	0	#Num!	0	#Num!
Accrued Interest Payable	0	#Num!	0	#Num!	0	#Num!
Accrued Taxes	0	#Num!	0	#Num!	0	#Num!
Current Maturity on L/T Debt	0	#Num!	0	#Num!	0	#Num!
Distributions Payable	0	#Num!	0	#Num!	0	#Num!
Short-Term Notes Payable	0	#Num!	0	#Num!	0	#Num!
Other Current Liabilities	0	#Num!	0	#Num!	0	#Num!
TOTAL CURRENT LIABILITIES	0	#Num!	0	#Num!	0	#Num!
OTHER LIABILITIES	0	#Num!		#Num!	0	#Num!
TOTAL LIABILITIES	0	#Num!	0	#Num!	0	#Num!
REDEEMABLE SECURITIES						
4% Redeem Preferred Stock	0	#Num!	0	#Num!	0	#Num!
Cumulative Unpaid 4% Dividend	0	#Num!	0	#Num!	0	#Num!
Participating Securities	0	#Num!	0	#Num!	0	#Num!
Earned Prioritized Pmts	0	#Num!	0	#Num!	0	#Num!
SBA Profit Participation	0	#Num!	0	#Num!	0	#Num!
TOTAL REDEEM SECURITIES	0	#Num!	0	#Num!	0	#Num!
CAPITAL						
Private Capital	0	#Num!	0	#Num!	0	#Num!
Other (specify)	0	#Num!	0	#Num!	0	#Num!
Non-Cash Gains/Income	0	#Num!	0	#Num!	0	#Num!
Undist Net Realized Earnings	0	#Num!	0	#Num!	0	#Num!
TOTAL CAPITAL	0	#Num!	0	#Num!	0	#Num!
TOTAL LIAB & CAPITAL	0	#Num!	0	#Num!	0	#Num!
Unrealized Gain (Loss)	0		0		0	
TOTAL LIAB & CAP/VALUE	0		0		0	

06/25/2003

INCOME STATEMENT

	AS OF ()	%	AS OF ()	%	AS OF ()	%
INVESTMENT INCOME						
Interest Income	0	#Num!	0	#Num!	0	#Num!
Dividend Income	0	#Num!	0	#Num!	0	#Num!
Income(Loss) from Investments	0	#Num!	0	#Num!	0	#Num!
Income(Loss) from Investments	0	#Num!	0	#Num!	0	#Num!
Fees for Management Services	0	#Num!	0	#Num!	0	#Num!
Application & Other Fees	0	#Num!	0	#Num!	0	#Num!
Int/Invested Idle Funds	0	#Num!	0	#Num!	0	#Num!
Income from Assets Acq in Liq	0	#Num!	0	#Num!	0	#Num!
Other Income	0	#Num!	0	#Num!	0	#Num!
GROSS INVESTMENT INCOME	0	#Num!		#Num!		#Num!
EXPENSES						
Interest Expense	0	#Num!	0	#Num!	0	#Num!
Commitment Fees	0	#Num!	0	#Num!	0	#Num!
Other Financial Costs	0	#Num!	0	#Num!	0	#Num!
Partners' Comp and Benefits	0	#Num!	0	#Num!	0	#Num!
Employee Comp and Benefits	0	#Num!	0	#Num!	0	#Num!
Invest. Advisory & Mgt Services	0	#Num!	0	#Num!	0	#Num!
Partners Meetings	0	#Num!	0	#Num!	0	#Num!
Advertising and Promotion	0	#Num!	0	#Num!	0	#Num!
Appraisal and Investigation	0	#Num!	0	#Num!	0	#Num!
Communication	0	#Num!	0	#Num!	0	#Num!
Travel	0	#Num!	0	#Num!	0	#Num!
Cost of Space Occupied	0	#Num!	0	#Num!	0	#Num!
Depreciation/Amortization Expense	0	#Num!	0	#Num!	0	#Num!
Insurance	0	#Num!	0	#Num!	0	#Num!
Payroll Taxes	0	#Num!	0	#Num!	0	#Num!
Other Taxes (exc. income tax)	0	#Num!	0	#Num!	0	#Num!
Provision for Losses on Rece'bles	0	#Num!	0	#Num!	0	#Num!
Legal Fees	0	#Num!	0	#Num!	0	#Num!
Audit and Exam Fees	0	#Num!	0	#Num!	0	#Num!
Miscellaneous Expenses	0	#Num!	0	#Num!	0	#Num!
TOTAL EXPENSES		#Num!		#Num!		#Num!
NET INVEST INCOME	0	#Num!	0	#Num!	0	#Num!
NET REALIZED GAIN (LOSS)	0	#Num!	0	#Num!	0	#Num!
NET INCOME (LOSS)		#Num!		#Num!		#Num!
Extraordinary Item	0		0		0	
Cumulative Effect of Change	0		0		0	
NET INCOME (LOSS)	0		0		0	
Days for the last fiscal period	#Error		#Error		#Error	

FINANCIAL RATIOS

	AS OF ()	AS OF ()	AS OF ()	3 Period Average
CAPITAL				
Capital Impairment (%) (1)	N/A	N/A	N/A	N/A
Maximum Permissable Capital Impairment (%) (2)	N/A	N/A	N/A	
Capital Impairment (%) (2)	N/A	N/A	N/A	
Capital Adequacy	0.0	0.0	0.0	0.0
LIQUIDITY				
Burn Ratio				
Current Ratio				
Total Cash Flow From Operations				
ASSET QUALITY				
Non-Performing Assets/ Total Capital (%)				
Unrealized Depreciation to Total Portfolio (%)				
Days Interest and Dividends Earned (Annualized)				
PROFITABILITY				
Annualized Return on Invested Assets (%)				
Return on Equity (%) (Annualized)				

DEDUCTIONS TO UNDISTRIBUTED REALIZED EARNINGS (pg. 7, part II)

Dividends--Cash

Dividends--Stock

Dividends--In-kind(@fair valu

Capitalization of READ

Other

(1) For Leverage Issued Prior to April 25, 1994

(2) For Leverage Issued On or After to April 25, 1994

APPENDIX 6-5

Valuation Guidelines for SBICs

Appendix 15: Valuation Guidelines for Small Business Investment Companies

I. Introduction

This appendix describes the policies and procedures to which small business investment companies (SBICs or Licensees) must conform in valuing their Loans and Investments and provides guidance as to the techniques and standards which are generally applicable to such valuations.

The need for clearly defined valuation policies and procedures and understandable techniques arises in connection with the requirement that Licensees report the worth of their portfolios to investors and SBA. This information assists SBA in its assessment of the overall operational performance and financial condition of individual Licensees and of the industry.

II. Overall Guidelines

A. Definitions

1. *Asset Value* means the amount that the general partners or board of directors of a Licensee have established as a current value in accordance with its Valuation Policy.

2. *Marketable Securities* means securities for which market quotations are readily available and the market is not "thin", either in absolute terms, or relative to the potentially saleable holdings of the Licensee and other investors with saleable blocks of such securities. These securities are valued as follows: (a) For over-the-counter stocks, taking the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, taking the average of the close for the valuation date and the preceding 2 days. This classification does not include securities which are subject to resale restrictions, either under securities laws or contractual agreements, although other securities of the same class may be freely marketable.

3. *Other Securities* means all Loans and Investments not defined in paragraph A.2 of this section II. Such securities will be valued at Asset Value. Most SBIC investments will fall in this classification.

4. *Valuation Policy* means the official document of a Licensee that definitively sets forth the Licensee's methods of valuing Loans and Investments in accordance with the requirements of 13 CFR 107.503 and this appendix.

B. Objective

The goal of a Licensee's valuation process is to value its Loans and Investments. However, the very nature of Licensees' investments sometimes makes the determination of fair market value problematical. In most cases there is no market for the investment at the time of valuation. Therefore, except where market quotations are readily available and the markets are not "thin", the Boards of Directors or General Partners are necessarily responsible for determining in good faith the value of Loans and Investments.

Determination of value will depend upon the circumstances in each case. No exact formula can be devised that will be generally applicable to the multitude of different valuation issues that will arise. This is especially true for semiannual valuation updates of relatively new investments for which current results either exceed or do not meet the portfolio concern's forecasts. A sound valuation should be based upon all of the relevant facts, with common sense and informed judgement influencing the process of weighing those facts and determining their significance in the aggregate.

C. General Considerations

The Asset Value of Loans and Investments will depend upon the circumstances of each individual case and will be based upon the nature of the asset and the stage of a company's existence.

In negotiating the terms and conditions of an investment with a portfolio concern, the Licensee, in effect, establishes an initial valuation for the investment, which is cost. Cost will be the Asset Value until there is a basis to increase or decrease the valuation.

Unrealized appreciation should be recognized when warranted, but should be limited to those investments that have a sustained economic basis for an increase in value. Temporary market fluctuations or a temporary increase in earnings should not be the cause or sole reason for appreciation.

Unrealized depreciation should be recorded when portfolio companies show sustained unfavorable financial performance. Continuous close scrutiny of Loans and Investments will provide insight into the business cycles and problems encountered by small business concerns. This insight will allow the Licensee to differentiate between a temporary downturn or setback and a long-term problem indicating a measurable decline in Asset Value.

When a decline in Asset Value appears permanent, a complete or partial write-off of the asset (i.e., recording a realized loss rather than unrealized depreciation) should occur. Some of the more obvious indications of permanent impairment of an investment include the termination of business operations, a petition for bankruptcy protection or liquidation, or the absence of a verifiable forwarding address of the business or its proprietor(s). Less obvious situations may include the loss of major revenue accounts, the shut down of a critical distribution channel, an adverse legal or regulatory ruling, or the expiration of a priority claim on collateral in a distressed Portfolio concern. These and other possible circumstances should be assessed on a case-by-case basis, with supporting documentation on file.

D. Valuation Responsibility

As specified in 13 CFR 107.503(c), the Board of Directors or General Partners have the sole responsibility for adopting a Licensee s Valuation Policy and for using it to prepare valuations of the Licensee s Loans and Investments for submission to SBA. In determining Asset Value, the Board of Directors or General Partners must satisfy themselves that all appropriate factors relevant to a good faith valuation have been considered and that the methods used are reasonable and prudent and are consistently applied. Although the Board of Directors or General Partners have the ultimate responsibility for determining Asset Value, they may appoint management or other persons to assist them in such determinations and to provide supporting data and make the necessary calculations pursuant to the Board's or General Partners' direction. It is essential that a careful, conservative, yet realistic approach be taken by Licensees in determining the Asset Value of each Loan and Investment.

As part of the annual audit of the Licensee's financial statements, the Licensee's independent public accountant has responsibility to review the Licensee's valuation procedures and implementation of such procedures including adequacy of documentation. The independent public accountant also has reporting responsibility regarding the results of this review. For information concerning the conduct of the annual audit, see appendix 14 of this SOP, Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies .

E. Frequency of Valuation

As a general rule, Loans and Investments must be valued individually and in the aggregate by the Board of Directors or General Partners at least semiannually, as of the end of the second and fourth quarters of a Licensee's fiscal year. However, Licensees with no outstanding Leverage or Earmarked Assets (both as defined in 13 CFR 107.50) need only perform valuations once a year. On a case-by-case basis, SBA may require valuations to be made more frequently. Only valuations performed as of the fiscal year-end are required to be reviewed by the Licensee's independent public accountant, as discussed in paragraph D. of this section II. Year-end valuations must be submitted to SBA within 3 months following the end of the Licensee s fiscal year. Interim valuations must be submitted within 30 days following the close of the reporting period. Material adverse changes in valuations must be reported at least quarterly, within 30 days following the close of the quarter. Since the valuations will only be as sound as the timeliness of the financial information upon which they are based, Licensees must obtain financial statements from portfolio concerns on a regular basis. Monthly financial statements are normally appropriate.

F. Written Valuation Policy

Each Licensee must establish a written Valuation Policy approved by its Board of Directors or General Partners that includes a statement of policies and procedures that are consistent with Section III of this appendix.

G. Documentation

Each Licensee must prepare and retain in its permanent files a valuation report as of each valuation date documenting, for each portfolio security, the cost, the current Asset Value and the previous Asset Value, plus the methodology and supporting data used to determine the Asset Value. The minutes of meetings at which valuations are determined will contain a resolution confirming that each portfolio security was valued by the Board of Directors or General Partners in accordance with Licensee's duly adopted valuation procedures. The minutes of such meetings will incorporate by reference the valuation report signed by each Director or General Partner along with any dissenting valuation opinions.

H. Instructions

A model Valuation Policy is presented in Section III below. Licensees may adopt the model in its entirety or make appropriate modifications, additions or deletions. Any changes, however, must be generally consistent with the model and must be approved by SBA.

A second version of the model Valuation Policy is presented in Section IV. This section repeats the language of Section III, but is expanded to include additional explanatory paragraphs. These paragraphs are commentary provided by SBA to assist Licensees in interpreting and applying some of the model valuation criteria. They may be adapted for inclusion in the Licensee's Valuation Policy, if desired.

I. Approval

1. *Existing Licensees.* Any Licensee that utilizes the exact wording of Section III, without any additions, deletions, or changes will be presumed to have an acceptable Valuation Policy. SBA acknowledges, however, that this wording may not be entirely applicable to all Licensees. A Licensee may adopt a Valuation Policy that is different from Section III with SBA s prior written approval. If a Licensee wants to make minor changes in the wording of Section III, it is suggested that the Licensee indicate proposed deletions with a caret (^) and underline proposed additions.

2. *License applicants.* All applicants for an SBIC license must submit their proposed Valuation Policies for approval as part of the licensing application process.

III. Model Valuation Policy

A. General

1. The [Board of Directors] [General Partners] have sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

2. Loans and Investments will be valued individually and in the aggregate [at least semi-annually, as of the end of the second quarter of the fiscal year and as of the end of the fiscal year.] [at least annually, as of the end of the fiscal year.] Fiscal year-end valuations are audited as set forth in Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies , Section IV, paragraph D.

3. This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business.

B. Interest-Bearing Securities

1. Loans will be valued in an amount not greater than cost, with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivable on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

2. When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall

financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

3. Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the portfolio concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

4. The carrying value of interest-bearing securities will not be adjusted for changes in interest rates.

5. The valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

C. Equity Securities - Private Companies

1. Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

2. Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

3. The anticipated pricing of a portfolio concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

4. Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of prior securities.

5. If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50 percent of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

6. Where a company has been self-financing and has had positive cash flow from operations for at least the past 2 fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity. Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or in the event of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

7. With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

8. Warrants should be valued at the excess of the value of the underlying security over the exercise price.

D. Equity Securities - Public Companies

1. Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding 2 days.

2. The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10 percent to 40 percent, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

3. When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10 percent, and generally by more.

IV. Valuation Policy With Supplementary Information

A. General

1. The [Board of Directors] [General Partners] have sole responsibility for determining the Asset Value of each of the Loans and Investments and of the portfolio in the aggregate.

2. Loans and Investments will be valued individually and in the aggregate [at least semi-annually - as of the end of the second quarter of the fiscal year and as of the end of the fiscal year.] [at least annually - as of the end of the fiscal year.] Fiscal year-end valuations are audited as set forth in Accounting Standards and Financial Reporting Requirements for Small Business Investment Companies , Section IV, paragraph D.

3. This Valuation Policy is intended to provide a consistent, conservative basis for establishing the Asset Value of the portfolio. The Policy presumes that Loans and Investments are acquired with the intent that they are to be held until maturity or disposed of in the ordinary course of business.

B. Interest-Bearing Securities

1. Loans will be valued in an amount not greater than cost, with Unrealized Depreciation being recognized when value is impaired. The valuation of loans and associated interest receivable on interest-bearing securities should reflect the portfolio concern's current and projected financial condition and operating results, its payment history and its ability to generate sufficient cash flow to make payments when due.

2. When a valuation relies more heavily on asset versus earnings approaches, additional criteria should include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, the net liquidation value of tangible business assets, and the personal integrity and overall financial standing of the owners of the business. In those instances where a loan valuation is based on an analysis of certain collateralized assets of a business or assets outside the business, the valuation should, at a minimum, consider the net liquidation value of the collateral after reasonable selling expenses. Under no circumstances, however, shall a valuation based on the underlying collateral be considered as justification for any type of loan appreciation.

3. Appropriate unrealized depreciation on past due interest which is converted into a security (or added to an existing security) should be recognized when collection is doubtful. Collection is presumed to be in doubt when one or both of the following conditions occur: (i) interest payments are more than 120 days past due; or (ii) the portfolio concern is in bankruptcy, insolvent, or there is substantial doubt about its ability to continue as a going concern.

a. Licensees may rebut this presumption by providing evidence of collectibility satisfactory to SBA. Such evidence may include the existence of collateral, the value of which has been verified through an appraisal by an independent professional appraiser acceptable to SBA. Such an appraisal must be at liquidation value (net of liquidation costs) and must have been performed within the 12 months immediately preceding the valuation date. In considering whether collateral provides an appropriate basis for valuations, SBA will review the Licensee's operating history for evidence concerning its willingness and ability to pursue available remedies (including foreclosure) in default situations.

b. For those Licensees primarily involved in making loans, the use of a loan classification system is strongly encouraged to help manage portfolios and determine Asset Values, with loans that warrant extra attention being flagged by the Licensee's management. Such a "watch list" can also be used to report to the Board of Directors or General Partner(s). For each loan placed on the watch list, a reason or statement should describe the particular situation. Danger signals that should alert the Licensee to potential problems include delinquency, a lack of profitability, weak or decreasing equity, increasing debt load, a deteriorating cash position, an abnormal increase in accounts payable, inaccurate financial information, insurance cancellation, judgments and tax liens, family problems, loss of employees, collateral problems, slowdown in inventory turnover, poor maintenance of plant and equipment, and heavy reliance on short term debt.

c. Upon careful consideration of all the relevant factors, the Board of Directors or General Partners will determine which loans require recognition of Unrealized Depreciation. It is a good rule of operation for a Licensee to perform downward valuations earlier rather than later. When the quality of a loan recovers, a higher Asset Value may subsequently be assigned.

4. The carrying value of interest-bearing securities will not be adjusted for changes in interest rates.

5. The valuation of convertible debt may be adjusted to reflect the value of the underlying equity security net of the conversion price.

a. Accepted methods for valuing convertible debentures generally involve one of two approaches. The first approach views the debenture as a debt obligation. Under this approach, the Licensee should utilize the loan valuation techniques described in this section above. The second approach considers the conversion of all convertible securities of the same class into their common stock equivalent, taking into account dilution, and a subsequent valuation of the Licensee's proportionate equity interest. Valuation of this equity interest should follow the equity valuation techniques described in Paragraph C. of this section.

b. Normally, the reported value is the higher of these two alternatives. However, Licensees should disregard higher equity values and retain lower debt-based valuations if there are circumstances which make conversion undesirable. When equity considerations govern the Asset Value assigned, all underlying factors should be disclosed.

C. Equity Securities - Private Companies

1. Investment cost is presumed to represent value except as indicated elsewhere in these guidelines.

2. Valuation should be reduced if a company's performance and potential have significantly deteriorated. If the factors which led to the reduction in valuation are overcome, the valuation may be restored.

3. The anticipated pricing of a Portfolio concern's future equity financing should be considered as a basis for recognizing Unrealized Depreciation, but not for Unrealized Appreciation. If it appears likely that equity will be sold in the foreseeable future at a price below the Licensee's current valuation, then that prospective offering price should be weighed in the valuation process.

4. Valuation should be adjusted to a subsequent significant equity financing that includes a meaningful portion of the financing by a sophisticated, unrelated new investor. A subsequent significant equity financing that includes substantially the same group of investors as the prior financing should generally not be the basis for an adjustment in valuation. A financing at a lower price by a sophisticated new investor should cause a reduction in value of prior securities.

5. If substantially all of a significant equity financing is invested by an investor whose objectives are in large part strategic, or if the financing is led by such an investor, it is generally presumed that no more than 50 percent of the increase in investment price compared to the prior significant equity financing is attributable to an increased valuation of the company.

6. Where a company has been self-financing and has had positive cash flow from operations for at least the past 2 fiscal years, Asset Value may be increased based on a very conservative financial measure regarding P/E ratios or cash flow multiples, or other appropriate financial measures of similar publicly-traded companies, discounted for illiquidity. Should the chosen valuation cease to be meaningful, the valuation may be restored to a cost basis, or in the event of significant deterioration in performance or potential, to a valuation below cost to reflect impairment.

a. Under these conditions, valuation factors that may be considered include:

(1) The utilization of a multiple of earnings, cash flow, or revenues, which are commensurate with the multiples which the market currently accords to comparable companies in similar businesses and industries, with an appropriate discount for conditions such as illiquidity or a minority position. Care should be taken to use only comparable companies, including not only business similarities but also similarities as to size, financial condition, and earnings outlook. However, in order for comparative market prices to be meaningful, data for a representative sample of similar companies must be available.

(2) Among the more important factors to be considered in a particular case are (i) the nature of the business, (ii) the risk involved, and (iii) the growth, stability or irregularity of earnings and cash flows. A company with a positive earnings trend and a favorable outlook may command a capitalization factor (multiplier) in the marketplace that will result in a stock valuation well above book value. When the gross value of a portfolio concern is computed by applying a capitalization rate to pre-interest, pre-tax earnings, the value of equity securities is derived by subtracting the outstanding debt of the concern from the gross value. While capitalization rates do vary, an appropriate rate can be determined by analyzing rates for comparable companies in the same industry. Investigating similar companies in the same industry or geographic area can be done directly or through published material from sources such as the Value Line, Standard and Poor's, Robert Morris and Associates, or any other of the numerous sources available for comparative industry data.

(3) Another method discounts the present value of estimated future proceeds to a Licensee, including dividend income and sales of securities, using a discount rate that reflects the degree of risk of the equity interest.

(4) One may also utilize the recent sale prices of comparable blocks of the issuer's securities in arm's length transactions.

b. Equity interests or limited partnership interests without the benefit of stock certificates and which generally define a certain percentage of the profits to be allocated to each of the investors based on its relative contributions should be valued in a manner similar to the valuation methods described in this section.

7. With respect to portfolio companies that are likely to face bankruptcy or discontinue operations for some other reason, liquidating value may be employed. This value may be determined by estimating the realizable value (often through professional appraisals or firm offers to purchase) of all assets and then subtracting all liabilities and all associated liquidation costs.

a. Liquidation value will depend on the decreasing value of wasting assets, the costs experienced by the business being liquidated, the expenses borne by the Licensee in order to be able to realize any liquidating value, the elapsed time until such net proceeds can be realized, the ranking of the Licensee's claims relative to other security interests and subordination agreements, and the probability of any ultimate realization of value.

b. Incorporating this approach as a normal step in valuation can provide improved understanding of the downside of an investment.

c. Licensees should recognize unrealized appreciation or depreciation, as appropriate, on Assets Acquired in liquidation of Loans and Investments. In order to recognize Unrealized Appreciation, asset values must be verified by an appraisal which meets all the conditions specified in the preceding paragraph; Provided, however, that if the assets acquired constitute a going concern, such assets may be appraised as a going concern rather than at liquidation value. Unrealized Appreciation may not be recognized if the Licensee does not benefit from such appreciation. For example, an asset acquired through foreclosure should not be carried at a value greater than the defaulted loan balance plus any expenses and penalties to which the Licensee is entitled.

8. Warrants should be valued at the excess of the value of the underlying security over the exercise price.

a. Valuation of debt with detachable warrants can be done similarly to convertible debt by treating the debt and warrants as a unit, or, alternatively, the debt can be valued on its own basis as a debt instrument, and the warrants separately. If the warrants are valued separately, the following factors must be taken into account:

(1) Current value of issued shares.

(2) The differential between the exercise price and the underlying share values if the current share values are higher than the exercise price.

(3) Time until expiration dates are reached or dates of changes in terms of exercise prices.

(4) Number of shares into which the warrants are exercisable on various dates.

(5) Restrictions on sale of the underlying stock.

(6) Restrictions on the transferability of the warrants.

(7) Registration rights for the warrants or the underlying shares.

(8) Financial ability of the Licensee to perform the exercise of its rights or to sell its warrants.

(9) The ultimate desirability, if any, of exercising the rights given by the warrants.

D. Equity Securities - Public Companies

1. Public securities should be valued as follows: (a) For over-the-counter stocks, take the average of the bid price at the close for the valuation date and the preceding 2 days, and (b) for listed stocks, take the average of the close for the valuation date and the preceding 2 days.

a. However, securities are not deemed to be freely marketable in those situations where such securities are very thinly or infrequently traded, or may be lacking in truly representative market quotations, or where the market for such securities cannot absorb the quantity of shares which the Licensee and similar investors may want to sell.

b. In such cases, Asset Value must be determined by the Board of Directors or General Partners.

2. The valuation of public securities that are restricted should be discounted appropriately until the securities may be freely traded. Such discounts typically range from 10 percent to 40 percent, but the discounts can be more or less, depending upon the resale restrictions under securities laws or contractual agreements.

3. When the number of shares held is substantial in relation to the average daily trading volume, the valuation should be discounted by at least 10 percent, and generally by more.

APPENDIX 6-6

CO Form 62 Estimated Losses

6-6

APPENDIX 4
(Paragraph 15)

RESTRICTED TO INVESTMENT DIVISION USE ONLY

ESTIMATED LOSSES

DATE__________ SBIC______________________________ LICENSE NO.__________

BASIC DATA

PRIVATE CAPITAL (C) ____________________ SBA DEBT ____________________

ADJUSTMENT FACTOR____________________ SBA GUARANTEED DEBT__________
(30% of Private Capital)

NET PRIVATE CAPITAL (N) ____________________ TOTAL SBA DEBT__________

JEOPARDY COMPUTATION

COLUMN A (JUDGMENT (1) (2) (4)

ADD

(1) DOUBTFUL INVESTMENTS__________

(2) DELINQ. INVESTMENTS__________

(3) RET. EARNINGS DEFICIT__________

(4) DOUBTFUL ASSETS IN LIQUIDATION__________

TOTAL COLUMN A__________

COLUMN B (JUDGMENT (3)

ADD

(1) LOSS RESERVES__________

(2) RETAINED EARNINGS__________

(3) DOC. UNREAL. GAIN__________

TOTAL COLUMN B__________

COLUMN A	MINUS COLUMN B	= FUNDS IN JEOPARDY
__________	__________	__________

ESTIMATED LOSS COMPUTATION FOR INVESTMENT DIVISION PURPOSES

FUNDS IN JEOP. (J)	MINUS NET PRIVATE CAPITAL (N)	= ESTIMATED LOSS
__________	__________	__________

ESTIMATED LOSS COMPUTATION FOR AGENCY LOSS RESERVE PURPOSES

FUNDS IN JEOP. (J)	MINUS PRIVATE CAPITAL (C)	= ESTIMATED LOSS
__________	__________	__________

IN NO CASE MAY THE RESERVE FOR TOTAL SBA DEBT BE MORE THAN THE ACTUAL OUTSTANDING.
EXPLANATION OF COLUMN A (1)(2)(4) AND COLUMN B(3):
SEGREGATE AND LIST, BY COLUMN CLASSIFICATION, INVESTMENTS USED IN ARRIVING AT THE JEOPARDY FIGURE. (USE REVERSE SIDE IF NECESSARY).

APPROVED BY:______________________ PREPARED BY:______________________

CO FORM 62 (5-73)

APPENDIX 6-7

Capital Impairment Calculation Worksheet

Preliminary Capital Impairment Worksheet
For Licensees with SBA Leverage Issued Prior to April 25, 1994

'sbicname'	*'license number'*	For FYE (QE)	*'fiscal year'*

I. CAPITAL IMPAIRMENT PERCENTAGE

1. Undistributed Net Realized Earnings (Deficit)	*Line 54c, p. 3C*
2. Unrealized Gain (Loss) on Securities Held	*Line 52, p. 3C*
3. Total *If Line 2 < 0, Sum of Line 1 + Line 2, else Line 1 Only*	
4. Regulatory Capital (excluding Treasury Stock, if any)	*Line 50, p. 3C*
5. CAPITAL IMPAIRMENT PERCENTAGE	*(Line 3 Divided by Line 4) * 100*

For Corporation SBICs Only

EXHIBIT A

Preliminary Capital Impairment Worksheet
For Licensees with SBA Leverage Issued Prior to April 25, 1994

'sbicname' *'license number'* For FYE (QE) *'fiscal year'*

I. CAPITAL IMPAIRMENT PERCENTAGE

1. Undistributed Net Realized Earnings (Deficit)	*Line 52, p. 3P*
2. Unrealized Gain (Loss) on Securities Held	*Line 50, p. 3P*
3. Total	
If Line 2 < 0, Sum of Line 1 + Line 2, else Line 1 Only	
4. Regulatory Capital (excluding Treasury Stock, if any)	*Line 48b, p. 3P*
5. CAPITAL IMPAIRMENT PERCENTAGE	*(Line 3 Divided by Line 4) * 100*

For Partnership SBICs Only

EXHIBIT A

Preliminary Capital Impairment Worksheet
For Licensees with SBA Leverage Issued On/After April 25, 1994

'sbicname' *'license number'* For FYE (QE) *'fiscal year'*

I. PRELIMINARY IMPAIRMENT TEST

1. Undistributed Net Realized Earnings (Deficit)	*Line 54c, p. 3C*
2. Includible Non-Cash Gains	*Sum of Col. 7, p. 15C*
3. Undistributed Net Realized Earnings (Deficit) plus Includible Non-Cash Gains	*Line 1 + Line 2*
4. Unrealized Gain (Loss) on Securities Held	*Line 52, p. 3C*

** STOP -- CAPITAL IMPAIRMENT = 0 **

For Corporation SBICs and When Line 3>=0 AND Line 4>=0

IV. MAXIMUM PERMISSIBLE CAPITAL IMPAIRMENT PERCENTAGE

SECTION 301(d) LICENSEES SKIP LINES 20-25

20. SBA Leverage Outstanding as of End of FY or FQtr	*(Line 30 + Line 36a + Line45a + Line 51), p. 3C*
21. Leverageable Capital as of End of FY or FQtr	*Line 10, p. 9C*
22. Leverage Percentage	*If Line 21 = 0, then 0, else (Line 20 Divided by Line 21) * 100*
23. Total Portfolio Investments (at cost)	*Line 4, Col. 1, p. 2C*
24. Equity Capital Investments (at cost)	*Line 3, Col. 1, p. 2C + Sum of Col. 7 of all investments from p.12C with 'D' in Col. 3a **AND** 'EC' in Col. 3c*
25. Percentage of Portfolio in Equity Investments	*If Line 24 = 0, then 0, else (Line 24 Divided by Line 23) * 100*
26. Maximum Permissible Capital Impairment Percentage	*IF 301(d) SBIC, use 75%, ELSE SEE TABLE BELOW*

Line 22	Line 25		
	>=67%	<67% and >=40%	<40%
>=0 and <1.0000001	70	55	45
>=1.0000001 and <2.0000001	60	50	40
>=2.0000001	50	40	35

EXHIBIT B1

Preliminary Capital Impairment Worksheet
For Licensees with SBA Leverage Issued On/After April 25, 1994

'sbicname' *'license number'* For FYE (QE) *'fiscal year'*

I. PRELIMINARY IMPAIRMENT TEST

1. Undistributed Net Realized Earnings (Deficit)	*Line 52, p. 3P*
2. Includible Non-Cash Gains	*Sum of Col. 7, p. 15P*
3. Undistributed Net Realized Earnings (Deficit) plus Includible Non-Cash Gains	*Line 1 + Line 2*
4. Unrealized Gain (Loss) on Securities Held	*Line 50, p. 3P*

** STOP -- CAPITAL IMPAIRMENT = 0 **

For Partnership SBICs and When Line 3>=0 AND Line 4>=0

IV. MAXIMUM PERMISSIBLE CAPITAL IMPAIRMENT PERCENTAGE
SECTION 301(d) LICENSEES SKIP LINES 20-25

20. SBA Leverage Outstanding as of End of FY or FQtr	*(Line 30 + Line 36a + Line45a + Line 46a), p. 3P*
21. Leverageable Capital as of End of FY or FQtr	*Line 10, p. 9P*
22. Leverage Percentage	*If Line 21 = 0, then 0, else (Line 20 Divided by Line 21) * 100*
23. Total Portfolio Investments (at cost)	*Line 4, Col. 1, p. 2P*
24. Equity Capital Investments (at cost)	*Line 3, Col. 1, p. 2P + Sum of Col. 7 of all investments from p.12C with 'D' in Col. 3a **AND** 'EC' in Col. 3c*
25. Percentage of Portfolio in Equity Investments	*If Line 24 = 0, then 0, else (Line 24 Divided by Line 23) * 100*
26. Maximum Permissible Capital Impairment Percentage	*IF 301(d) SBIC, use 75%, ELSE SEE TABLE BELOW*

Line 22	Line 25 >=67%	<67% and >=40%	<40%
>=0 and <1.0000001	70	55	45
>=1.0000001 and <2.0000001	60	50	40
>=2.0000001	50	40	35

Preliminary Capital Impairment Worksheet - Corporations
For Licensees with SBA Leverage Issued On/After April 25, 1994

'sbicname' *'license number'* For FYE (QE) *'fiscal year'*

I. PRELIMINARY IMPAIRMENT TEST

1. Undistributed Net Realized Earnings (Deficit)	*Line 54c, p. 3C*
2. Includible Non-Cash Gains	*Sum of Col. 7, p. 15C*
3. Undistributed Net Realized Earnings (Deficit) plus Includible Non-Cash Gains	*Line 1 + Line 2*
4. Unrealized Gain (Loss) on Securities Held	*Line 52, p. 3C*

IF LINE 4 SHOWS AN UNREALIZED GAIN, GO TO SECTION II.
IF LINE 4 SHOWS AN UNREALIZED LOSS OR ZERO, GO TO SECTION III.

II. ADJUSTED UNREALIZED GAIN ON SECURITIES HELD
UNREALIZED APPRECIATION ON:

5. Publicly Traded and Marketable Securities [Class 1]	*Sum of Col. 8 where (Col. 3b, p. 12C = 'P') and (Col. 8 > 0)*
6. Non-Publicly Traded and Marketable Securities which Satisfy the Requirements in Section 107.1840(d)(3) [Class 2]	*PROVIDED BY ACCOUNT EXECUTIVE*
7. All Other Securities [Class 3]	*(Line 10, Col. 3, p. 2C) - Line 5 - Line 6*
8. Unrealized Depreciation	*Line 10, Col. 2, p. 2C*
9. Class 1 appreciation not used to offset depreciation (*.80)	*IF (Line 8 - Line 7 - Line 6) <= 0, use (Line 5 * .80), else use ((Line 5 - (Line 8 - Line 7 - Line 6)) * .80)*
10. Class 2 appreciation not used to offset depreciation (*.50)	*IF (Line 8 - Line 7 <= 0, use (Line 6 * .50), else use ((Line 6 - (Line 8 - Line 7)) * .50)*
11. Adjusted Unrealized Gain Before Estimated Tax Effects	*Line 9 + Line 10*
12. Less: Estimated Future Income Taxes - If Applicable	*Line 11 * .4*
13. Less: Class 1 or Class 2 Appreciation on Pledged or Encumbered Securities (Up to the Amount of the Related Borrowing or Obligation)	*PROVIDED BY ACCOUNT EXECUTIVE*
14. Adjusted Unrealized Gain on Securities Held	*Line 11 - Line 12 - Line 13*

III. CAPITAL IMPAIRMENT PERCENTAGE

15. Undistributed Net Realized Earnings plus Includible Non-Cash Gains	*Same as Line 3 (ABOVE)*
16. Adjusted Unrealized Gain on Securities Held	*If Line 4 < 0, use Line 4 else use Line 14*
17. Total	*Line 15 + Line 16*
18. Regulatory Capital (excluding Treasury Stock, if any)	*(Line 12, p. 9C <> 0), use Line 13, p. 9C, else use Line 11, p. 9C*
19. CAPITAL IMPAIRMENT PERCENTAGE	*If Line 17 or Line 18 = 0, Capital Impairment = 0, else (Line 17 Divided by Line 18) * 100*

V. MAXIMUM PERMISSIBLE CAPITAL IMPAIRMENT PERCENTAGE
SECTION 301(d) LICENSEES SKIP LINES 20-25

20. SBA Leverage Outstanding as of End of FY or FQrt	*(Line 30 + Line 36a + Line45a + Line 51), p. 3C*
21. Leverageable Capital as of End of FY or FQrt	*Line 10, p. 9C*
22. Leverage Percentage	*If Line 21 = 0, then 0, else Line 20 Divided by Line 21*
23. Total Portfolio Investments (at cost)	*Line 4, Col. 1, p. 2C*
24. Equity Capital Investments (at cost)	*Line 3, Col. 1, p. 2C + Sum of Col. 7 of all investments from p.12C with 'D' in Col. 3a **AND** 'EC' in Col. 3c*
25. Percentage of Portfolio in Equity Investments	*If Line 24 = 0, then 0, else (Line 24 Divided by Line 23) * 100*
26. Maximum Permissible Capital Impairment Percentage	*IF 301(d) SBIC, use 75%, ELSE SEE TABLE BELOW*

Line 22	Line 25		
	>=67%	<67% and >=40%	<40%
>=0 and <1.0000001	70	55	45
>=1.0000001 and <2.0000001	60	50	40
>=2.0000001	50	40	35

Preliminary Capital Impairment Worksheet - Partnerships
For Licensees with SBA Leverage Issued On/After April 25, 1994

'sbicname' 'license number' For FYE (QE) 'fiscal year'

I. PRELIMINARY IMPAIRMENT TEST

1. Undistributed Net Realized Earnings (Deficit)	*Line 52, p. 3P*
2. Includible Non-Cash Gains	*Sum of Col. 7, p. 15C*
3. Undistributed Net Realized Earnings (Deficit) plus Includible Non-Cash Gains	*Line 1 + Line 2*
4. Unrealized Gain (Loss) on Securities Held	*Line 50, p. 3P*

IF LINE 4 SHOWS AN UNREALIZED GAIN, GO TO SECTION II.
IF LINE 4 SHOWS AN UNREALIZED LOSS OR ZERO, GO TO SECTION III.

II. ADJUSTED UNREALIZED GAIN ON SECURITIES HELD
UNREALIZED APPRECIATION ON:

5. Publicly Traded and Marketable Securities [Class 1]	*Sum of Col. 8 where (Col. 3b, p. 12P = 'P') and (Col. 8 > 0)*
6. Non-Publicly Traded and Marketable Securities which Satisfy the Requirements in Section 107.1840(d)(3) [Class 2]	*PROVIDED BY ACCOUNT EXECUTIVE*
7. All Other Securities [Class 3]	*(Line 10, Col. 3, p. 2P) - Line 5 - Line 6*
8. Unrealized Depreciation	*Line 10, Col. 2, p. 2P*
9. Class 1 appreciation not used to offset depreciation (*.80)	*IF (Line 8 - Line 7 - Line 6) <= 0, use (Line 5 * .80), else use ((Line 5 - (Line 8 - Line 7 - Line 6)) * .80)*
10. Class 2 appreciation not used to offset depreciation (*.50)	*IF (Line 8 - Line 7 <= 0, use (Line 6 * .50), else use ((Line 6 - (Line 8 - Line 7)) * .50)*
11. Adjusted Unrealized Gain Before Estimated Tax Effects	*Line 9 + Line 10*
12. Less: Estimated Future Income Taxes - If Applicable	*0 - No Taxes for Partnerships*
13. Less: Class 1 or Class 2 Appreciation on Pledged or Encumbered Securities (Up to the Amount of the Related Borrowing or Obligation)	*PROVIDED BY ACCOUNT EXECUTIVE*
14. Adjusted Unrealized Gain on Securities Held	*Line 11 - Line 12 - Line 13*

III. CAPITAL IMPAIRMENT PERCENTAGE

15. Undistributed Net Realized Earnings plus Includible Non-Cash Gains	*Same as Line 3 (ABOVE)*
16. Adjusted Unrealized Gain on Securities Held I	*If Line 4 < 0, use Line 4, else use Line 14*
17. Total	*Line 15 + Line 16*
18. Regulatory Capital (excluding Treasury Stock, if any)	*Line 6, p. 9P*
19. CAPITAL IMPAIRMENT PERCENTAGE	*If Line 17 or Line 18 = 0, Capital Impairment = 0, else (Line 17 Divided by Line 18) * 100*

IV. MAXIMUM PERMISSIBLE CAPITAL IMPAIRMENT PERCENTAGE
SECTION 301(d) LICENSEES SKIP LINES 20-25

20. SBA Leverage Outstanding as of End or FYear or FQrt	*(Line 30 + Line 36a + Line 45a + Line 46a), p. 3P*
21. Leverageable Capital as of End of FY or FQtr	*Line 10, p. 9P*
22. Leverage Percentage	*If Line 21 = 0, then 0, else Line 20 Divided by Line 21*
23. Total Portfolio Investments (at cost)	*Line 4, Col. 1, p. 2P*
24. Equity Capital Investments (at cost)	*Line 3, Col. 1, p. 2P + Sum of Col. 7 of all investments from p.12C with 'D' in Col. 3a **AND** 'EC' in Col. 3c*
25. Percentage of Portfolio in Equity Investments	*If Line 24 = 0, then 0, else (Line 24 Divided by Line 23) * 100*
26. Maximum Permissible Capital Impairment Percentage	*IF 301(d) SBIC, use 75%, ELSE SEE TABLE BELOW*

Line 22	Line 25 >=67%	Line 25 <67% and >=40%	Line 25 <40%
>=0 and <1.0000001	70	55	45
>=1.0000001 and <2.0000001	60	50	40
>=2.0000001	50	40	35

APPENDIX 7-1

SBIC TechNotes Number 10

SBIC TechNotes

December 2003 – Number 10

Post-Licensing SBIC Risk Management Procedures

A rigorous and effective risk management and oversight program is essential to protect the Agency's financial interests in Small Business Investment Companies (SBICs) and to ensure that the objectives of the Small Business Investment Act of 1958, as amended (the Act), are being met.

Such a program includes, first and foremost, the licensing of qualified private fund management teams. This TechNote describes SBA's risk management and oversight procedures *after* an SBIC receives its license, draws SBA leverage, and begins fund operations.

This TechNote does not in any way limit SBA's rights and remedies as contained in the Small Business Investment Act and the regulations at 13 CFR Part 107. These rights and remedies include, but are not limited to, SBA's rights to (a) place an SBIC into Restricted Operations, (b) restrict or deny Leverage availability, and (c) take appropriate legal action to protect its interest.

Three new elements of SBA's post-licensing risk management and oversight are also described herein: (1) a new Risk Assessment Model; (2) a set of day-to-day oversight activities and procedures to help prioritize and standardize oversight responsibilities among the Investment Division personnel; and (3) Portfolio Review Meetings that may be held with certain SBICs.

Although SBA's risk management program is comprehensive, it cannot anticipate all contingencies nor can it provide a template for all decisions. Thus, decisions on a case-by-case basis are a necessary part of the overall policy and procedures.

The principles of SBA's risk management program are as follows:

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1. Promote highest standards of integrity and best fund management practices among SBICs.
2. Strengthen existing "early warning" procedures to assess financial and regulatory issues affecting fund performance.
3. Ensure consistency and continuity of day-to-day oversight activities of Investment Division personnel.
4. Collect operational data and analysis to assist in efforts to estimate total prospective portfolio losses over time.

Risk Assessment Model

The Risk Assessment Model is one component of the Investment Division's overall risk management procedures for both Participating Security and Debenture Licensees. The Model is a means for assessing risk and encouraging best fund management practices at the SBIC level.

The Risk Assessment Model is the primary tool used by the SBA to determine the relative intensity and degree of oversight for a particular SBIC (see below). While the Risk Assessment Model captures a number of factors that are critical to the success or failure of a private equity fund, it does not prescribe action. SBA may consider other factors such as regulatory compliance in deciding whether to exercise the rights and remedies prescribed by the Act and the Regulations with respect to particular SBICs.

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The Model uses both quantitative and qualitative factors to assign a Risk Rating for each SBIC. Quantitative factors use Form 468 financial data and valuation reports and involve simple spreadsheet inputs. Qualitative factors include an analysis of a Licensee's management team and adherence to business plan.

The Model incorporates specific factors and point weightings for both Debenture and Participating Securities licensees. The factor weightings change as a fund transitions from the immature stage to mature status.[1][1]

[1][1] The change in classification to mature status occurs when a Licensee reports investments at cost (including realizations and write-offs) totaling 65% or more of its Combined Capital plus outstanding SBA Commitments. An Appendix to this TechNote contains a copy of the Risk Assessment Model spreadsheet and more detailed information about each risk rating factor and trigger points.

Risk Model Factors

1. Fund status – Immature vs. Mature
2. Capital Impairment
3. Accumulated Prioritized Payments (Participating Security)
4. Debenture Fixed Charge Coverage (Debenture)
5. Adherence to Business Plan
6. Portfolio Company Valuations
7. Management & internal controls (regulatory compliance history)
8. Liquidity Needs

The risk rating factors provide a risk rating score. In general, as the score increases, the level of SBA oversight increases.

Trigger Points

Trigger Points identify critical aspects of a licensee's operations that automatically place it into the Intensive oversight category (notwithstanding the risk rating score). The Model currently uses three Trigger Points:

1. Licensees with serious outstanding regulatory violations require Intensive oversight until these violations are resolved. (See "Explanation of Risk Rating Factors" in Appendix A.)

2. Licensees with excessive realized losses (i.e., an Undistributed Net Realized Earnings deficit equal to 100% of Regulatory Capital) and no anticipated liquidity events within the next twelve months.

3. (a) For Participating Securities issuers: Licensees that have a Capital Impairment percentage of 100% or more regardless of the age of the fund.
   (b) For Debenture issuers: Licensees that have a condition of Capital Impairment under SBA regulations.

Levels of SBIC Oversight

The Office of SBIC Operations handles the day-to-day oversight of active SBICs. Three general levels of oversight have been established: Normal, Enhanced, and Intensive.

The new risk assessment model, as discussed above, influences the process in which SBICs are placed in one of three oversight categories.

Many factors determine an SBIC's level of oversight, most of which are components of the risk model score. These factors include the SBIC's financial condition (using standard mathematical formulas), regulatory compliance history (based on SBIC examinations), and management integrity and experience (both qualitative and quantitative assessments).

Investment Division personnel are responsible for specific activities related to each level of oversight. Importantly, placement of an SBIC into an oversight category does not presuppose or prescribe any regulatory or other action to protect the Agency's position in the fund, nor does it limit SBA's ability or authority to pursue any remedies available to it under the Act or the Regulations.

The point ranges indicative of the level of oversight are as follows: Normal – 0 to 40 points; Enhanced – 41 to 65; and Intensive – greater than 65 points.

1. **Normal**
   A Licensee in good financial standing and regulatory compliance receives Normal oversight. At this level, the analyst/portfolio manager assigned to monitor the SBIC serves as the primary point of contact. Normal oversight activities include:

   - Analysis of annual and quarterly SBIC financial statements, valuation reports, and other supporting documentation
   - SBIC portfolio review 1-2 times per year
   - Review Commitment and Draw requests
   - Review Capital Certificates
   - Review any Regulatory issues requiring SBA's prior approval, such as Conflict of Interest investments and Overline investments
   - Review Examination reports for any Regulatory violations
   - Attend annual SBIC partner's meetings and/or visit fund managers

2. **Enhanced**
   Licensees experiencing some financial difficulties (e.g., a significant number or amount of portfolio company write-offs, increasing capital impairment, reduced cash flow), or Regulatory issues are placed into the Enhanced oversight category. At this level, the Area Chief takes a more active role in the oversight of a Licensee.

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The oversight activities for a Licensee in the Enhanced category include:

- All monitoring and oversight activities under the Normal category
- Credit Committee may meet to discuss the SBIC's ability to receive additional Commitments and draw against existing commitments
- Increased interaction with fund managers and review of the portfolio at Area Chief and/or Director level
- Site visits to portfolio companies to assess fund managers' views of potential performance
- As needed, face-to-face Portfolio Review Meeting(s) with SBA officials (see Portfolio Review Meeting section for more detail)

3. **Intensive**

SBICs with severe financial problems, including all eligible for Restricted Operations, or serious Regulatory violations must receive Intensive oversight. Specific oversight activities at the Intensive level include:

- All monitoring activities previously listed
- Face-to-face Portfolio Review Meeting(s) with SBA officials
- More frequent and enhanced SBIC reporting (quarterly or monthly)
- Increased monitoring of portfolio companies (e.g., review of financial statements) with an emphasis on cash needs relative to the SBIC's position in the company

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Placement of a Licensee in any oversight category does not in any way limit SBA's ability to take whatever action it deems appropriate, including but not limited to, placing an SBIC into Restricted Operations, transferring an SBIC to the Office of Liquidation, and exercising other rights and remedies under the Act and the Regulations.

Portfolio Review Meetings

When a Licensee is placed in the Intensive oversight category, SBA may give the management of the Licensee an opportunity to meet with the Agency, through a Portfolio Review Meeting. This meeting may also occur when the Licensee is in the Enhanced category. SBA may take whatever administrative or remedial action it deems appropriate either before or after the Portfolio Review Meeting.

The primary purpose of the meeting is to review all remaining portfolio companies in which the SBIC has a financial interest. Meetings are held at SBA headquarters in Washington and last approximately half a business day, possibly longer if the SBIC has a large remaining investment portfolio or a complicated structure. All the SBIC principals are expected to attend.

SBA does not require a pre-determined format, but specific information must be included in the presentation as follows:

I. Portfolio Company Information

1. Description of the portfolio company's business
2. Description of where the company stands against plan
3. Summary financial statements (i.e., income statement, cash flow statement, and balance sheet) including projections for two years
4. Current Cash Balance
5. Burn Rate
6. Estimated months of cash on hand
7. Next major milestone for this company
8. Justification for the latest valuation based on SBA Regulations
9. History of financing rounds and valuations (pre-money and post-money), including the dates and amounts of investments by the SBIC
10. Follow- on rounds of financing required by the portfolio company and the impact of pricing on the values of existing investments
11. A list of other significant investors in the portfolio company and an assessment of their ability and desire to provide additional financing to the company
12. Anticipated exit options, timing, values and proceeds to the licensee
13. Changes in portfolio company management
14. Litigation, or adverse legal or regulatory decisions and/or proposals

II. SBIC's Financial Position

A review of the financial position of the SBIC is required using the most current data available. Specific comments are requested on:

1. Current cash balance and available liquid assets
2. Expense structure of the SBIC, especially the components of the management fee (e.g., rent, overhead, etc.)

3. Unfunded commitments from Private Limited Partners
4. Review of current Capital Impairment calculation, including:
    a. Calculation as of the most recent fiscal quarter
    b. Details of Class 1 and Class 2 Appreciation
    c. Expectations of changes in Capital Impairment over the next 12 months
5. All commitments made by the SBIC to invest in portfolio companies, including estimated dates of funding.
6. A three year forecast of the operations and financial position of the SBIC, tied to the Form 468.[2[2]]

III. Post-Portfolio Review Meeting Activities

The financial analyst responsible for oversight of the SBIC will present the data and analysis in summary form to decision-makers, including:

1. Age of fund
2. Adherence to business plan
3. Percent of capital drawn down
4. Cumulative returns to date on all related funds
5. GP's investment in the fund
6. Portfolio company-specific information
    a. Valuation & exit potential
    b. Cash burn rate
    c. Quality of co-investors (syndicate)
7. Fund recapitalization prospects
8. Regulatory compliance
9. Risk Rating worksheet (including trends)
10. Capital Impairment worksheet (including trends)

[2[2]] The forecast should reflect the anticipated amounts and timing of exits described above. For Participating Securities licensees, the forecast should reflect the distribution regulations and include, as applicable, accumulated prioritized payments balances, payments of prioritized payments, profit participation, redemption of leverage, and distributions to limited partners. For Debenture licensees, the forecast should include a schedule of debenture interest payments and debenture redemptions, including any planned prepayment of debentures. A Form 468 balance sheet should be prepared as of the end of each year of the three-year forecast period.

APPENDIX A:
RISK ASSESSMENT MODEL

PARTICIPATING SECURITIES WORKSHEET

LICENSEE: Licensee No.:
Prepared By: Report Date:

Section I: Trigger Points Help? **Check if Yes**

1 Does Licensee have Excessive Realized Losses (UNRE>=100% of RC)? ☐
2 Do serious Regulatory violations exist? ☐
3 Does Licensee have a Capital Impairment percentage of 100% or more? ☐

Section II: Risk Rating Factors Help?

Part A: Maturity Classification Help? ◉ Immature ○ Mature

Part B: Risk Rating Factors

				Max Pts	Actual Pts.
1 Capital Impairment	Help?	CI Worksheet		40	0
Enter Licensee's Capital Impairment		0.0%			
Enter Permissible Impairment		85.0%			
2 Adherence to Business Plan	Help?	Enter 0 or 20 in box		20	0
3 Prioritized Payments	Help?			10	0
Enter Prioritized Payments balance		-	Ratio		
Enter Regulatory Capital		20,000,000	0.0%		
4 Valuations	Help?			10	0
Non-compliance with Valuation Policy		☐			
Fair value calculation					
Value of Investments + cash		20,000,000	Ratio		
Outstanding Leverage + Prioritized Payments		10,000,000	2.00		
5 Management/Internal Controls	Help?			10	0
a Major change in management?	Check if Yes	☐			
b If No to 5a, select value		0			
Liquidity	Help?			10	0
Number of investments		12	Ratio		
Investments requiring financing in next 12 mos		2	16.7%		
Total Points				100	0

DEBENTURE WORKSHEET

LICENSEE		License No.:	
Prepared By:		Report Date:	

Section I: Trigger Points

Help?

	Check if Yes
1 Does Licensee have Excessive Realized Losses (UNRE>=100% of RC)?	☐
2 Do serious Regulatory violations exist?	☐
3 Does Licensee have a condition of Capital Impairment?	☐

Section II: Risk Rating Factors

Help?

Part A: Maturity Classification Help? (◉) Immature ( ) Mature

Part B: Risk Rating Factors				Max Pts	Actual Pts.
1 **Capital Impairment**	Help?	CI Worksheet		40	0
Enter Licensee's Capital Impairment		0.0%			
Enter Permissible Impairment		0.0%			
2 **Adherence to Business Plan**	Help?	Enter 0 or 20 in box		20	0
3 **Fixed Charge Coverage**	Help?			10	0
a Gross investment Income		500,000	Ratios		
b Annual Interest on SBA Debentures		200,000	2.50 a/b		
c Management Fees		150,000	1.43 a/(b+c)		
4 **Valuations**	Help?			10	0
Non-compliance with Valuation Policy		☐			
Fair value calculation					
Value of Investments + cash		12,500,000	Ratio		
Total Debentures Outstanding		10,000,000	1.25		
5 **Management/Internal Controls**	Help?			10	0
a Major change in management?	Check if Yes	☐			
b If No to 5a, select value		0			
6 **Liquidity**	Help?			10	0
Number of investments		15	Ratio		
Investments requiring financing in next 12 mos		3	20.0%		
Total Points				100	0

EXPLANATION OF RISK RATING FACTORS

This Appendix describes the risk model factors and calculations of the various factor components. Individual factor points and risk rating scale are presented in the tables at the end of this section.

TRIGGER POINTS identify critical aspects of an SBIC's operations that automatically qualify a Licensee for Intensive oversight. The Risk Assessment Model currently uses three trigger points: Excessive Realized Losses, Serious Regulatory Violations, and Capital Impairment.

1. Excessive Realized Losses means an Undistributed Net Realized Earnings deficit equal to or greater than 100% of Regulatory Capital. This calculation excludes the impact of any Unrealized Gain or Loss. Any permanently impaired asset that has not been written off should be added to Realized Losses when calculating Excessive Realized Losses.

2. Serious Regulatory violations include, but are not limited to, Conflicts of Interest, unapproved Overline investments or transfers of control, and use of fund assets for ineligible purposes. A pattern of repeated regulatory abuses could also qualify as a trigger.

3. **(a)** For Participating Securities issuers: Licensees that have a Capital Impairment percentage of 100% or more, regardless of the age of the fund.

   (b) For Debenture issuers: Licensees that have a condition of Capital Impairment under SBA regulations.

RISK FACTORS are individual elements used to determine an SBIC's Risk Rating. Points are assigned based on an analysis of the individual factors, then summed to determine the overall risk score.

1. **Fund Maturity:** The worksheet weights several factors differently depending on the maturity of a fund. SBA classifies a fund as mature at the earliest of (a) the new investment phase is complete, (b) total investments at cost (including the cost of assets sold and written-off) equal or exceed 65% of Combined Capital

plus outstanding SBA commitments, or (c) a Licensee's partnership agreement prohibits new investments or allows fund managers to begin raising a new fund. The Risk Model eliminates the Adherence to Business Plan factor for a mature fund because this factor becomes less important once a Licensee completes the new investment phase. These points are assigned to Capital Impairment and Valuations for a Participating Securities Licensee, and to Fixed Charge Coverage and Valuations for a Debenture Licensee.

2. **Capital Impairment:** Points are assigned based on the ratio of a Licensee's Capital Impairment (see Sections 107.1830 thru 107.1850) to its Permissible Impairment. A fund scores the maximum points if the ratio exceeds 1. A ratio less than 1 is multiplied by the appropriate maximum point level for this factor based on fund maturity and type of Licensee.

3. **Adherence to business plan (Immature funds only):** A Licensee receives either 0 or 20 points during the new investment phase based on its adherence to the business plan presented at the time of Licensing or to any SBA approved changes. Business plan components such as investment pace, target industries, mix of debt and equity, stage of investments, and other relevant factors are assessed. Material deviations from the Licensee's business plan result in the maximum points.

4. **Accumulated Prioritized Payments (Participating Securities issuers only):** Interest payments made by SBA on behalf of Licensees to the Trust Certificate holders represent actual cash outlays that expose the Agency to loss. The factor uses the ratio of a Licensee's Prioritized Payments balance to Regulatory Capital. A ratio of .5 or more earns the maximum points. For a ratio below .5, divide by .5 and multiply the result by 10.

5. **Fixed Coverage Charge (Debenture SBICs only):** A Debenture Licensee should generate current cash income to cover fixed charges.

a. $$\frac{\text{Gross Investment Income}}{\text{Total interest on SBA Debentures}}$$

Scale: Immature fund: <1 = 5 points
Mature Fund: <1 = 10 points; 1.0-2.0 = 5 points, >2.0 = 0

b. $$\frac{\text{Gross Investment Income}}{\text{Total interest on SBA Debentures + Management Fees}}$$

Scale: Immature fund: <1 = 5 points; Mature Fund <1 = 10 points

6. **Valuations:** The first subcomponent is worth 5 points and the second scores either 5 points for an immature fund or 15 points for a mature fund.

   a. **Non-compliance with SBA's Valuation Guidelines**: A Licensee receives 5 points for failure to maintain valuations in accordance with SBA's valuation policy or for an outstanding Examination violation citing the Licensee for not following its valuation policy.

   b. **Breakeven ratio**: For an Immature fund, a ratio above 1.0 scores no points while a ratio below 1.0 scores the maximum points. For a Mature fund, a ratio > 2.0 = 0 points, 1.5-2.0 = 5 points, 1.0-1.49=10 points, and below 1.0 scores the maximum 15 points.

   Participating Securities breakeven calculation:

$$\frac{\text{Value of loans and investments (as reported on Form 468) + Cash}}{\text{Outstanding Leverage + Accumulated Prioritized Payments}}$$

   Debenture breakeven calculation:

$$\frac{\text{Value of loans and investments (as reported on Form 468) + Cash}}{\text{Total Debentures Outstanding}}$$

7. **Fund Management & Internal Controls:** If the original management team at the time of licensing remains unchanged, then this factor rates zero points unless other problems exist with the management of the Licensee. A Licensee operated by a single Principal or one that has experienced a major change in the management team receives the maximum points. Other factors considered in the assessment include the experience and track record of management, depth and stability of the team, quality and use of internal controls, Regulatory compliance

history, and an active board of advisors. Based on a review and assessment of all relevant factors, a Licensee is assigned 0, 5, or 10 points.

8. **Liquidity:** This factor assesses the level of financing risk within the portfolio. If more than 30% of a Licensee's investments will require funding within the next 12 months, the Licensee receives 10 points. Funding requirements include investments to support operating losses & working capital, as well as financings for growth and expansion activities. SBA will also evaluate a Licensee's ability to support portfolio company investment requirements and the ability of a small concern to access funding from other investors and bank lines of credit.

FACTOR POINT SCALE

Risk Assessment Factors	Participating Securities		Debentures	
	Immature	Mature	Immature	Mature
1. **Capital Impairment**	**40**	**50**	**40**	**40**
2. **Adherence to Business Plan**	**20**	**0**	**20**	**0**
3. **Accumulated Prioritized Payments**	**10**	**10**	N/a	N/a
4. **Fixed Charge Coverage**	N/a	N/a	**10**	**20**
1. Investment income/SBA interest	----	----	5	10
2. Investment income/(Interest + Management Fees)	----	----	5	10
5. **Valuations**	**10**	**20**	**10**	**20**
1. Non-compliance with Valuation policy	5	5	5	5
2. Breakeven ratio	5	15	5	15
6. **Management/Internal Controls**	**10**	**10**	**10**	**10**
7. **Liquidity**	**10**	**10**	**10**	**10**
Total Points	**100**	**100**	**100**	**100**

RISK RATING SCALE

Risk Rating Points	Level of Oversight
0-40	Normal
41-64	Enhanced
65 or higher	Intensive