



**U.S. SMALL BUSINESS ADMINISTRATION**  
WASHINGTON, D.C. 20416

DATE: September 1, 2004

TO: All SBIC Applicants and Other Interested Parties

THROUGH: Ronald E. Bew  
Associate Deputy Administrator, Office of Capital Access

FROM: Jeffrey D. Pierson  
Associate Administrator for Investment

SUBJECT: Memorandum #2004-6  
Improvements to Management Assessment Questionnaire (MAQ) and SBIC License Application

### **Introduction**

If you have ever applied for or expressed an interest in receiving an SBIC license, you will appreciate the importance of the Management Assessment Questionnaire (MAQ) in guiding prospective management teams through the structure and dynamics of their proposed fund. The MAQ is a key component of the SBIC screening and licensing process, and, in the SBA's view, is one of the most comprehensive due diligence documents in the U.S. private equity industry.

As part of the Investment Division's drive to improve its business operations, we are pleased to announce some important changes to the MAQ. First, the MAQ has been integrated with the SBIC license application, so that applicants do not need to rearrange and repeat information as they move from the MAQ stage to the formal license application stage. Second, the SBA is introducing a new Exhibit F for the purposes of presenting, evaluating, and tracking Principals' investment experience (see below).

Users should also be aware of certain small but important changes, such as the requirement that Exhibit D (the Legal Proceedings Questionnaire) be signed when submitted as part of the MAQ. Users will also notice that a number of the key Exhibits submitted with a formal license application, such as the Capital Certificate, have been reformatted for ease of use.

The revised MAQ and license application have been approved by the Office of Management and Budget (OMB) and must be used for all MAQs and license applications submitted after September 30, 2004.

Copies of the new MAQ and license application are available by contacting the SBA Investment Division's Office of Business Development via e-mail at [sbic@sba.gov](mailto:sbic@sba.gov).

## Description of Improvements

1. Fund Manager Attribution. The MAQ will better address the question of fund manager “attribution” through the creation of new classifications under Exhibit F. Four different categories of funds will be created:
  - a. **Complete Fund**: To document experience of a Principal over the entire life of a fund, the “Complete Fund” category calculates overall fund performance, based on actual fund takedowns, distributions, and residual value. Calculations include IRR, distributions to paid-in capital (DPI), and residual value to paid-in capital. Based on the fund’s vintage year, the SBA will link performance history with comparative benchmark information available from published sources.
  - b. **Partial Fund**: To document experience of a Principal who either started late or left early in a fund’s life, the “Partial Fund” category compares the fund at the time each Principal joined the firm, including a review of performance both during and after the Principal’s tenure. Distributions to paid-in capital and residual value to paid-in capital are automatically calculated, allowing the SBA to understand more precisely what value such Principal contributed while at the fund.
  - c. **Synthesized Fund**: To document qualified “one-off” transactions forming part of a team’s track record, the “Synthesized Fund” category calculates management fees, takedowns, distributions, and carried interest, using standard assumptions. The applicant may elect to override these numbers, as appropriate.
  - d. **Other Investments**: This category documents transactions that do not otherwise fall under any of the above categories.

2. User-Friendly Features. Exhibit F of the MAQ will include pull-down menus, embedded help, and a level of error checking – providing greater assistance to applicants. Here is an example:

**Table F2.2 (a) Portfolio Data**  
**SBIC Applicant/Principal: New Ventures II; Tim Johnson, Mary Smith**  
 Number of Investments: 4

Company Name	Age of Company (Yrs)	Expansion	Company's Offices	Primary Industry	Description of Products/Services	Lead Investor?
Company A	1	Expansion	Kentucky	Computer Software	Proprietary Software	
Company B	1	Expansion	Massachusetts	Consumer Related	Biotech Infrastructure	
Company C	2	Expansion	Ohio	Medical/Health	Pain Management Services	
Company B	5	Expansion	New York	Transportation	Helicopter rides	
Company E	5	Expansion	Massachusetts	Transportation		

Annotations:

- Error Message:** "You have exceeded your number of investments."
- Embedded Help:** "Enter the age of the company in years at the time of initial investment."
- Next Step Link:** "Next Step" button.
- Link to Instructions Worksheet:** Green bar at the top.
- Yellow indicates fields to fill in.** Points to the table rows.
- All down menus:** Points to the dropdown menus in the table.
- Error indicator:** Red triangle in the table.

3. Automatically Generated Performance Reports. Until now, Exhibit F of the MAQ has been a valuable yet underutilized tool for evaluating *and tracking* the investment experience of prospective SBIC fund managers. The new improvements will make it easier for SBA analysts to evaluate and benchmark funds according to stage of investment and industry focus – linking data to standard industry benchmarks. Analytical reports will be created and used over the life of a particular fund manager’s or team’s experience in the SBIC program. As a result, we expect a considerable reduction in time and expense both in evaluating applications and monitoring performance of licensed SBICs.

Based on a single set of investment inputs, these automatically generated reports will calculate gross financing and net fund statistics, providing performance graphics, including:

- Portfolio Investments By Financial Performance (benchmarked to industry)
- Portfolio Companies By Region
- Portfolio Investments By Distributions (company-specific cost, proceeds, and gains/losses to fund)
- Portfolio Investments By Industry (sector-specific cost, proceeds and gains/losses to fund)
- Portfolio Investments By Stage (seed, early, later, expansion, change of control, turnaround)
- Portfolio Investments By Fund Lead Status (sole investor, syndicate lead, co-lead, or participant)

These new features will be added to Exhibit F using nearly identical information currently required from SBIC applicants.

Graphic examples of the analytical reports that the SBA will create from the input forms are shown below. Note: Both the names and companies are fictitious; any resemblance to an actual company or person is unintentional.

## Examples of Automatically Generated Statistics Reports

Table F2.4 (a) Portfolio Summary												
SBIC Applicant/Principal: New Ventures II; Tom Johnson, Mary Smith												
Number of Investments: 20 <span style="float: right;">\$2,000</span>												
Portfolio Company Over Gains (Loss)			Performance Metrics based on Current Values									
Company	Total		IRR	Residual Value to Residual Cost	Distributions to Total Cost	Residual Value to Total Cost	Total Value to Cost Multiple	Year of Initial Investment	Last Year Exited	Projected year to Exit	Years to Exit	
<b>TOTALS</b>	<b>\$ 49,277,000</b>		<b>Gross Pool</b>	<b>68.6%</b>	<b>1.04</b>	<b>2.33</b>	<b>0.55</b>	<b>2.87</b>	<b>1995</b>	<b>2003</b>	<b>2006</b>	<b>11.00</b>
			<b>Average</b>	<b>47.7%</b>	<b>0.40</b>	<b>2.94</b>	<b>0.40</b>	<b>3.34</b>	<b>1998</b>	<b>2000</b>	<b>801.7</b>	<b>4.05</b>
			<b>Cpt Wgt Avg</b>	<b>46.5%</b>	<b>0.55</b>	<b>2.33</b>	<b>0.55</b>	<b>2.87</b>				<b>4.42</b>
			<b>Median</b>	<b>3.5%</b>	<b>0.00</b>	<b>0.10</b>	<b>0.00</b>	<b>1.18</b>	<b>1998</b>	<b>2000</b>	<b>0</b>	<b>3.00</b>
Software Data, Inc.	\$ 9,250,000	Above	137%	-	5.63	-	5.63	1998	2000	0	2	
Bio-tech R US, Inc.	\$ 3,300,000	Above	68%	-	3.75	-	3.75	2000	2003	0	3	
Wireless Products, Inc.	\$ -	Flat	0%	1.00	-	1.00	1.00	1995		2006	11	
Computer Services Online	\$ (500,000)	Loss	-9%	0.80	-	0.80	0.80	1999		2003	4	
S - Computer Corporation	\$ 727,000	Above	8%	1.36	-	1.36	1.36	1999		2005	6	
ABC Software, Inc.	\$ 6,600,000	Above	186%	-	3.75	-	3.75	1996	1998	0	2	
XYZ Computer Corporati	\$ -	Flat	0%	1.00	-	1.00	1.00	1995		2004	9	
Furniture Plus, Inc.	\$ (1,050,000)	Loss	-81%	-	0.19	-	0.19	1997	1998	0	1	
A-Infrastructure Corporati	\$ 3,500,000	Above	112%	-	4.50	-	4.50	1998	2000	0	2	
ZYX Computer, Inc.	\$ 3,650,000	Above	334%	-	7.64	-	7.64	1999	2001	0	2	
mautechnology, Inc.	\$ -	Flat	0%	1.00	-	1.00	1.00	2001		2004	3	
DRE Computer, Inc.	\$ 22,500,000	Above	385%	-	23.50	-	23.50	1996	1998	0	2	
BCR Software, Inc.	\$ 600,000	Above	27%	-	2.60	-	2.60	1995	1999	0	4	
technologylocation.com, Ir	\$ 2,400,000	Above	91%	-	7.00	-	7.00	1999	2002	0	3	
Gold Microsystems, Inc.	\$ (375,000)	Loss	-75%	0.25	-	0.25	0.25	2002		2003	1	
Discovery Medical, Inc.	\$ (1,000,000)	Total Loss	-100%	-	-	-	-	2001	2003	0	2	
CBA Software Corporation	\$ 750,000	Above	7%	1.50	-	1.50	1.50	1997		2005	8	
CIO Wireless Corporation	\$ -	Flat	0%	1.00	-	1.00	1.00	1996		2004	8	
XYZ Software, Inc.	\$ (750,000)	Loss	-37%	-	0.25	-	0.25	1995	1998	0	3	
ABC.com, Inc.	\$ (325,000)	Total Loss	-100%	-	-	-	-	1997	2002	0	5	

## Table F2.4 (b) Portfolio Financing Statistics

SBIC Applicant/Principal: New Ventures II; Tom Johnson, Mary Smith

### Gross Financing/Investment Statistics (Before Expenses)

Number of Portfolio Companies	20
Number of Financings	28
Total Cost of Investments	\$ 26,325,000

### Distribution of Individual Financings by Dollar Size

	From	To	Total Financing Dollars	% of Financing Dollars	Number of Financings	% of Financings
1	\$ 100,000	\$ 393,750	\$ 1,175,000	4%	7	25%
2	\$ 393,751	\$ 587,500	\$ 3,175,000	12%	7	25%
3	\$ 587,501	\$ 1,075,000	\$ 6,175,000	23%	7	25%
4	\$ 1,075,001	\$ 5,000,000	\$ 15,800,000	60%	7	25%
	<b>Total</b>		\$ 26,325,000	100%	28	100%

Median Financing Size \$ 587,500      Maximum \$ 5,000,000      Smallest \$ 100,000

### Distribution of Company Financings by Dollar Size

	From	To	Total Financing Dollars	% of Financing Dollars	Number of Companies	% of Companies
1	\$ 100,000	\$ 537,500	\$ 1,700,000	6%	5	25%
2	\$ 537,501	\$ 1,000,000	\$ 5,550,000	21%	6	30%
3	\$ 1,000,001	\$ 1,625,000	\$ 5,175,000	20%	4	20%
4	\$ 1,625,001	\$ 5,000,000	\$ 13,900,000	53%	5	25%
	<b>Total</b>		\$ 26,325,000	100%	20	100%

Median Company Financing Size \$ 1,000,000      Maximum \$ 5,000,000      Smallest \$ 100,000

### Distribution of Exit Mechanisms Utilized

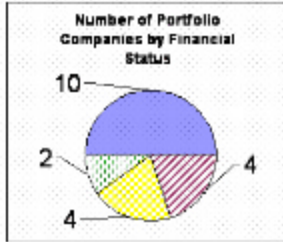
	Exit Mechanism	Total Financing Dollars (Cost)	% of Financing Dollars	Number of Exit Events	% of Exits	Total Proceeds	% of Proceeds
1	Sale	\$ 3,750,000	30%	4	33%	\$13,450,000	22%
2	IPO	\$ 3,000,000	24%	2	17%	\$34,750,000	57%
3	Merger/Acquisition	\$ 2,800,000	22%	2	17%	\$11,800,000	19%
4	Write-off	\$ 1,325,000	11%	2	17%	\$ -	0%
5	Distress	\$ 1,300,000	10%	1	8%	\$ 250,000	0%
6	Recap	\$ 375,000	3%	1	8%	\$ 975,000	2%
7	MBO (including ESOPs)	\$ -	0%	0	0%	\$ -	0%
8	Loan Repayment	\$ -	0%	0	0%	\$ -	0%
	<b>Total</b>	\$ 12,550,000	100%	12	100%	\$61,225,000	100%

**Table F2.4 (d) Graphics**

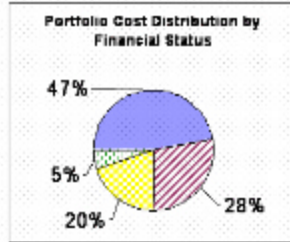
SBIC Applicant/Principal: New Ventures II; Tom Johnson, Mary Smith

**PORTFOLIO INVESTMENTS BY FINANCIAL STATUS**

Total Number of Investments 20



Total Financing Costs to Date \$ 26,325,000

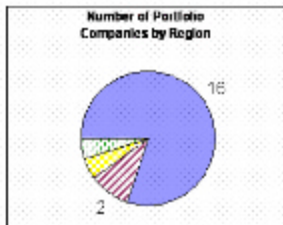


Financial Status	Total Financing Dollars	% of Financing Dollars	Number of Companies	% of Companies
Above	\$ 12,275,000	47.2%	10	50.0%
Flat	\$ 7,275,000	27.6%	4	20.0%
Loss	\$ 5,300,000	20.1%	4	20.0%
Total Loss	\$ 1,325,000	5.0%	2	10.0%
	\$ 26,325,000	100%	20	100%

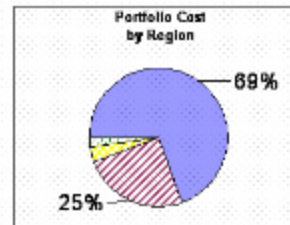


**PORTFOLIO COMPANIES BY REGION**

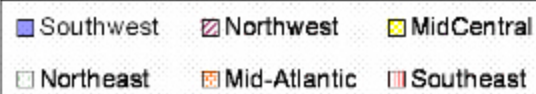
Total Number of Investments 20



Total Financing Costs to Date \$ 26,325,000



Region	Total Financing Dollars	% of Financing Dollars	Number of Companies	% of Companies
Southwest	\$ 18,275,000	69.4%	16	80.0%
Northwest	\$ 6,500,000	24.7%	2	10.0%
Mid-Central	\$ 1,000,000	3.8%	1	5.0%
Northeast	\$ 550,000	2.1%	1	5.0%
Mid-Atlantic	\$ -	0.0%	0	0.0%
Southeast	\$ -	0.0%	0	0.0%
	\$ 26,325,000	100%	20	100%

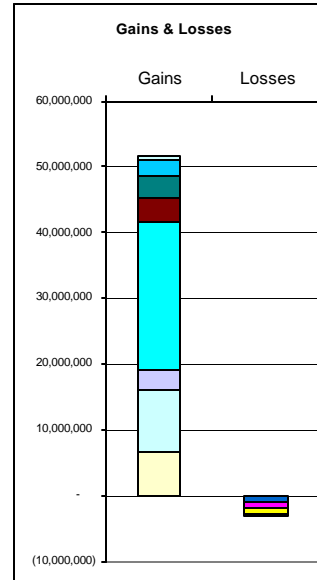
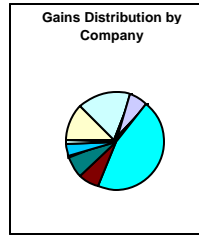
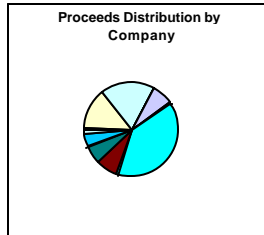
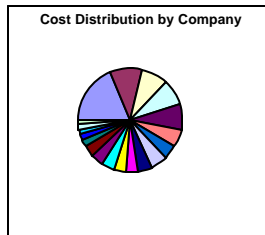


**PORTFOLIO INVESTMENTS BY COMPANY**

Total Financing Costs to Date \$ 26,325,000

Total Proceeds \$ 61,225,000

Total Realized Gains (Losses) \$ 48,675,000



Legend of top 14 companies by cost.

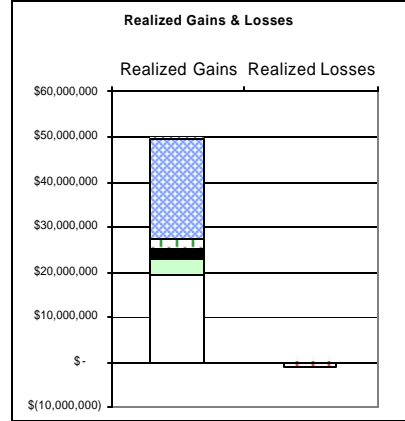
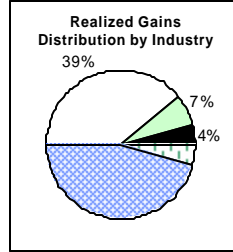
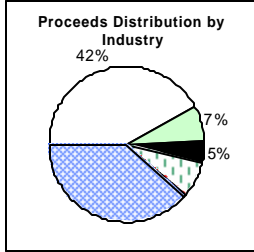
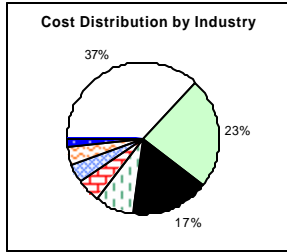
- |                            |                                  |
|----------------------------|----------------------------------|
| ■ CIO Wireless Corporation | ■ Computer Services Online, Inc. |
| ■ ABC Software, Inc.       | ■ Software Data, Inc.            |
| ■ S - Computer Corporation | ■ CBA Software Corporation       |
| ■ Furniture Plus, Inc.     | ■ Bio-tech R US, Inc.            |
| ■ mauitechnology, Inc.     | ■ XYZ Software, Inc.             |
| ■ Discovery Medical, Inc.  | ■ DRE Computer, Inc.             |
| ■ XYZ Computer Corporation | ■ A-Infrastructure Corporation   |

**PORTFOLIO INVESTMENTS BY INDUSTRY**

Total Financing Costs to Date \$ 26,325,000

Total Proceeds \$ 61,225,000

Total Realized Gains (Losses) \$ 48,675,000

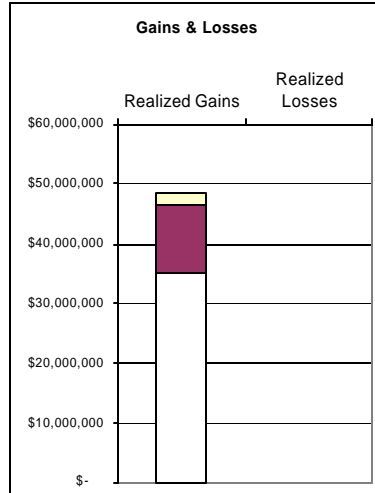
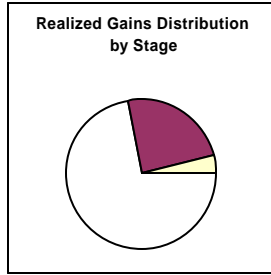
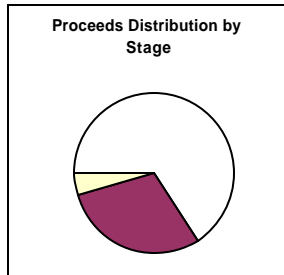
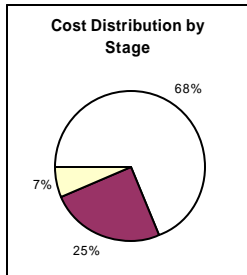


- Computer Software
- Internet Specific
- Manufacturing
- Computer Other
- Medical/Health
- Industrial/Energy
- Financial Services
- Agriculture/Forestry/Fishing
- Utilities
- Communications and Media
- Biotechnology
- Computer Hardware
- Semi-conductors/Other Electr.
- Consumer Related
- Transportation
- Business Services
- Construction
- Other

**Top 10 Industries**

Industry	Total Financing Dollars	Proceeds (\$)	Realized Gains (Losses)
Computer Software	\$ 9,825,000	\$25,675,000	\$19,350,000
Communications and Media	\$ 6,100,000	\$ 4,500,000	\$ 3,500,000
Internet Specific	\$ 4,400,000	\$ 2,800,000	\$ 2,075,000
Biotechnology	\$ 2,200,000	\$ 4,500,000	\$ 2,300,000
Manufacturing	\$ 1,300,000	\$ 250,000	\$ (1,050,000)
Computer Hardware	\$ 1,000,000	\$23,500,000	\$22,500,000
Computer Other	\$ 1,000,000	\$ -	\$ -
Semi-conductors/Other Electr.	\$ 500,000	\$ -	\$ -
Medical/Health	\$ -	\$ -	\$ -
Consumer Related	\$ -	\$ -	\$ -

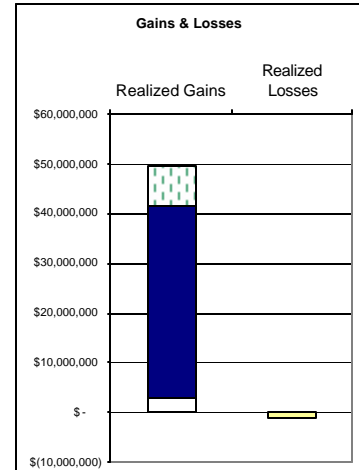
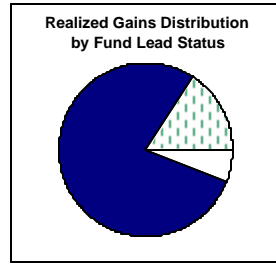
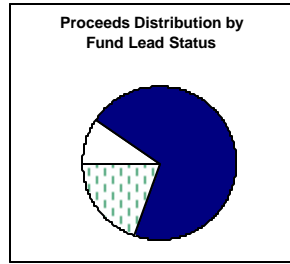
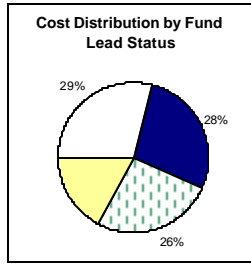
**PORTFOLIO INVESTMENTS BY STAGE**



- Expansion
- Seed
- Change of Control
- Early
- Later
- Turn Around



**PORTFOLIO INVESTMENTS BY FUND LEAD STATUS**



Legend of Stages

<input type="checkbox"/> Sole VC Investor	<input checked="" type="checkbox"/> Syndicate Lead
<input checked="" type="checkbox"/> Syndicate Participant	<input type="checkbox"/> Syndicate Co-Lead

Table F2.4(e) - Overall Fund Statistics

SBIC Applicant/Principal: New Ventures II; Tom Johnson, Mary Smith

As of Date: 9/2003

Number of Investments: 20

**FUND SUMMARY STATISTICS**

**Net Financing/Investment Statistics (After Management Expenses)**

Total Takedowns/Paid-In Capital	\$ 32,330,391
Total Distributions (After Carry)	\$ 54,585,852
Total Residual Value	\$ <u>14,846,375</u>
Distributions + Residual - Take-downs	\$ 37,101,836

Net IRR (Includes Residual Value)	41.1%
Distributions to Paid In Capital	1.69
Residual Value to Paid in Capital	0.46
Total Value to Paid in Capital	2.15
Vintage Year of Fund	1995
Age of Fund (Years After Start or until closed)	9
Years to Payback	3

**Total Management Fees and Carry**

Management Fees	\$ 5,851,875
Carried Interest	\$ 5,563,865
Residual Value Carry	\$ -
Total	\$ <u>11,415,740</u>

**Principal's Activity**

**Pre-Investment**

Deal Lead	8
Deal Co-Lead	2
Deal Source	9
Financial Analysis	4
Market Research	3
Lead Due Diligence	4
Investment Committee	20
Negotiation	9
Closing	9

**Post-Investment**

Top Ranking Officer Replaced	3
Board of Directors	10
Committees	6
Exit Process	5
Workouts, etc..	2
Officer of the company	2