

Appendix A – Glossary of Terms

<u>Term</u>	<u>Definition for Purposes of This Report</u>
Business Plan	Document which describes a company's plans, normally addressing products/services offered, market and competition, operations, management team, past and projected financials, and exit strategies. This document is usually used to help raise capital for the company.
Capital Call	Event in which a venture/SBIC fund requests that its investors fund some or all of their capital commitments.
Capital Structure	A company's mix of different securities, including loans, debt securities, and equity securities.
Carry / Carried Interest	Share of a venture/SBIC fund's profit that goes to the general partners/managers of the fund, providing an incentive for the managers.
Commitments / Committed Capital	Capital committed by investors to a venture/SBIC fund indicating the maximum amount the fund may draw down from the investor.
Debentures	Debt obligations issued by Licensees pursuant to section 303(a) of the Act and held or guaranteed by SBA.
Debt Security	A financing agreement/security that includes both equity and debt features (e.g., loan with warrants or convertible debt)
Disbursement	Leverage actually disbursed by the SBIC program.
Distribution	Any transfer of cash or non-cash assets to SBA, its agent or Trustee, or to partners in a Partnership Licensee, or to shareholders in a Corporate Licensee. Capitalization of Retained Earnings Available for Distribution constitutes a Distribution to the Licensee's non-SBA partners or shareholders.
Due Diligence	The process by which a potential investor investigates, examines, and verifies a business and its management prior to investment.
Equity Security	Stock of any class in a corporation, stock options, warrants, limited partnership interests in a limited partnership, membership interests in a limited liability company, or joint venture interests.

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Exit Strategy	How a company intends to provide liquidity to its investors. This may sometimes be accomplished through an initial public offering or a sale to a strategic buyer.
J-Curve	Refers to venture capital's typical investment cycle in which returns tend to be negative for a few years at the beginning of a fund's investment cycle before eventually rising through investment gains both realized and unrealized.
Leverage	Financial assistance provided to a Licensee by SBA, either through the purchase or guaranty of a Licensee's Debentures or Participating Securities, or the purchase of a Licensee's Preferred Securities, and any other SBA financial assistance evidenced by a security of the Licensee.
Limited Partnership	A partnership consisting of one or more general partners and one or more limited partners. Limited partners normally provide the financing of the partnership with little responsibility in terms of management or personal liability. General partners are responsible for managing the entity with liability for its debts. Approximately two-thirds of SBICs are organized as limited partnerships.
LMI Zone	Any area located within a HUBZone (as defined in 13 CFR 126.103), an Urban Empowerment Zone or Urban Enterprise Community (as designated by the Secretary of the Department of Housing and Urban Development), a Rural Empowerment Zone or Rural Enterprise Community (as designated by the Secretary of the Department of Agriculture), an area of Low Income or Moderate Income (as recognized by the Federal Financial Institutions Examination Council), or a county with Persistent Poverty (as classified by the Economic Research Service of the Department of Agriculture).
Loan	A transaction evidenced by a debt instrument with no provision for the licensee to acquire Equity Securities.
Management Assessment Questionnaire	SBA evaluation form with a series of structured questions concerning management's plans for the prospective SBIC and the detailed experience and qualifications of the management team.
Management fees	Usually an annual charge paid to the managers of the venture/SBIC fund for the fund's operations.
NASBIC	National Association of Small Business Investment Corporations. Professional association of Small Business Investment Companies (SBIC) and other venture capitalists.
Paid-in Capital	The amount of capital that private investors have actually paid into the fund.

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Participating Securities	Preferred stock, preferred limited partnership interests, or similar instruments issued by licensees, including debentures having interest payable only to the extent of earnings, all of which are subject to the terms set forth in 13 CFR Secs. 107.1500 through 107.1590 and section 303(g) of the Act.
Portfolio Company/Concern	Company to which a venture/SBIC fund has provided financial assistance.
Prioritized Payments	A cumulative preferred return on participating securities, which is contingent upon the profitability of the SBIC and which is passed through to the certificate holders. The SBA advances prioritized payments to certificate holders and is repaid when SBICs are profitable.
Private Capital	The contributed capital of a licensee, plus unfunded binding commitments by Institutional Investors (including commitments evidenced by a promissory note) to contribute capital to a licensee.
Profit Participation	Amount payable to SBA in consideration for SBA's guarantee of the SBICs' Participating Securities.
SBA Form 1031	Reports submitted by the SBICs containing financing information. For each Financing of a Small Business (excluding guarantees), licensees must submit a Portfolio Financing Report on SBA Form 1031 within 30 days of the closing date.
SBA Form 468	Reports submitted by the SBICs, containing financial and supplementary information on the SBIC. Forms are required to be submitted annually, but may be requested by the SBA more frequently.
Seed/Start-Up	Seed/Start-Up Stage ⁴⁴ : The initial stage. The company has a concept or product under development, but is probably not fully operational. Usually in existence less than 18 months.
Stage	Indicates the stage in development of a company. The following definitions are taken from the PriceWaterhouseCooper (PWC) MoneyTree website (www.pwcMoneyTree.com): Seed/Start-Up Stage: The initial stage. The company has a concept or product under development, but is probably not fully operational. Usually in existence less than 18 months.

⁴⁴ Definition taken from the PriceWaterhouseCooper (PWC) MoneyTree website (www.pwcMoneyTree.com):

Term**Definition for Purposes of This Report**

Early Stage: The company has a product or service in testing or pilot production. In some cases, the product may be commercially available. May or may not be generating revenues. Usually in business less than three years.

Expansion Stage: Product or service is in production and commercially available. The company demonstrates significant revenue growth, but may or may not be showing a profit. Usually in business more than three years.

Later Stage: Product or service is widely available. Company is generating on-going revenue; probably positive cash flow. More likely to be, but not necessarily profitable. May include spin-outs of operating divisions of existing private companies and established private companies.

Surrender

Action by SBIC licensee to return its license to the SBA. An SBIC may not surrender its license without SBA's prior written approval.

Valuation

The value of a company/business. In private equity, valuations are normally determined based on financings by a sophisticated investor with no prior relationships with the company. All SBICs are required to have valuation guidelines to reassess company valuations at least annually.

Vintage Year

Usually indicates the year the first investment or capital call was made for the fund.