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A SPOTLIGHT ON SMALL BUSINESS INVESTMENT COMPANIES AND THEIR ROLE IN THE ENTREPRENEURSHIP ECOSYSTEM

ROUNDTABLE

BEFORE THE

COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

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A SPOTLIGHT ON SMALL BUSINESS INVESTMENT COMPANIES AND THEIR ROLE IN THE ENTREPRENEURSHIP ECOSYSTEM

THURSDAY, MARCH 22, 2012

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The Committee met in a roundtable discussion, pursuant to notice, at 10:09 a.m., in Room SD–428A, Russell Senate Office Building, Hon. Mary L. Landrieu, Chair of the Committee, presiding.

Present: Senators Landrieu and Moran.

Staff Also Present: Jelena McWilliams, Kevin Wheeler, and David Gillers.

OPENING STATEMENT OF HON. MARY L. LANDRIEU, CHAIR, AND A U.S. SENATOR FROM LOUISIANA

Chair LANDRIEU. Good morning, everyone, and welcome to our roundtable on SBICs. We have looked forward to this morning now for weeks as we set the agenda for this year, and I thank all of you. I understand there were some travel situations with fog or weather and I think we are missing one or two of our invitees. But I welcome you to this roundtable.

The difference, of course, is that this is not as formal as a hearing. We really want there to be a good bit of exchange over the next hour-and-a-half, potentially two hours, of this hearing, and I thank you all for making yourselves available.

I apologize for being a few minutes late. I had to add a meeting to my schedule this morning that we did not anticipate, and it went a little bit longer than anticipated.

I am going to begin with a short opening statement to set the tone for this roundtable, and then we will go through some instructions about how a roundtable usually works.

We have had over a dozen roundtables since I have been Chair. We find them to be extremely helpful in really understanding how programs work or how they do not work or what we can do to improve them, and it is all about this Committee's effort to be as helpful and supportive as possible to entrepreneurs in our country in a full range of ways, particularly giving them access to capital, which is the purpose of the SBICs.

Let me again thank you for joining us this morning. We will explore opportunities and policy options to build on the success of SBIC programs and increasing access to capital for small businesses and entrepreneurs. We have assembled here today experts representing investors, small business investment companies, small business owners, officials from the Department of the Treasury, and the SBA.

Today's discussion is the second in a series of three roundtables we are holding to discuss start-ups and high growth entrepreneurship. Our next roundtable on entrepreneurial ecosystems will be April 18th. We are bringing together a wide variety of experts, academics, policy experts, and state and local leaders who are leading the way in creating stronger entrepreneurial ecosystems in their cities, in their regions, and in our country.

Ultimately through these discussions, we will identify specific ideas and recommendations to be included in a comprehensive piece of legislation that we hope to move through Congress and that the President can sign.

As you all are well-aware, the Investment Company Act of 1958, or maybe you are not aware of this, which was signed into law by President Eisenhower, established the Small Business Investment Company Program. Not only was the bill signed by President Eisenhower, it was co-sponsored by a very illustrious group of Senators, including Lyndon Baines Johnson and Senator William Fulbright.

It was also the subject of a hearing in 1958 by the Senate Banking Committee's Subcommittee on Small Business. During the hearing, the Subcommittee Chairman Joseph S. Clark said the legislation is, " . . . necessary to increase the availability of long-term credit and equity capital for small businesses." He also said the Committee that approved the bill has pretty nearly the entire spectrum of opinion throughout the country with respect to the need for Federal assistance.

Under the SBIC program, the SBA licenses, regulates, and helps provide funds for privately owned and operated venture capital investment firms. SBICs are licensed and regulated by the SBA. They use their own private money plus money borrowed with an SBA guarantee. Typically they will borrow two dollars for every one dollar of private capital.

Since 1958, SBICs have invested $76 billion to over 100,000 small businesses. We have funded Apple, FedEx, Calloway Golf, Jenny Craig, and Outback Steakhouse, to name just a few. I want to mention two very successful SBICs that are joining us here today. One is Main Street Capital, from Houston, Texas. Will you all raise your hand?

They received the honor of SBIC of the Year in 2010. One of their recent small business investments, Gulf Manufacturing in Humble, Texas, is an industrial manufacturing company distributing across the country. Main Street Capital has invested over $500 million in more than 90 small businesses. Their companies employ more than 12,000 employees. So we are very interested in hearing more from you all today. We appreciate you all coming.

Gemini Investors, where are you sitting? Right next to them? Great. You were recognized as the SBIC of the Year in 2009. One of your recent investments was in a company named Center Rock in Berlin, Pennsylvania. Center Rock is the company that designed the drill bit that saved the Chilean miners, and the President recognized that in his State of the Union last year. We are very grateful for you all being present today.

Last month, Ranking Member Snowe and I introduced a bill to make, in our view, improvements and modifications to this program. Our bill raises the statutory cap, as the President has recommended, from $3 billion to $4 billion. The cap was last increased in 2003. It is time to raise it.

It also increases the amount of leverage by SBIC licensees under common control from $225 million to $350 million, called the Family of Funds. These provisions were also included in the President's original Start Up America.

Unfortunately, they were dropped by the House when they passed the deregulation bill, which they sent over to us which we are debating on the floor today. It is a deregulation bill, not a capital bill, and one of the most significant provisions was dropped by the House and we are going to try to see what we can do to recover it.

For the past week, the Senate has been debating this bill called the Jobs Bill, which is really a deregulation bill. It extends new opportunities, but also some concerns about companies going directly to the Internet and borrowing the capital they need or soliciting investors through the Internet called crowd funding, which is a very exciting but potentially dangerous enterprise without the right safeguards, and that debate is happening on the Senate floor, actually as I speak.

I have made it clear there were several problems with the bill that came over from the House. I will not go into them all right now because that is not the subject of this Committee. But needless to say, I believe that SBICs have been an important component of the work of the SBA, of the work of our Federal Government.

I would like to see if there are any reasons why it cannot be expanded beyond the $4 billion authorization. I am not sure there is any rhyme or reason why we have been at that level for all these years. I would be very interested in any of your feelings about that.

I also want to say that as Chair of this Committee, I am really, really focused on the quality of our programming as opposed to the quantity of our programming. I am very interested to find out who is responsible for evaluating the SBICs and how we eliminate the low-performing, ineffective SBICs and how we strengthen the stronger ones, and et cetera, et cetera. I have a lot of other questions. So that is my opening.

I want to recognize David Gillers and Kevin Wheeler who are my two senior staffers, and on the Snowe staff, if you would——

Ms. MCWILLIAMS. Jelena McWilliams. I spoke with some of you, and Matt Walker as well. Thank you for coming.

Chair LANDRIEU. So we are going to start, Barry, with you and if you could just introduce yourself briefly and give a one-minute little glimpse as to why you are here and what your role is. I know that we familiarized ourselves generally with who you are. Then we will begin by opening up with questions.

When you want to speak, you can put your name card up like this. That way I will know to recognize you, and we will go around and keep it open and flexible. If I am not asking the right questions, please feel free to ask them yourself, starting with Barry.

Mr. WIDES. Good morning, Madam Chair.

Chair LANDRIEU. You have got to press your talk button. You just press the button which lights up and you have to speak right into your microphone.

Mr. WIDES. Okay. Good morning, Madam Chair, and thanks for the invitation. My name is Barry Wides, and I am the Deputy Comptroller for Community Affairs at the Office of the Comptroller of the Currency. We are the Federal agency within the Department of Treasury that supervises national banks and Federal thrifts.

Our role within Community Affairs is to encourage national bank and Federal thrift investments in small business finance. We have recently been involved in outreach to banks across the country to make them aware of the opportunities to invest in small business finance through the SBIC program. We have been holding seminars and national teleconferences on this subject and making them aware of the fact that they can earn Community Reinvestment Act credit for investing in SBICs.

We will be putting out a paper soon that is sort of a how-to guide for investing in SBICs. We are working very closely with Harry Haskins at the SBA, as well as Carl Kopfinger who is with one of the national banks that we supervise to make sure that we make this understandable and help banks understand that there are ways to invest safely and earn a good return in SBICs.

Chair LANDRIEU. Thank you. Rick.

Mr. GIRARD. Thank you for inviting me. My name is Rick Girard. My brother and I own Girard Environmental Services out of Orlando, Florida. We are a commercial landscaping company. Last year our revenue was around $20 million and currently we are ranked number 57 in the country as far as landscaping companies go.

We are one of the largest family-owned companies in central Florida. We are one of the largest, probably one of the top five largest landscaping companies in the State of Florida. So we are a big small company.

Chair LANDRIEU. And you got your funding through one of the SBICs?

Mr. GIRARD. Yes, ma'am. The SBIC played a very extremely—an extremely important role in my company because in 2008, 2009, and 2010, our company actually grew. I opened five offices in Florida in 2009 and 2010 as we were entering into the recession. I added 100 jobs throughout the state. A lot of people did not necessarily agree with my method, but that is what entrepreneurs do. Entrepreneurs take risks. And looking back, there is not really much I would change.

But the SBIC played an extremely important role where the banks would not. So the SBIC played a very important role.

Chair LANDRIEU. Wonderful. Thank you, Rick. Thies.

Mr. KÖLLN. Good morning. Thanks for having me here. I am Thies Kölln. I am with AAVIN Equity Partners. We are in Cedar Rapids, Iowa. My partners and I have been running private equity funds there based in Cedar Rapids for—actually one of the my partners started with the fund that started in 1959. So we have been with the SBIC program since the beginning. We have run multiple SBICs as well as non-SBICs and have been with the program for a long time.

Chair LANDRIEU. Thank you. Your insights will be very helpful. We appreciate you being here. Carl.

Mr. KOPFINGER. Yes, good morning, Senator, and thank you for inviting me to participate today. I am Carl Kopfinger. I am a Senior Vice President with TD Bank. I am based in Philadelphia, Pennsylvania. I head up our investing in SBICs. We have more than 60 SBICs under management right now, and we continued to invest during the down-turn. So we like the program very much.

Chair LANDRIEU. Thank you. Dan.

Mr. PENBERTHY. Good morning. I am Dan Penberthy. I am the CFO and Executive Vice President of RAND Capital Corporation. I am here to tell you all what you can do with just $15 million. RAND is a BDC. We are publicly traded since 1971. We are a founding member of NASDAQ and we also own a wholly-owned subsidiary, RAND SBIC. I am also the current President of the Upstate Venture Association of New York.

We operate in Buffalo, New York, an under-served and economically depressed part of New York State. During the past ten years, we have taken our $15 million, we have invested in 30 portfolio companies via 83 separate financing transactions. These 30 companies right now represent over 1,711 jobs. We have increased job growth by over 500 jobs over the past ten years. We have also increased total revenues in these same companies by over $200 million. We have had an impact through the SBIC program. Some of our companies include MidAmerica Brick, an abandoned plant in the economically-depressed town of Senator Kit Bonds which is now the leading producer of bricks in Missouri.

Synacor, founded by an—an Internet start-up founded by students at the University of Buffalo has increased their employment by 15 times and the revenues by 60 times since our investment in 2002. They completed an IPO just 30 days ago.

Gemcor builds machinery in Buffalo that puts rivets into airplanes. Gemcor has doubled its employment, doubled its revenues, and it is shipping its aircraft machinery worldwide. Every Boeing airplane ever made and in flight has been touched by a Gemcor machine.

Chair LANDRIEU. Okay. And save all the rest of the testimony——

Mr. PENBERTHY. Thank you.

Chair LANDRIEU. This is just a brief introduction. Harry.

Mr. HASKINS. Good morning and thank you, Chair Landrieu, for having me here. We appreciate your leadership on issues involving the SBIC program. We have worked closely with your staff and they have been tremendous.

The program has enjoyed a lot of success and positive news over the past couple of years. We have reduced processing time significantly across the board and essentially doubling our productivity. We are building upon the success of the SBIC platform to expand access to capital in the more under-served markets via our impact fund initiative and early stage.

Chair LANDRIEU. Okay. And hold a minute because these are just introductions. We are going to get back to you for your opening. Go ahead, Roger.

Mr. BATES. Good morning, thank you. My name is Roger Bates. I am a partner at Mangrove Equity Partners in Tampa, Florida, and for the last three years have been serving as the President of one of our portfolio companies, MEP R&H Supply, which is headquartered in Broussard, Louisiana.

Chair LANDRIEU. Oh, wonderful. Thank you. Vincent.

Mr. FOSTER. Thank you, Senator, for holding this event. I am honored to be here today. I am Vince Foster, CEO of Main Street Capital. We operate out of a single location in Houston, Texas. We are publicly traded on the New York Stock Exchange. We first entered the program ten years ago in 2002 with a single license. We received a second license in '06, began to outgrow the program, and converted to a publicly-traded BDC in order to stay in the program and continue to grow. So I am interested in how we can keep better players in the program.

Chair LANDRIEU. Great. James.

Mr. GOODMAN. I am Jim Goodman from Gemini Investors in Wellesley, Mass. and thank you for allowing me to be here and speak. We are currently investing our fifth SBIC fund. We entered the program in 1995. We have invested in 93 companies since that point and we have put a little under $400 million to work.

In the last eight years, our companies have created almost 10,000 jobs and also created a number of small businesses themselves, in particular our franchising companies. So I would like to be able to talk about all those things today.

Chair LANDRIEU. Manuel.

Mr. HENRIQUEZ. Good morning, Madam Chair. Thank you for having me participate in this roundtable and for letting me provide some overview on the benefits of the SBIC program. Similar to Main Street Capital, when I started Hercules, I looked at the SBIC program as an integral part of launching Hercules and getting capital and getting access.

I am one of the unique players on this panel who invests almost exclusively in the venture industry, and work with pre-8 revenue companies that are significant job creators and innovators of American jobs and technology in this country.

I am proud to say under the SBIC program, we have two licensees. We have over $225 million under the SBA program and we have now been able to use that capital to invest in $750 million in 95 technology and life sciences companies since the founding of Hercules. And I am very proud and a very strong supporter of the SBIC program that made a difference in our company when we started. So thank you for having us here.

Chair LANDRIEU. Tim.

Mr. RAFALOVICH. Yes, good morning. My name is Tim Rafalovich, and I manage the alternative assets for Wells Fargo, which includes our SBIC investments. Carl and I have the unique kind of privilege of being able to be speaking from the investment standpoint. We invest in SBICs. SBICs then have general managers, many of which are here today, who invest then in the companies, of which two are here.

So if the program wants to be expanded, it needs to take place top down, which is through the investors and their incentives to invest in SBICs. I have all sorts of statistics on companies that we have invested in and how they have grown that we can maybe talk about in the future, one that went from 63 employees to 1,167 just in a short period of time.

But one of the things I want to make clear as well is, a lot of people might think because Wells Fargo is the largest lender on the small business end of things, having deployed about $14 billion in capital last year, that there might be a little bit of a conflict of interest here. We do not believe that there is a conflict at all. This is a win-win because many of the SBIC investments made are investments that would have never been made by a major bank.

And so, what happens is that the banks then will not fund these smaller companies because there is a little bit too much risk. SBICs do, but then Wells Fargo can come in a little later and be able to refinance these. It is a good win-win and that is why we believe in this program.

Chair LANDRIEU. Nicely put. Charles.

Mr. ROTHSTEIN. Good morning and thank you for including me as well. I am Charlie Rothstein, a founder of Beringea, which is Michigan's largest venture capital firm. We are also managers of the Michigan Growth Capital Partners funds, one of which is an SBIC. It is our second SBIC, so we, too, have had a long relationship with the Small Business Administration. The current SBIC was licensed last year as part of the Impact Investment Initiative and it totals $130 million.

Chair LANDRIEU. Thank you so much. Let us start with Harry, if we could, and go ahead, Harry. You manage this program through the Small Business Administration, and for those that are viewing and watching and will be reading the outcome, why do you not go ahead and give us your opening comments, and then we will open it up for general questions.

Mr. HASKINS. Thank you. And rather than repeating some of what I said, I will just continue to go on. We want to build upon the success of the SBIC platform——

Chair LANDRIEU. And can you speak more closely into your mic? It is a little awkward, but you have to lean forward.

Mr. HASKINS. We want to build upon the success of the SBIC platform, and we have expanded it to include a couple of new initiatives, the Impact Fund Initiative and the Early Stage Initiative. However, we believe increasing the authorization level in the Family of Funds limit will have a positive impact on the availability of capital for small businesses and can be managed at minimal risk and no cost to the taxpayer.

We look forward to continuing our work with the Committee to build upon the success of the program and to contribute to a positive economic climate for small businesses.

Chair LANDRIEU. And explain how it is minimum risk from your vantage point and no cost to the taxpayer.

Mr. HASKINS. Well, the program currently operates under a zero subsidy where the fees associated with the program cover the cost associated with it.

Chair LANDRIEU. And has it been that way since its inception?

Mr. HASKINS. No. Up until around 2000, I believe, we actually worked under appropriated funds where we had to receive an appropriation and the amount of money we could guarantee was limited by that appropriation. But the success of the program and, more importantly, the success of the SBICs has enabled us to move to a zero subsidy basis.

Chair LANDRIEU. Well, let me ask you this. Why do you think then the President only recommended extending it from $3 billion to $4 billion? I mean, if it is low risk and no cost to the taxpayer, why can we not go up higher than that?

Mr. HASKINS. Well, our current authorization level has been sufficient to support the growth of the program. Historically, up to around 2009, we averaged about $700 million in authorized commitments. We doubled that in 2010 and then increased it again in 2011 to about $1.8 billion.

So we think the existing authorization was sufficient. The increase to four should give us sufficient capacity over the next few years to support the growth of the program. Obviously it is worth revisiting if growth continues at its current pace to see if it needs to be raised beyond that.

Chair LANDRIEU. Okay. I would like to talk about that later on. Let me begin with some questions. Why do we need SBICs in the spectrum of venture capital? I know this is a simple question, but I would appreciate if one of you would just take it and explain why this is important, because I think there is a lot of confusion out there about venture capital and when they come in and when they do not come in and where there is a need for them. So, Vincent, we will start with you and then I will go to Manuel.

Mr. FOSTER. Thank you. I think the reason we really need SBICs is pretty simple, and that is, to continue on an earlier point that was made, the best way to think about SBICs is they begin where the banks end and they end when private equity or regular institutional venture capital funds begin. There is a huge void in between someone that is commercially bankable as a small business and someone that is private equity or venture capital eligible, and that is really the gap that we fill.

Another way to think about it is we provide cash flow-based financing and cash flow-based capital, equity capital, debt capital to small businesses which is literally not available. Commercial banks will routinely, for larger companies, loan a multiple of their cash flow and financing and that is how they operate.

Small businesses have to borrow against their assets, their inventory, and guarantee it.

Chair LANDRIEU. It is very difficult, including their house?

Mr. FOSTER. Right.

Chair LANDRIEU. Their life insurance?

Mr. FOSTER. Everything.

Chair LANDRIEU. And their pension funds and their children's college education. And this Chairman has had about enough of that.

Mr. FOSTER. And the nice thing about the SBIC program, even more than the 504 or 7(a) is personal guarantees are not required and they are virtually unknown, as far as my experience.

Chair LANDRIEU. And I just want to stress this point, because the smarter I get on it, and I have got a long way to go, but this country can never unleash the potential of people who have little financial strength, but great character and extraordinary intelligence and a tremendous amount of nerve, if we do not find a way around the fact that you cannot get capital from anybody unless you already have wealth. Do we understand the problem here?

That is why I am going to stay on this. That is why this is very interesting to me. Contrary to what the Chamber of Commerce says, there are many, many, many businesses out there, like this business right here, Rick, who can grow, who can show how they can grow, but they do not want to pledge their house, and maybe you have, or your home or your children's future to go to a bank. Banks are only lending under certain circumstances.

If we do not open up other opportunities like this, I do not know how we grow ourselves out of this recession that we are in or really tap the strength of America. So I really appreciate, Vincent, you saying that. Manuel, do you have anything else you want to add?

Mr. HENRIQUEZ. Madam Chair, I can speak to you as a first-hand experience as an entrepreneur, and not to bring up my heritage as a minority, when I started the company, Hercules, I could not get bank financing. I could not get any bank to give me capital.

I basically risked everything I had and approached the SBIC as a lender of choice to be, frankly, the foundation of the capital that we had to go out and fund and invest in entrepreneur innovative companies that have gone on to create hundreds and hundreds of jobs, thousands of jobs in California, in Massachusetts, and in various regions of the Southeast.

So unlike most gentlemen on this panel here, we invest in companies that do not have revenues. We invest in companies that cannot get any bank financing. And if it were not for the SBA program, the SBIC program that we rely upon as a source of financing, a lot of this American innovation they refer to and a lot of these dreams——

Chair LANDRIEU. Go nowhere.

Mr. HENRIQUEZ [continuing]. Of companies would never ever come to fruition. And I am proud to say that through our organization, we have well-known names that have received capital through us such as Annie's Foods, the simple bunny rabbit company that you can buy at Whole Foods.

Chair LANDRIEU. Love that, love that.

Mr. HENRIQUEZ. I am proud to say we have another company in the drug discovery area that focuses on improving the quality of life of cancer victims and they are making new biologics for cancer drugs, which we all know from the FDA process, are very scarce and hard to get ahold of.

We have companies in our portfolio that are dedicated to clean energy, as the Bright Source technology, for example, that does solar panels, and create new ways of generating energy in the market. And then we have social media companies, high profile names such as Box.Net, which is cloud computing, which is growing exponentially a number of employees that they are hiring and creating jobs.

So the SBIC program is an integral part of our capital structure and a program that I would like to see, to your point, expanded beyond the $4 billion that is out there, and frankly, I would love to be able to see even to go beyond the $350 million, because I can tell you, Madam Chair, that we could put that money to work and we could put that money to create jobs in this country for many, many more great ideas that entrepreneurs have like Rick and others out there.

Chair LANDRIEU. Thank you. Charlie.

Mr. ROTHSTEIN. Well, sure, I was just going to add onto the last couple of comments that——

Chair LANDRIEU. You have to press your button. I am sorry.

Mr. ROTHSTEIN. That is okay. I was just going to the last——

Chair LANDRIEU. Very complicated for very smart folks.

Mr. ROTHSTEIN. And now it is not. It really is not that complicated. I was just going to add onto the last couple of comments. We are clearly talking about debt financing and debt works for companies that have predictable cash flow, but there really is also a shortage of pure equity capital.

The venture capital industry has shrunken by some 40 percent over the last handful of years, and entrepreneurs are starved for that kind of capital as well. Equity, unlike debt, equity, you know, it allows companies to take greater risks than does debt because there really is not any ticking time bomb to it. It does not need to be repaid immediately. It allows a company to be a bit more long-term in the way that it thinks toward R&D and even the introduction of new products.

So that is something that we should work to address. The institutional market that used to support venture capital firms that were out raising funds is decreasing. Those institutions are looking elsewhere. They are backing buy-out funds and other types of alternative investment vehicles. So either maybe within SBA or maybe outside of SBA we can come up with new solutions.

Chair LANDRIEU. Charlie, do you know why that is shrinking? Is it just the nature of the recession? Does anybody have an idea about why the venture capital is shrinking? Because I know that is why this bill flew over from the House, because there is a real need. But I am not sure we are correcting it the right way.

This crowd funding idea and the response, I think, if I am reading this correctly, to use the Internet in a way that was not legal to raise venture capital funds for businesses, which sounds great and is very—it could be game-changing.

The problem is, if you do not have the right safeguards and regulations, it could also, in my view, open up a whole pathway of fraud that we have not even begun to even think about. But is that what you are saying?

Mr. ROTHSTEIN. First of all, I do agree that the kind of crowd funding issue is something that brings on significant risks that, you know, we need to make sure that it is properly structured so that people are not tricked into investing into things that sound good over the Internet.

But I think, and many other members of the roundtable have opinions on this, but one of the problems has been the lack of access that the venture capital community has been able to generate.

There has not been an ability to get a company public. The IPO bill is addressing that and lifting the regulations that some of the smaller companies will face in going public. I think that is a positive.

There has been—in the institutional market, many times, it is a bit of flocking toward areas that seem hot. So whether it would be the small buy-outs or hedge funds or whatever it might be, that is where people were running and they have run away from venture capital and it really has caused a dilemma within the market. You could speak to, I am sure, all of us who realize how hard it is to raise just a pure——

Chair LANDRIEU. Roger and then Thies.

Mr. BATES. To add to what these gentlemen have said, I think one of the things that is important to understand about the SBIC's place in the capital structure between the commercial banking and equity is that they represent what I like to call patient money. They think more like equity, even though it is debt, and all companies will be challenged from time to time. And where your commercial banks do not have a lot of tolerance for those challenging times, these SBICs can really make a difference in helping the companies get through those and then back on the path to growth.

Chair LANDRIEU. And in defense of banks, which I do not always defend, but in this case, they tell me constantly that it is the regulators breathing down their necks, looking at the loans on their portfolio, and while they might personally like to be more patient, the regulators are not allowing them to be. So I want you to know, we hear that a great deal. Thies.

Mr. KÖLLN. I think to address the question of kind of the capital and sort of venture capital and that, I think one of the things we have seen, and what is important about the SBIC program is, it is focused on small businesses, so the businesses we have to invest in are small businesses and small funds.

What we have seen in general in the capital markets is kind of increasing concentration of capital. And what that brings about is the investors are big fund-to-funds, big pension funds. They cannot invest in small funds very easily because they have minimum amounts that they want to put into a fund.

Chair LANDRIEU. Like, for instance, what are the usual minimums? They have to invest like $200 million or $100 million, $50 million?

Mr. KÖLLN. Well, yeah, $50 million.

Chair LANDRIEU. $50 million.

Mr. KÖLLN. If they have to invest $50 million, they need to be investing that in a $500 million fund and a $500 million fund, you know, has a number of principals. They are going to invest in 20 companies. They are going to have to invest $25 million in each company.

Chair LANDRIEU. And that is more than Rick needs.

Mr. KÖLLN. Exactly. And it is the small businesses that need 1, 2, 3, 5, $10 million maybe of capital that then have—that then suffer because they are at the end of that waterfall because the big institutions need to invest in big funds which need to invest in big companies.

And that is where the SBIC program does a great service, because the smaller funds can invest in the smaller companies and provide capital to those companies that need 2 or $5 million of capital.

Chair LANDRIEU. And, Jim, I am going to get you and then Manuel, but are we limited, Harry, in the SBIC program for what a company can borrow?

Mr. HASKINS. A single fund can borrow up to $150 million in leverage.

Chair LANDRIEU. But borrower, a borrower to that fund, can they invest in——

Mr. HASKINS. An SBIC has an over-line limit, so essentially 10 percent of its capital base can be invested in a single company.

Chair LANDRIEU. So that would be $15 million as your top line from 150? Is that correct?

Mr. HASKINS. Well, if the fund size is $150 million of leverage, saying $75 million private capital, that would be a $225 million fund size, so they could invest $22.5 million in a single company.

Chair LANDRIEU. Go ahead, Jim.

Mr. GOODMAN. I just wanted to address the question that you started out with which is why is there a lack of funding now. You addressed specifically venture capital, but I would make it even more broadly private equity.

I first got into the private equity business in the late 1980s in Boston, and the three or four leading firms back then were doing deals where they were investing $5 million into $10 or $20 million sized companies. And those leading firms have all been very successful and their funds now are 3, 5, $10 billion. And the smallest check they will write is a few hundred million dollars.

Private equity, as a whole, has mushroomed dramatically. Our fund is less than $200 million in total commitments, including SBA's money. That now represents the bottom 5 percent of the entire private equity world. So a $200 million fund, which was a good-sized fund 20 years ago, that space has largely been vacated, and the industry has exploded.

But your $10 million revenue company, like some of the ones that we have invested in that I have identified, if they are providing cooking oil equipment or they are a restaurant franchise, that is not venture capital and it is no longer where the bulk of private equity is.

So what this program does is it supplements and it fills a void that was left by the migration of private equity firms into much, much larger deals.

Chair LANDRIEU. That is the best explanation I have heard. Thank you very much. I now think I understand better our challenge. Manuel.

Mr. HENRIQUEZ. Living and breathing in the venture capital ecosystem on a daily basis, which is what we do, and I myself started in the venture industry back in 1987, the industry has changed dramatically. It was first brought on with dramatic change as now the infamous dot-com bubble blowup that we all well know and understand in 2000, which was precipitated by a second blowup that has not been written a lot about is the June of 2000, which is the telecom blowup that occurred.

And then the market proceeded to go through an inordinate amount of changes, including, of course, the now infamous Enron and WorldCom changes on stocks and what have you. Despite some of the comments said earlier, the venture industry is nowhere near what it was in its historical levels by any stretch of the imagination, peaking out around $98 billion in 2000.

Last year alone, the venture industry, according to Dow Jones Venture Source, our leading source of information, they did $33 billion of activities in investment last year to over 3,200 companies itself. I am proud to say that we help fill a lot of that void by providing $630 million of capital to venture stage companies that would otherwise not be able to gain access to capital from a bank that exists today.

So we help these companies dramatically gain access to capital because the venture industry is, in fact, or has shrunk itself, but these companies still have a capital need to continue to accelerate their growth. They are unable to bridge that gap in capital they need with commercial banks.

We come in as an SBIC, take on that risk of financing those pre-revenue companies in order to get the additional capital they need to get their products and services out to the market and eventually lead to quite dramatic job creation out there. We help fill that crossing that chasm.

Chair LANDRIEU. Jim, do you want to say anything else? Put your card down if you all—okay. Does anybody want to add anything to this line of questioning? And then we are going to go to our next question, which will be going completely off to another point.

For those of you who do specifically look at companies, how do you choose the companies to invest in? Where do you troll or patrol or look out to find the companies? Do they come to you? What mechanisms do those of you that are looking for smart investments utilize—just go through that process a little bit with us. Go ahead.

Mr. FOSTER. The main source, we call it deal flow, for lack of a better word. The main source of deal flow that we see is the local and regional investment banks. A lot of times, if you think about it, the customers might have small businesses and the investment banking organization might be managing the income off the business.

Because of estate planning needs and everything else, the owner of the small business, at some point, probably needs to sell or get liquidity for his estate taxes. They might go to the investment bank and say, Do you have a solution? Is there someone we can talk to that might invest in our business that might—you know, I know a buyer, but he or she cannot get the financing.

So a lot of times, it is the regional investment banks, local investment banks. The independent business brokers are a huge source of deals. The accounting firms who do the estate planning, the local accounting firms. The commercial banks will often call us because someone comes in for a loan, if you do not fit in that exact box, if you are one inch outside the box, they cannot do anything, sometimes they will refer transactions to us. And a lot of times it is word of mouth.

Chair LANDRIEU. Dan.

Mr. PENBERTHY. We look at transactions which are very young, companies which would have typically $200,000 to a million dollars in revenue. These are companies that will not be talking with investment bankers, will not be—may not even have a CPA firm involved. I often go in and talk to the universities and talk about the value of a network. Networking is the way that these transactions get done.

NASBIC itself does a great job. Now the Small Business Investor Alliance (SBIA) does a great job, but it is sponsoring networking events amongst ourselves. In the upstate New York region, as I mentioned, I am the President of the Upstate Venture Capital Association. We hold networking events across the State from Buffalo down to Newburgh, New York, just outside New York City, encouraging entrepreneurs to come forward with their ideas.

At these events, we bring in funding providers to help make introductions. Just yesterday, I held an event in Buffalo where two companies stood up and made ten-minute presentations to prospective fund-raisers. This is done every other month in Buffalo, New York.

And it is all about the network, having entrepreneurs get out there and meet people, and often, it takes multiple visits in order to get financing done for these people. We will see a deal two, three, and four times, and ultimately, we will help them finance their business.

Chair LANDRIEU. Thies.

Mr. KÖLLN. Yes. I guess I will pretty much echo what Vince said. There are a number of sources from which we get deals. A lot of it is networking based. A lot of it is advisors to the businesses, whether they are bankers or investment bankers or attorneys or accountants who are advising the businesses. And some of it is—and a lot of it is networking. So a lot of the deals tend to be done kind of regionally.

Chair LANDRIEU. Now, if it is in the SBA's interest, which is one of the missions of this small—and we are hoping to make it an even more active agency, would it be beneficial to have some funding at the agency level to encourage, host, and partner with these networking opportunities, or do you all have enough either time or resources to do that on your own?

I understand there is a Small Business Investor Alliance. Who represents that here? Do you all—and you can speak up. Do you all do networking? Is that what you all do?

Mr. PALMER. [Off microphone] We do network marketing with the funds themselves and with some banks and others, but not the entrepreneurs directly. Actually we are working on some software that might be able to do more of that network filtering.

Chair LANDRIEU. And would you identify yourself, Brett?

Mr. PALMER. Brett Palmer from the Small Business Investor Alliance.

Chair LANDRIEU. Okay. Manuel, anything you want to add to this?

Mr. HENRIQUEZ. The answer is that the SBIC program is not well-known by many entrepreneurs. They are still—it is fearful. It is a Government agency. They do not know how to on-ramp it, how to approach it. A lot of our deal flow comes from crazy ideas of entrepreneurs who want to create new technologies or new solutions out there. A lot of them could be just professors, could be engineers. They do not know how to go around starting a company or formulate a company.

I think it would be incredibly useful if the SBA were to provide forums by which to help entrepreneurs learn how to create a company, learn how to get proper guidance on formulating a company, and how to get a company off the ground.

There is an incredible amount of American ingenuity out there that just needs a little bit of help getting itself structured a little bit and learning how to on-ramp onto speaking with financial sponsors out there. That in itself would help create more jobs and create more confidence in the marketplace.

So the SBA staff would really be incredibly beneficial by helping these individuals learn how to gain access to this capital. And on the West Coast, there is a lack of SBIC capital out there to help, and also in many parts of the Northwest as well. We are seeing a huge demand of capital that just cannot find a place to look—to get capital in the marketplace today. So that would be a huge helpful thing to have out there.

Chair LANDRIEU. Do we actually have a map of where the SBICs are headquartered? Can we put that up somewhere? And, Harry, will you speak to the issue of what the SBA is doing to get out the idea to entrepreneurs and to others? Let us just look at this map for a minute. This is the distribution by state. I guess the darker have the more SBICs, so New York would be leading with—what is that—46?

You know, the sad thing is that there are lots of light-colored states, including my own, which have fewer SBICs. And again, it is not so much the quantity, but the quality of the SBICs. What I am going to ask the staff to do is do another map with the top—how many do we have in the country?

Mr. GILLERS. 292.

Chair LANDRIEU. 292? I am going to ask you all to do the top 50 or the top one-third, I guess, of that and see where they are operating to give us an idea where the more successful ones are operating and where the gaps are.

Harry, what are you all doing about this to try to get this accessible, physically, in many other places? Now, we also have the Internet, which is a powerful tool of communication, so you do not always have to be physically located with the communications that we have today. But could you comment on that?

Mr. HASKINS. Yes. First I would just like to say something real quickly regarding the comment made about education of entrepreneurs. SBA does have a whole office dedicated to that, Entrepreneur Development, and through its SCORE and SBDC programs and other assorted programs.

Chair LANDRIEU. But SCORE has not been expanded in how long? Has it been authorized, at what level, for how long? Who knows that?

Ms. WHEELER. For at least the last two years.

Chair LANDRIEU. But what is it? It is a $7 million investment that the Federal Government has made, $7 million, $7 million, that is it for the whole country. And that is the best known mentorship program. We have attempted to get it raised, and I have been blocked. Unfortunately, there is not enough minority support right now for the expansion of SCORE or something like it.

But $7 million, they have been at that level for, I do not know, 30 years. Go ahead.

Mr. HASKINS. But we do recognize the need for that kind of education. With respect to the map, we have been focusing a lot of our efforts on a couple points. One is obviously trying to attract qualified management teams to the program, with a particular focus on some of the under-served populations, minorities and women, and we have had a fair amount of success with that recently, more than doubling the number of applications from those particular populations over the recent past.

Also, we have been making the large outreach efforts to limited partners, which are the source of capital for the program independent of SBA, trying to attract banks and others such as TD and Wells to the program so that there is a source of capital for a qualified manager so that we can expand in various areas throughout the country.

We do what we can, in a sense, to try and make the program known as widely as we can by attending numerous conferences and events that are attended by people who have an interest in this space, and hopefully we can expand in a number of other areas that are under-served.

Chair LANDRIEU. I am going to get Dan, to you, in just a minute, but does anybody at this roundtable, knowing what you know about the success of this program, have any ideas for Harry about where he could look for experienced minority entrepreneurs, particularly African-American, Hispanic, or Asian?

Would business schools at Harvard, Stanford, or other well-known schools, young people coming out but with the prerequisite degrees, be interested in starting some kind of fund like this? Or do you need to have real world experience for a couple of years, maybe before you start them? Do any of you all have any ideas for the Small Business Administration about where we could get some more diversity into this program? Go ahead, Thies.

Mr. KÖLLN. Well, I do not know that I have an answer to it, but this is very much a kind of mentorship industry where you learn by doing. I think it would be high risk to take even bright, well-qualified students right out of business school who have never managed a fund and focus on that.

So I think the question is, is growing the base with experienced managers and——

Chair LANDRIEU. And mentoring some of the younger——

Mr. KÖLLN [continuing]. And mentoring. It is really a mentoring kind of model and it always has been because, you know, we are very small organizations. I mean, we have five full-time investment professionals and I think that is probably bigger than a number of SBICs out there. And I think, you know, if there were ten or a dozen, that would be a very large fund.

Chair LANDRIEU. Tim.

Mr. RAFALOVICH. We invest in a fund called Central Valley Fund. That fund is in Central Valley in California. Most of those fund managers do speak Spanish and they have—a majority of their companies that they invest in are all minority-owned. So some of it has to do with location and expertise around the fund managers.

Chair LANDRIEU. Manuel.

Mr. HENRIQUEZ. Clearly, with my last name and my name, I am a minority. I am a Hispanic, of Latin background. I have to echo. It is an apprenticeship program and I may say something here that people may find a little bit offensive. You have to lose money to learn how to make money. And you need to be with an institution that is going to go through that apprenticeship process for you to get developed as an asset manager, as a portfolio manager, and that takes time; that you just do not learn that out of the box.

I learned that, thank God, with my career at Bank of Boston where I cut my teeth, which happens to be originally the number two licensed SBIC in the country, I had the privilege to work for. But it is an apprenticeship model.

It is very difficult to reach out to minorities. You have to give the minorities the opportunity to lose money and that is a very hard thing to do, especially in an economy that has been contracting over the years. There are programs. There are outreach programs for minorities that you can actually tap, but that is something that should happen, but it is very, very hard to do.

Chair LANDRIEU. Carl.

Mr. KOPFINGER. Sure. Just to address what Harry had to say, the program has attracted a number of women-owned, as well as minority-owned, applicants applying to the SBIC program. For example, Bob Johnson from BET Networks is sponsoring a group and bringing in a team from the Carlyle Group.

In addition to that, there is another fund, Pharos, out of Texas. Kneeland Youngblood, who is on the board of Starwood Hotels and Burger King and some other large organizations, including a large hospital chain, is also bringing together a team of minority individuals to run his fund.

And as it relates to women-owned fund managers, there has been a lot of disruption in the marketplace where you had American Capital, which imploded, and a couple of other funds, and some of the women that were part of that group have also spun out and spawned their own funds.

So I think the answer is that a lot of the folks who have the experience are now starting to mentor the junior folks to come in and start some of these funds. And I think we need to see more of that.

Chair LANDRIEU. And, Don, thank you for joining us. I know you had a weather delay, but why do you not briefly introduce yourself, take a minute or so, and then you can take a minute to explain why the SBIC program is important to your business.

Mr. SACKETT. Okay. Thank you very much. I started my company in 2001, myself and one other gentleman. We are a Boston-area company. And we took SBIC funding in early 2004, actually from the gentleman sitting to my left, and it was—we thought it was just a very good program. Like one of the gentlemen said earlier, for a small business that had a few million dollars in revenue, private equity really was not an option.

Venture capital, the traditional form, was not a great option because it was just too expensive. We would have to give up so much ownership. So we went with the SBIC route and it was a very good success. We had about 20 employees at the time of the investment in 2004. We sold the company in 2010. We had about 180 employees at that time. We had grown our revenue from a couple of million dollars to about $55 or $60 million.

Chair LANDRIEU. And what is your company, Don?

Mr. SACKETT. It was called Innov-X Systems and we made scientific instrumentation, portable instrumentation, and we manufactured it in Massachusetts. And I think one of the things we are most proud of was 70 percent of our products were sold overseas. So we were manufacturing in Massachusetts and we were selling to China.

Chair LANDRIEU. That is great. That is terrific. I hope you are getting ready to start another company.

Mr. SACKETT. Well, that is why I am having lunch with this guy.

Chair LANDRIEU. Good. So you and Dan will be having a special lunch today.

Mr. PENBERTHY. I have got dibs on Don.

Chair LANDRIEU. All right. Anybody else? Vincent.

Mr. FOSTER. If you think about outside the SBIC world, how mentorship really happens, most individuals get trained, like the Bank of Boston example, through a larger organization. To the point that Thies made, you know, if the average SBIC fund only has five people, what are the chances that you train someone and they are—whether they are minority or not—whether or not they go out and start their own firm?

So this is kind of a segue into something I feel strongly about. We had this cap on the size of the program at $225 million of Government financing, which is great, but because it is made available on a two-to-one basis, that means once you have more than $112.5 million in private capital, which is the cushion for the program which is why the program does not lose money, it makes money, you are not optimizing your capital. You are starting to be less and less benefitted by the Government leverage.

So there is an effective cap on the program of $112.5 million of capital after which the management teams stagnate, go someplace else. We have lost a lot of them through the years and they have gone on to have great careers, household name private equity firms who started out in the program.

So if we could increase the size of the program for the better managers, you are going to have larger organizations, more training, more people spinning off starting their own firms. I have got 30 people now. I am big enough where, you know, some of my guys will spin off and start their own firms, but it was not until I got to 25 or 30 where that was, you know, we really had more formal training and we could really do that.

So I think, you know, we know who the better performing SBICs are. It is not going to cost any money. Let us create larger organizations rather than keep the thing capped. It does not really make a lot of sense.

Chair LANDRIEU. Maybe we could have a stage one, stage two, or stage three where you earn your way up through those stages, or something like that. Manuel, you wanted to speak about that? And then I will get to Rick. But, Harry, I am going to ask you for a response from SBA about making some of these changes that might really significantly help and reward those that are the most successful and help keep this moving forward. Manuel, go ahead.

Mr. HENRIQUEZ. I absolutely echo the need to increase the funding levels, whether it is the 350 with keeping the leverage going up to 300, which would be beneficial, but if you really want my opinion on helping the program expand and create the next bench of future managers, it would be nice to be able to cede to your point on staging of capital, that maybe some of our own individuals that we have been—an apprentice within organizations start spinning out.

They are not viewed by the SBA, for example, as an affiliate and get wrapped up into the total licensing available capital. It would be nice to be able to see that a young manager spinning off from an SBIC——

Chair LANDRIEU. Could be their own fund.

Mr. HENRIQUEZ [continuing]. Could be their own fund. And yes, you are right. Maybe they start off with only $75 million of leverage, but that way you have at least training wheels, if you will——

Chair LANDRIEU. Exactly.

Mr. HENRIQUEZ [continuing] On a manager and getting out. But sometimes under the program, that related manager, if some of that equity capital is helping them get started, could be viewed as an affiliate of ours, which means it detracts from our availability of capital. And I think that does a disservice to spawning new talent.

Chair LANDRIEU. Does not make any sense whatsoever. Harry.

Mr. HASKINS. First, we do support an increase in the Family of Funds limit to allow people like——

Chair LANDRIEU. But what about the affiliate rule?

Mr. HASKINS. We have an awful lot of funds that are formed by partners that have left or younger partners that have left an existing fund and started their own. They are only an affiliate if, in fact, Manny was also to be part of the new fund. So if it is actually a new fund with new managers, even though they spun out from an existing fund, they generally are not going to be constrained by the affiliation issue.

Chair LANDRIEU. Okay. So they have got to be able to stand on their own to be a real fund. They cannot be set up and then have to ask you, Manny, for advice every day. It has got to be fish or fowl, in other words, if we could figure that out.

But I understand the benefit, because getting back to the mentorship, that is exactly what you are hoping to do, is some of the more successful SBIC funds are training some of the best people in the world to be able to help Rick and Don take their businesses to where they have taken their businesses. And you want to encourage them to start their own kind of funds and help the program grow more organically than just Federal constraints.

I mean, if there is some way we could design this program for the modern age, not the 1950s when it was created, but for the 2012 which we are in, with the whole world that has changed since then and really give our entrepreneurs in America access to the capital they need to grow is, I think, what we are trying to focus on.

Tim, let me get you and then, Rick, you have had your card up. Let me get Rick. You have had your card up the longest.

Mr. GIRARD. I just want to say that there is a lack of knowledge. A lot of people do not know the SBIC even exists. I was looking for solutions to my problems for two years before it was even brought up to me. When people need money, when entrepreneurs need money—and most of them are smaller companies, and I think it was a good question that you raised.

I have heard a lot about the caps and, you know, the upper limits, but I do not know if I really heard a good answer on what are the lower limits, because there are a lot of small companies out there that need money and they do not know about the SBIC program. And where do small companies go for money? They go to the bank and the bank says, Sorry, I cannot help you.

But nobody ever guides them and then leads them to the SBIC. So I am just—just a suggestion. Is there any kind of partnerships that should exist between the SBIC funds and the banks? Because you guys are limited with resources, it sounds like. You know, you have a few employees. A dozen employees is a lot. But the banks are everywhere. So maybe there is a partnership there that you could exploit.

Chair LANDRIEU. And, Rick, when you first approached a bank at some point in the early part of your company—and we have been joined by Senator Moran. Rick runs one of the most successful landscaping companies in Florida and one of the largest in the country. Correct, family raised?

Mr. GIRARD. Yes, ma'am.

Chair LANDRIEU. He could not get the money he needed from a bank. SBICs have helped their company. What was the amount of money, if you do not mind sharing, that you were trying to get from a bank that you could not get? At some point you had to go to the SBIC.

Mr. GIRARD. Well, in this transaction, this was a $3 million transaction, which, you know, is not a small transaction. I am not sure if that answers your question.

Chair LANDRIEU. But you could not get it from a bank——

Mr. GIRARD. No.

Chair LANDRIEU [continuing]. And you had to find it from the SBIC?

Mr. GIRARD. No, ma'am. And as a matter of fact, the bank—you know, I had a bank. I was a performing loan. You know, my company was growing. We missed our loan covenants. The bank turned it over to a work-out officer and, once you are on that list, you do not ever leave that list. So I was left with—the only choice I had was to go out and find refinancing.

Chair LANDRIEU. It has come to my attention, shockingly, I guess I should have known this, but my background is not as a banker, but I was told recently that you could be a 40-year-old entrepreneur and have failed to pay one or two months on time of a student loan that you took out when you were 19 and be disqualified from a loan today. Is that your experience or does anybody want to comment? Do you know if that is true? Wells Fargo, what would your bank say? Go ahead. Do you know if that is kind of what the regulators are telling you?

Mr. RAFALOVICH. Did I all of a sudden start sweating? Is my legal counsel here? Generally, I would say that might be an extreme, but there certainly are restrictions that, you know, credit is very important. We are a credit-driven culture. Something like that where you have 20 years, you know, typically that falls—after seven years it falls off your credit report anyway.

But it is true and somewhat to the point that bankers do not do a great job at knowing a whole lot about this program. I can say that in my discussions, we invest in a lot of SBICs and even our bank does not know that this option exists for a lot of people. So I think that that would make a big impact if more banks had the ability to say, Here is a group of SBICs. It does not fit us. It would be a good opportunity to give them a call.

Chair LANDRIEU. Jim and then Tim.

Mr. GOODMAN. Well, I think actually the way the SBIC program works, or at least a lot of us here, is with regard to the banks, it is really a case of one plus one equals three. The bank does not want to come in and just deal with the entrepreneur that maybe does not have his financial statements in order, is not willing, necessarily, or able to give a personal guarantee. But when my firm or Vince's firm or others like it come in and put a couple million dollars underneath the bank, then we actually get a multiplication of what is available to the small company.

So we view banks as our senior partner, if you will, in helping to capitalize and make companies like Rick's successful. It is not either a bank or an SBIC, but it is working together. The SBIC provides the junior, more risky capital, but the act of doing that gets the bank comfortable and creates that much more availability for the company.

Chair LANDRIEU. And creates, in the long run, if things work out, a great customer for the bank that they can make a lot of money off of that particular business. That is exactly the business that I think banks are supposed to be in, correct?

Mr. GOODMAN. Amen.

Chair LANDRIEU. Don, did you want something?

Mr. SACKETT. My comment was that was exactly our experience, what Mr. Goodman says. When we took our SBIC funding, we got a bank line of credit on top of that that we could not have gotten had it not been for the SBIC line, for the exact reasons. The SBIC required a certain amount of financial due diligence and financial reporting and statements that were not there before that.

Chair LANDRIEU. And repeat for Senator Moran, if you do not mind, how successful your business was. You were making medical devices? Go ahead and tell him.

Mr. SACKETT. It was scientific instrumentation that we developed and manufactured in Massachusetts.

Chair LANDRIEU. And selling to?

Mr. SACKETT. All over the world, mostly Asia. Seventy percent of our sales were offshore. Half of those sales were to Southeast Asia, mostly China.

Chair LANDRIEU. Very exciting. Rick.

Mr. GIRARD. I just wanted to add, I echo exactly what he said. I would not have been able to obtain senior lending or to be bankable without the SBIC funds coming into play. But, you know, the bank is not the one who suggested it. The bank is not the one who found it. I had to pay a lot of money to an investment banker, sophisticated money investment banker, who understood what the SBIC—even understood what it was before they could even actually make an impact to get my company bankable.

And for a $20 million company, you know, one of the largest in Florida, what we do in our industry, you know, there is no reason that a company like us should not be bankable.

Chair LANDRIEU. I do not know if anybody here is representing community banks in the audience? If not, Harry, what are you doing or what is the SBA doing to inform? We have about 7,000 banks, I think roughly, in the country and we are really pressing—I am pressing and I think I am joined by other members of this Committee—for the SBA to be better partners or the banks to be better partners with the SBA in all of our programs. We have 504 lending programs, et cetera, et cetera.

What is the SBA doing today, now that you are a Cabinet level position, which we are very happy that the President has asked Karen Mills to be part of the Cabinet. What are you doing with the community banks that are part of the SBA family to get them to better understand SBICs?

Mr. HASKINS. Well, with respect to the SBIC program, we work with the bank regulators such as Barry and we have worked with FDIC and others to make our presence known at various events.

Chair LANDRIEU. In what specific ways? Do you know? Is that what you or your office does?

Mr. HASKINS. For example, I was in Denver a couple months ago to appear at an FDIC conference, which was attended by mostly community banks interested in investing in—potentially investing in the SBIC program. And we have done other events like that as well.

Chair LANDRIEU. Do we know how many new banks—let us just say roughly last year, and if you do not know, you could submit it—decided to take specific action to know about SBICs and ask for some sort of special briefing or something like that? How many new banks came into the program? I do not know how to ask the specific question. Do you know what I am trying to get? Not that you just share information with, but that respond to you in some formal or official way they would like to be part of it. About how many community banks do that?

Mr. HASKINS. I do not think we have a good answer for that. I would say the primary contact with the banking industry has been through the fund managers as opposed to SBA directly, and we sort of backstop them saying, Listen, we are here and willing to assist you in any efforts you have to educate your potential investors. And as I said, we are willing to deal with them one on one or as a group.

We have a number of SBICs that work with community banks very closely. For example, in Texas, there is an SBIC that is formed entirely around community banks. We have a number of SBICs in other States that have significant community bank participation in their fund. And we work with them and tell them, We are more than willing to meet with them individually, talk to them over the phone, appear at events to educate them as to the program. But I cannot give you a good answer as to how effective we are in that.

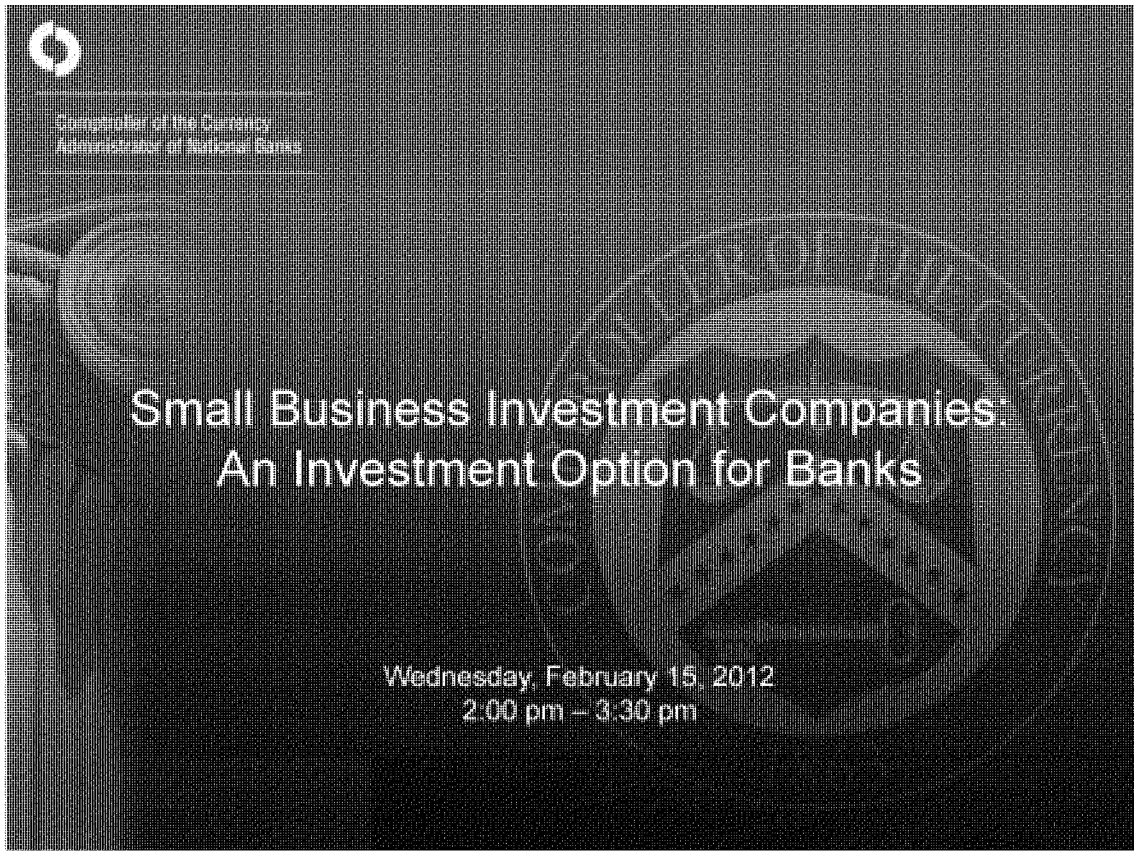
Chair LANDRIEU. And, Treasury, what are you all——

Mr. WIDES. Yes. The Comptroller of the Currency actually has been out participating in some of these outreach events that Harry just mentioned. We held about 40 or 50 sessions last year with the Federal Reserve and the FDIC where we bring community bankers in to locations, like Harry mentioned and Denver was one, and educate them about the SBIC, the 7(a), the 504 program.

The OCC has held tele-seminars for our banks with SBA for about the last four or five years on some of these topics, 7(a), 504, and then last month on the SBIC program that Carl actually participated on. I will be happy to provide a copy of this for the record——

Chair LANDRIEU. Thank you. Without objection.

[The information follows:]


Comptroller of the Currency
Administrator of National Banks
Small Business Investment Companies:
An Investment Option for Banks
Wednesday, February 15, 2012
2:00 pm – 3:30 pm

Small Business Investment Companies: An Investment Option for Banks

Presented by:

- Barry Wides, Moderator and Presenter
  Office of the Comptroller of the Currency

- Sean Greene
  U.S. Small Business Administration

- Robert McE. Stewart
  Spring Capital Partners II, LP

- Carl Kopfinger
  TD Bank

Agenda

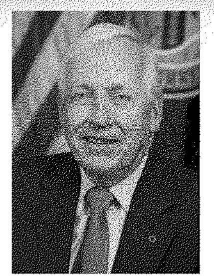
Welcome by John Walsh

Opening Remarks by Barry Wides

PowerPoint Presentation

Questions and Answers

John Walsh



John Walsh
Acting Comptroller of the Currency

John Walsh became acting Comptroller of the Currency on August 15, 2010. The Comptroller of the Currency is the chief executive of the Office of the Comptroller of the Currency (OCC), which supervises approximately 2,000 national banks and federal savings associations as well as 50 federal branches and agencies of foreign banks in the United States. These institutions comprise nearly two-thirds of the assets of the commercial banking system. The Comptroller also is a director of the Federal Deposit Insurance Corporation and NeighborWorks® America.

Mr. Walsh joined the OCC in October 2005 and previously served as Chief of Staff and Public Affairs.

Prior to joining the OCC, Mr. Walsh was the Executive Director of the Group of Thirty, a consultative group that focuses on international economic and monetary affairs. He joined the Group in 1992, and became Executive Director in 1995. Mr. Walsh served on the Senate Banking Committee from 1986 to 1992 and as an International Economist for the U.S. Department of the Treasury from 1984 to 1986. Mr. Walsh also served with the Office of Management and Budget as an International Program Analyst, with the Mutual Broadcasting System, and in the U.S. Peace Corps in Ghana.

Mr. Walsh holds a masters in public policy from the Kennedy School of Government, Harvard University (1978), and graduated magna cum laude from the University of Notre Dame in 1973. He lives in Catonsville, Maryland. He is married with four children.

Barry Wides

Barry Wides
Deputy Comptroller for Community Affairs

Barry Wides is the OCC's Deputy Comptroller for Community Affairs, in which capacity he leads a department of community development professionals located in Washington, D.C., and the four OCC districts. The Community Affairs staff is responsible for outreach to banks and their community partners, the administration of the Public Welfare Investment authority, the development of policy, and the creation and distribution of educational materials on community development issues.

Prior to joining the OCC in 1999, Mr. Wides was Director of Affordable Housing Sales at Freddie Mac. He led a nationwide sales team responsible for developing products and strategies to achieve the company's congressionally mandated affordable housing goals. He previously served as Deputy Director of the Resolution Trust Corporation's Affordable Housing Program. Mr. Wides began his career in Washington as a presidential management intern and budget examiner at the Office of Management and Budget.

Mr. Wides is a Certified Public Accountant and holds a B.S. in accounting and an M.B.A. from Indiana University.

Sean Greene

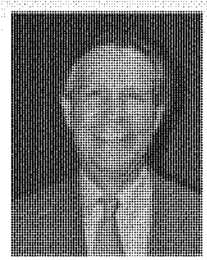
Sean Greene
Associate Administrator for Investment and Special Advisor for Innovation

Sean Greene is the Associate Administrator for Investment and Special Advisor for Innovation at the U.S. Small Business Administration (SBA). He is responsible for the Small Business Investment Company program, a growth capital program with approximately $16 billion of assets under management, and the Small Business Investment Research program, one of the government's largest innovation programs, which provides more than $2 billion of research and development funding to small businesses each year. He also leads SBA's efforts to stimulate high-growth entrepreneurship and has been one of the leaders in the administration's Startup America initiative.

Mr. Greene brings 20 years of experience as an entrepreneur, investor, and business strategist to the SBA. He was the founder and CEO of Away.com, an online travel company that he sold to Orbitz. He was a co-founder of Rock Creek Ventures and LaunchBox Digital, a seed-stage investment firm in Washington, D.C. Previously Mr. Greene was a management consultant with McKinsey and Co.

Mr. Greene holds a bachelor of arts degree from Princeton University and a master of business administration degree from Yale University's School of Management. He was a Fulbright Scholar at the National University of Singapore.

Robert McE. Stewart



Robert McE. Stewart
General Partner
Spring Capital Partners, LP

Robert McE. Stewart is a General Partner and co-founder of Spring Capital Partners which was started in 1999. The firm provides expansion and acquisition capital to growing and medium-size businesses. Mr. Stewart has over 20 years of experience as a commercial lender, investment banker, and merchant banker. He is responsible for generating new investment opportunities, negotiating and structuring investments, monitoring current investments, and overall fund management. The firm operates two funds – Spring Capital Partners LP and Spring Capital Partners II, L.P. - both Small Business Investment Company funds ("SBIC").

Mr. Stewart has initiated, invested, and closed numerous transactions involving various financing techniques, including subordinated debt with warrants, bridge loans with warrants, convertible and preferred stock, and common stock. He has closed merger and acquisition transactions ranging from $5 million to $350 million; completed initial public offerings and follow-on equity offerings ranging from $25 million to $150 million; and conducted overall analysis, due diligence, valuation, investment negotiation, and ongoing oversight of these investments.

He has served as board observer to the firm's portfolio companies and has been a director of numerous companies. He is the Chairman of the Small Business Investor Alliance (formerly the National Association of Small Business Investment Companies), and his professional affiliations include the Association for Corporate Growth, the Mid-Atlantic Venture Association, and the Florida Venture Forum.

Mr. Stewart holds a bachelor of arts (cum laude) from Hampden-Sydney College and a master of business administration from Wake Forest University.

Carl Kopfinger

Carl Kopfinger
Senior Vice President
TD Bank

Carl Kopfinger is a Senior Vice President of TD Bank, based in Philadelphia, Pa. He is responsible for managing the bank's venture capital and mezzanine investment portfolio, which comprises more than 70 funds from Maine to Florida. He joined TD Bank and its predecessor bank in 2004.

He also represents the bank as a limited partner, advisory, and/or valuation committee member in many of its venture and mezzanine fund investments, including Argosy Capital, BIA Digital, Boathouse Capital, CapitalSouth Partners, CEI Ventures, Commerce Health Ventures, Edison Ventures, First New England, Greycroft Partners, Ironwood Equity, Ironwood Mezzanine, High Peaks, Liberty Ventures, Long River Ventures, NewSpring Health Ventures, NewSpring Mezzanine, North Atlantic Capital, Pine Street Capital, Plexus Capital, Point Judith Ventures, Praesidian Opportunity Fund, Seacoast Capital, and Village Ventures.

Mr. Kopfinger has more than 30 years of progressive financial experience. He has coached and judged venture-backed companies for the Mid-Atlantic Venture Conference, the Three Rivers Venture Fair, Early Stage East, and the NJ Venture Conference. Before joining TD Bank, Mr. Kopfinger worked for FleetBoston Financial, now Bank of America, and with Comerica Bank's Technology & Life Sciences Division. While with previous employers—Bank Hapoalim, PNC Bank, and Mellon Bank—he worked with Fortune 1000 companies, providing them with structured finance and other credit and non-credit products.

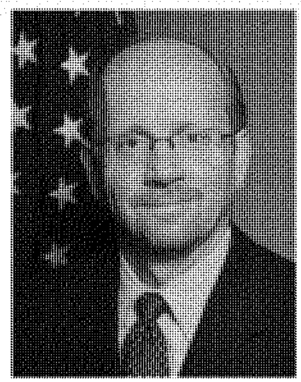
Mr. Kopfinger is on the board of the Small Business Investor Alliance (formerly the National Association of Small Business Investment Companies), the Delaware Tamanend Foundation, the University City Science Center, and the NJ Technology Council. His professional affiliations include the Association for Corporate Growth and the Greater Philadelphia Alliance for Capital & Technologies.

Welcome

John Walsh
Acting Comptroller of the Currency

Opening Remarks

Barry Wides
Deputy Comptroller for Community Affairs



Investing With the SBA

The Small Business Investment Company (SBIC) Program

Sean Greene
Associate Administrator for Investment and
Special Advisor for Innovation
sean.greene@sba.gov

harry.haskins@sba.gov

Why Invest in SBICs

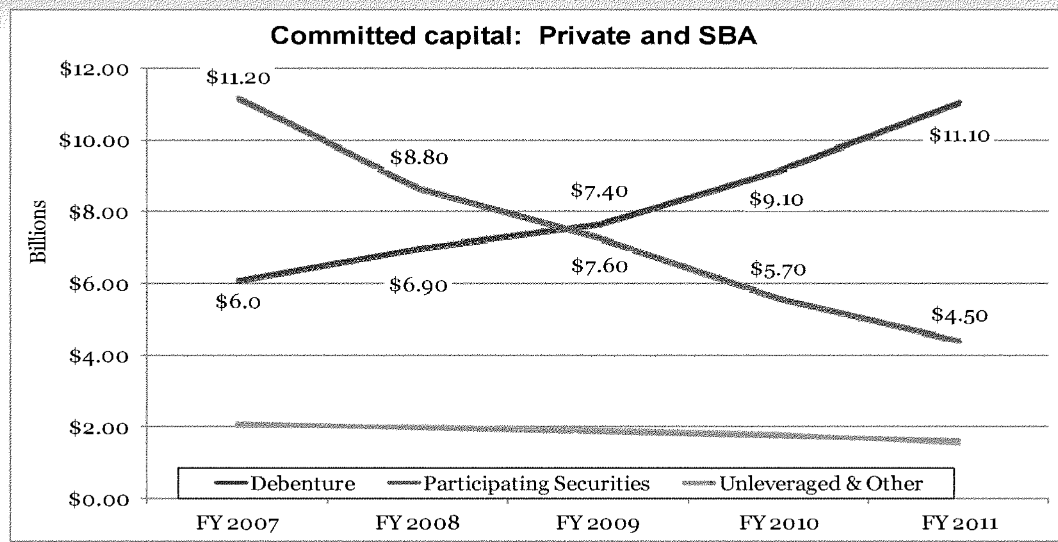
- Compelling market need and opportunity
- Attractive returns and strong economics
- Unique considerations for bank investors – Volcker rule and CRA
- Long-established program with long history and recent momentum

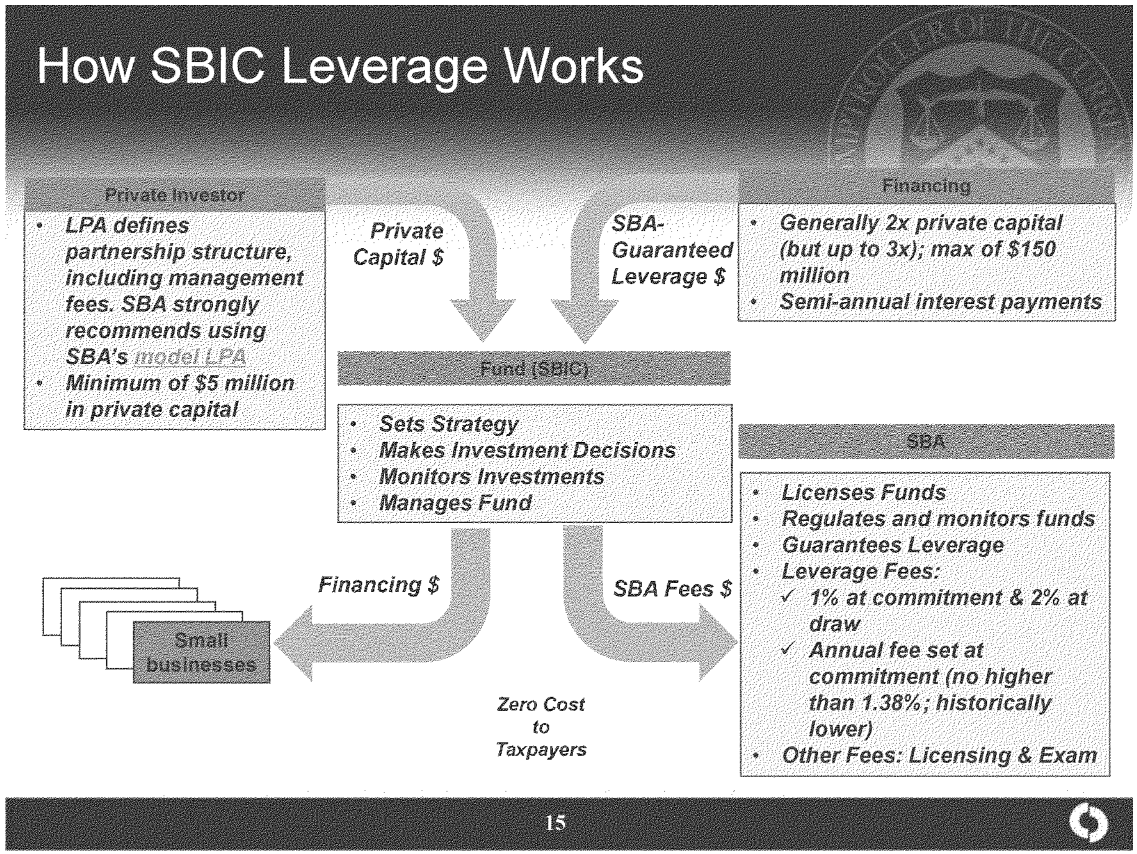
The SBIC Program in Brief

- Created in 1958 to bridge the gap between entrepreneurs' need for capital and traditional sources of financing:
- SBA invests long-term capital in privately owned and managed investment firms licensed as Small Business Investment Companies (SBICs)
- Once capitalized, SBICs make debt and equity investments in some of America's most promising small businesses, helping them grow

SBIC SUCCESS STORIES

SBIC Program: Snapshot




How SBIC Leverage Works
Private Investor
LPA defines partnership structure, including management fees. SBA strongly recommends using SBA's model LPA
Minimum of $5 million in private capital
Private Capital $
SBA-Guaranteed Leverage $
Financing
Generally 2x private capital (but up to 3x); max of $150 million
Semi-annual interest payments
Fund (SBIC)
Sets Strategy
Makes Investment Decisions
Monitors Investments
Manages Fund
SBA
Licenses Funds
Regulates and monitors funds
Guarantees Leverage
Leverage Fees:
1% at commitment & 2% at draw
Annual fee set at commitment (no higher than 1.38%; historically lower)
Other Fees: Licensing & Exam
Financing $
SBA Fees $
Small businesses
Zero Cost to Taxpayers
15

SBIC Structure

After issuing them a license, the SBA allows funds to access low-cost, government-guaranteed capital in the form of debentures.

Standard License

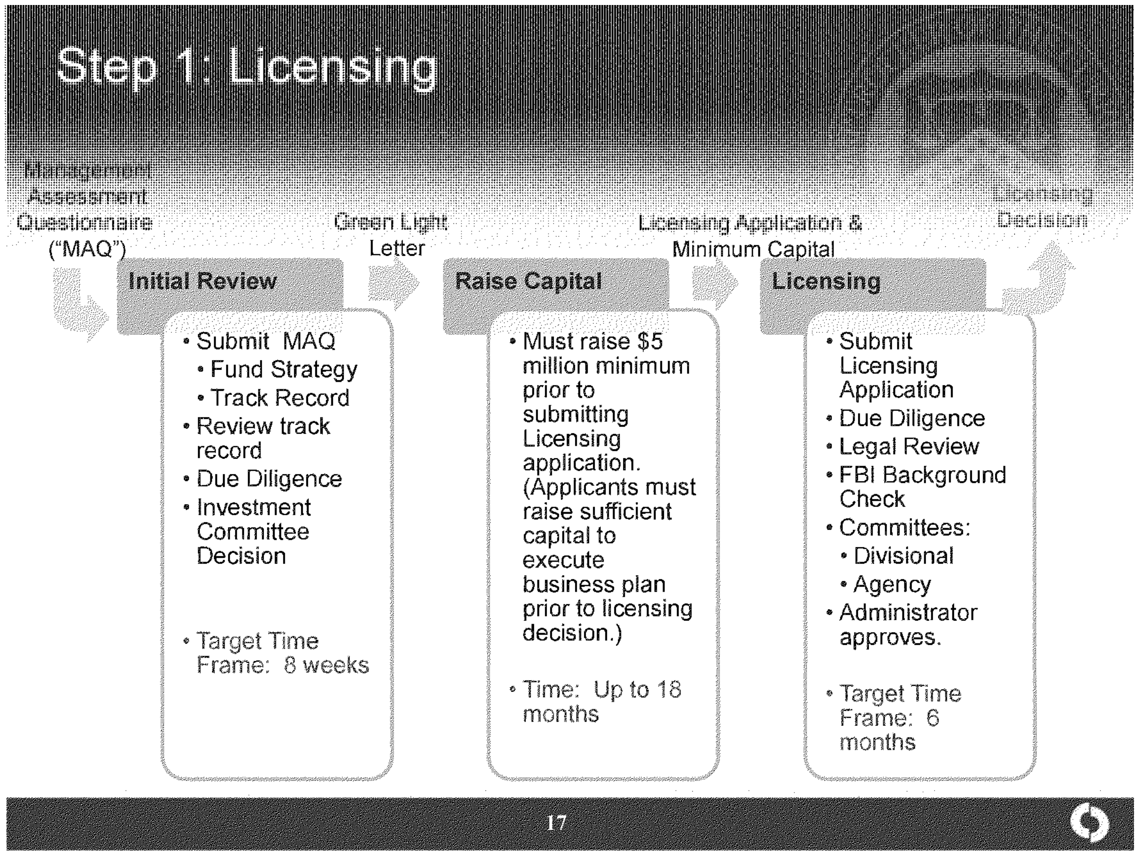
Investment Strategy:
Applicants have broad mandate to invest in U.S. small businesses, with few restrictions on their strategy or capital allocation.

Application Process:
- Rolling

Leverage Available:
- Two Tiers
- Cap of $150 million

Standard Terms of SBA Debentures

Amount:	Typically 2x (but up to a maximum of 3x) the capital raised from private investors
Term:	10 years with principal payment due at maturity; NO prepayment penalty
Interest:	Semi-annual payment based on a spread above the 10-year Treasury note
Fees:	1% commitment fee; 2% drawdown fee Annual fee due semi-annually
Uses:	Investments in "small businesses" as defined by the SBA Office of Size Standards and federal regulations, generally in later stage and "buyout" transactions. Real estate and project finance generally prohibited.


Step 1: Licensing
Management Assessment Questionnaire ("MAQ")
Initial Review
• Submit MAQ
• Fund Strategy
• Track Record
• Review track record
• Due Diligence
• Investment Committee Decision
• Target Time Frame: 8 weeks
Green Light Letter
Raise Capital
• Must raise $5 million minimum prior to submitting Licensing application. (Applicants must raise sufficient capital to execute business plan prior to licensing decision.)
• Time: Up to 18 months
Licensing Application & Minimum Capital
Licensing
• Submit Licensing Application
• Due Diligence
• Legal Review
• FBI Background Check
• Committees:
• Divisional
• Agency
• Administrator approves.
• Target Time Frame: 6 months
Licensing Decision
17

Step 2: Operating as SBIC

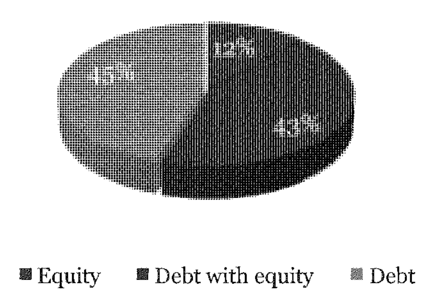
- The Office of Operations acts as the primary point of contact for licensed SBICs.
  - Process leverage commitments & draws
  - Process requests (conflicts of interests, transfer of LP interests, etc...)
  - Monitor regulatory compliance and financial health.

Monitoring Regulatory Compliance & Financial Health

- Key SBIC Reporting:
  - Financing Forms (Form 1031)
  - Annual & Quarterly financials (SBA Form 468)
- Examinations
  - Annual for SBICs with leverage
  - Every two years for SBICs with no leverage
- Key Monitoring Metrics
  - Portfolio company performance
  - Portfolio Values relative to leverage
  - Capital Impairment Percentage ("CIP")

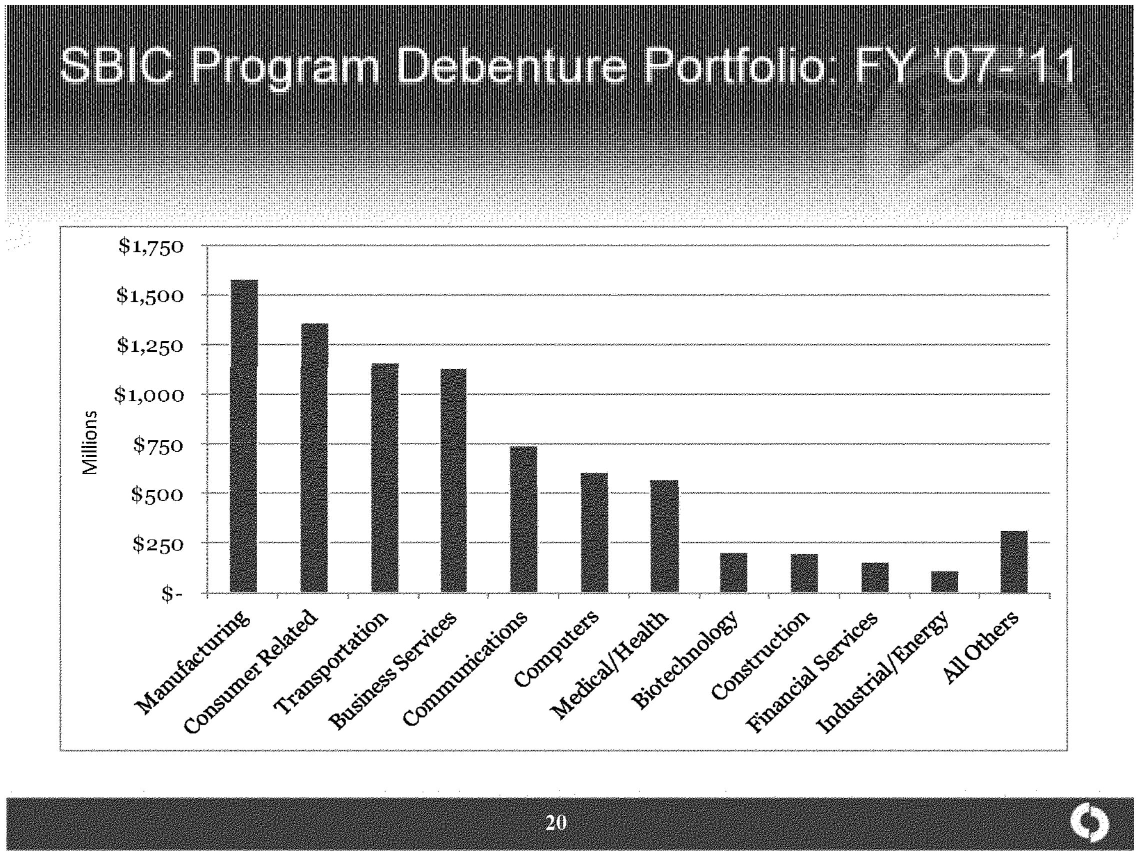
Program Data

SBIC Program Debenture
Portfolio: FY '07-'11

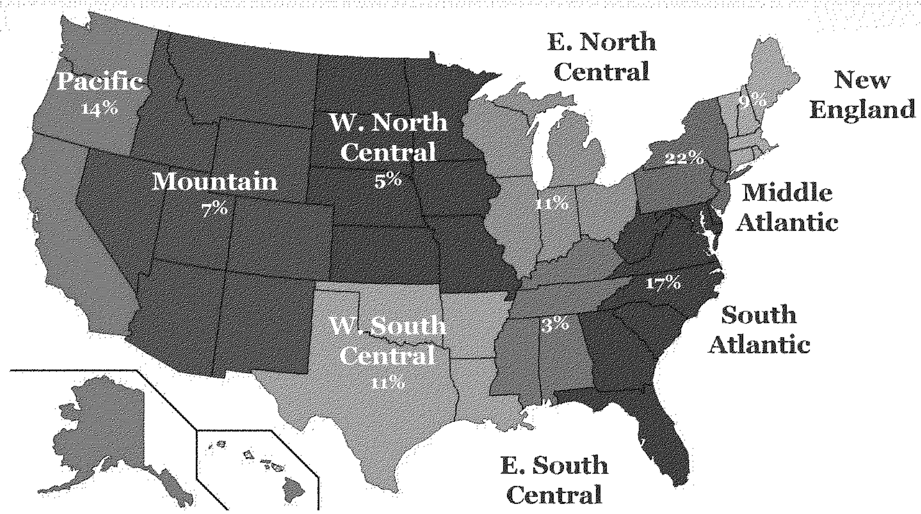


Typical Fund Strategies

- Mezzanine
- Senior Debt
- "One Stop"
- Venture Debt
- Leasing


SBIC Program Debenture Portfolio: FY '07-'11
$1,750
$1,500
$1,250
$1,000
$750
$500
$250
$-
Millions
Manufacturing
Consumer Related
Transportation
Business Services
Communications
Computers
Medical/Health
Biotechnology
Construction
Financial Services
Industrial/Energy
All Others
20

SBIC Program Debenture Portfolio: FY '07-'11

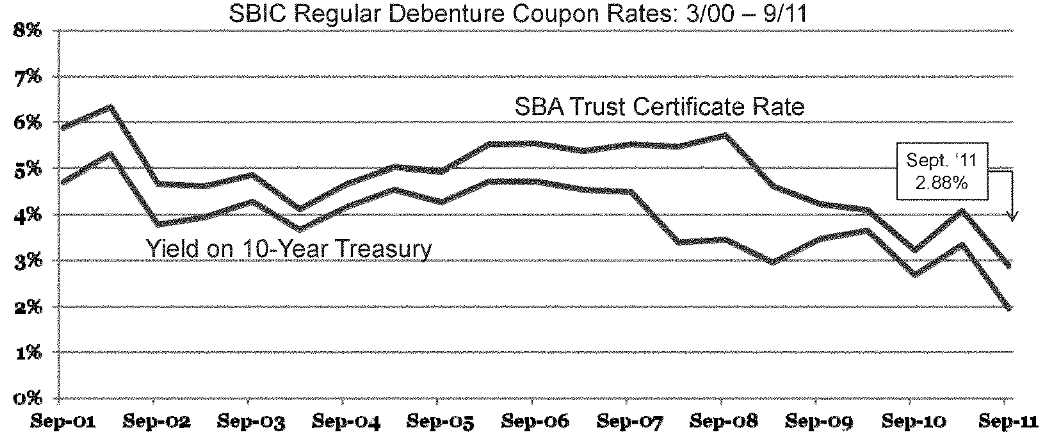


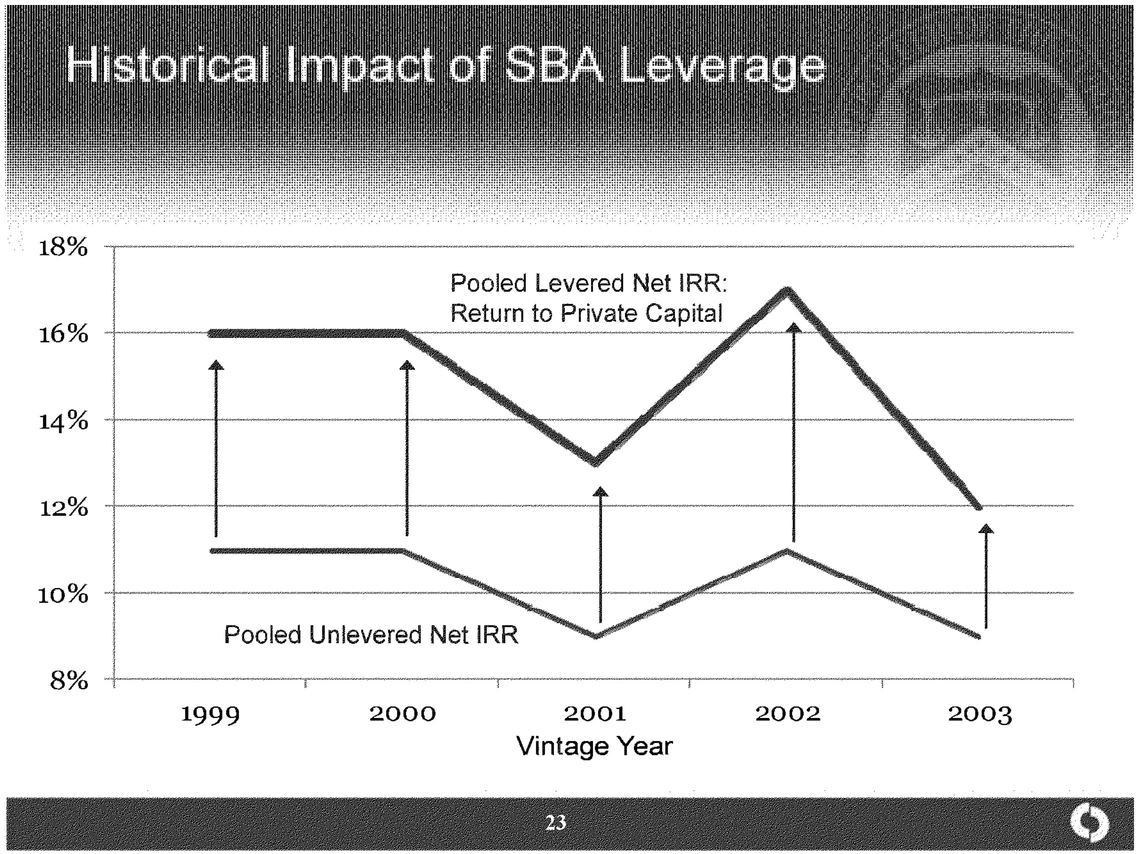
Note: Percentage total does not sum to 100% due to rounding

Low Cost Capital

The SBA's leverage commitments to licensed SBICs are funded through the sale of government-backed securities called "trust certificates." Every March and September, these commitments are pooled and sold on the open market at a premium over 10-year Treasury Notes.

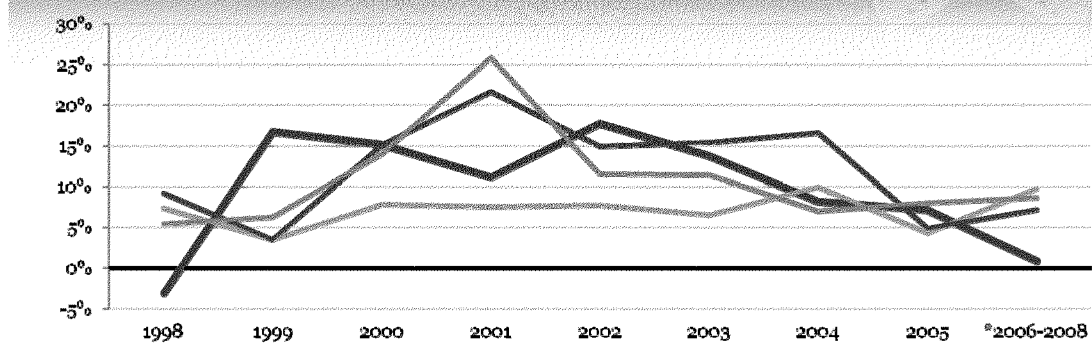
SBIC Regular Debenture Coupon Rates: 3/00 – 9/11




Historical Impact of SBA Leverage
18%
16%
14%
12%
10%
8%
Pooled Levered Net IRR:
Return to Private Capital
Pooled Unlevered Net IRR
1999
2000
2001
2002
2003
Vintage Year
23

Strong Historical Returns

Returns by Vintage Year 1998 – 2008



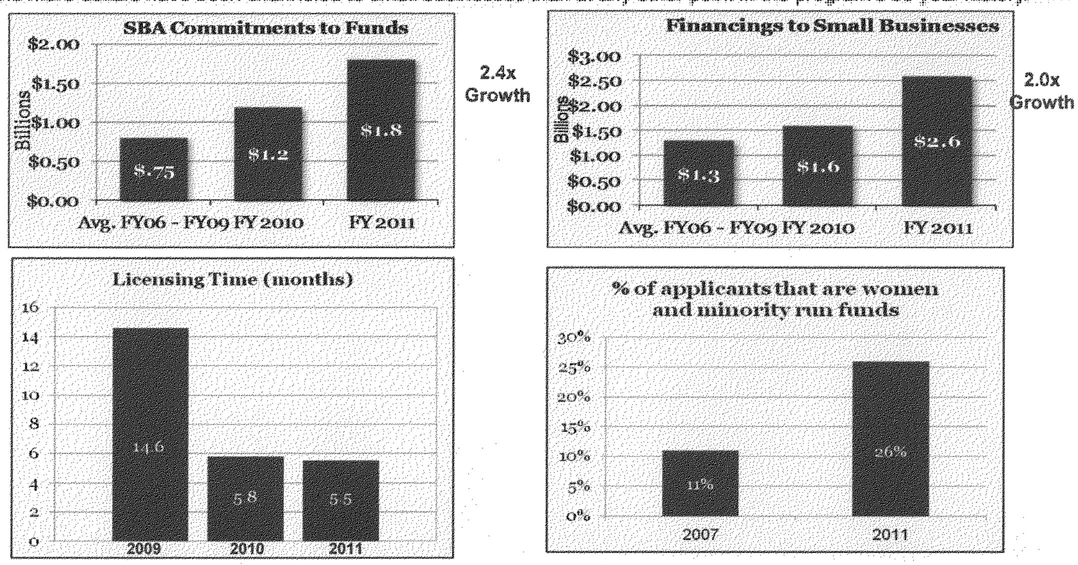
- SBIC Debenture Funds Pooled IRR (1)
- Preqin US Mezzanine Pooled IRR (2)
- Thomson Sm. & Med. Buyout & Mezzanine Pooled (3)
- Preqin US Sm. Buyout Pooled IRR (2)

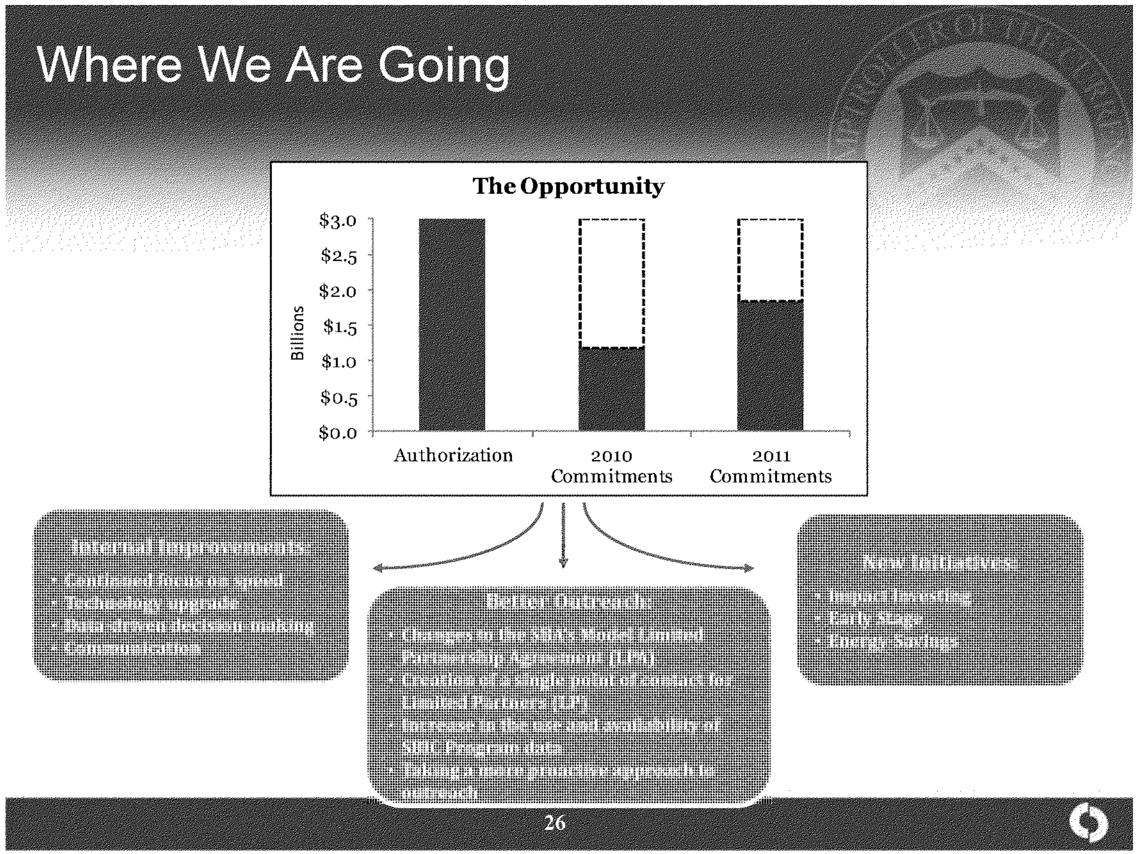
** 2006 – 2008 data is presented as an arithmetic mean of the pooled IRRs for those years*

(1) SBIC Vintage Year determined by date of license. Data as of 12/31/10 ; Returns calculated based on information collected as part of annual financial statement submissions to SBA; Returns include an assumed 20% carried interest payment to the GP after LPs have received distributions equal to paid-in capital.
(2) Source: Preqin Ltd. www.preqin.com. Data includes "Most up-to-date" figures and was accessed 12/12/11; Benchmark may include some funds licensed as SBICs
(3) Source: Thomson Reuters. www.thomsonone.com. Data as of 12/31/10. Data includes US funds from $5M to $500M categorized as Small Buyout, Medium Buyout, or Mezzanine.

2011 SBIC Debenture Program – Another Record Year

Fiscal years 2010 and 2011 have been record years for the SBIC Program. More capital has been committed to SBICs and more dollars have been channeled to small businesses than at any other point in the program's 53 year history.



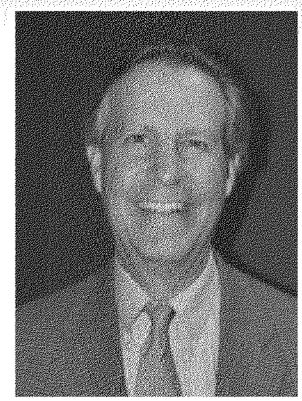

Where We Are Going
The Opportunity
Billions
$3.0
$2.5
$2.0
$1.5
$1.0
$0.5
$0.0
Authorization
2010 Commitments
2011 Commitments
Internal Improvements:
• Continued focus on speed
• Technology upgrade
• Data-driven decision-making
• Communication
Better Outreach:
• Changes to the SBA's Model Limited Partnership Agreement (LPA)
• Creation of a single point of contact for Limited Partners (LP)
• Increase in the use and availability of SBIC Program data
• Taking a more proactive approach to outreach
New Initiatives:
• Impact Investing
• Early Stage
• Energy Savings
26

Additional initiatives

• Unleveraged licensees	• CRA and Volcker rule benefits • Could be bank owned, or bank funded
• Impact Investing program	• $1 Billion commitment over 5 years • Focus on 1) underserved communities (LMI or economically distressed or 2) Sectors of national priority (e.g. education, energy)
• Early Stage Program	• $1 Billion commitment over 5 years • Focus on early stage venture funds • 1:1 leverage, max leverage of $50 mil

Advantages of an SBIC

- Compelling Economics
  - ✓ Low cost of capital: SBA Debenture leverage interest rates based on 10-year Treasury plus a market-based spread for liquidity and prepayment risk. See website for historic rates.
  - ✓ Enhanced Returns to Private Investors: The low cost of capital increases returns to private investors in good performing funds. See appendix for historic SBIC Debenture performance.
  - ✓ Rapid Deployment of Funds: Ability to raise typically two-thirds of a fund's capital from SBA, thereby minimizing the time they spend fundraising and focusing their efforts on investing.
  - ✓ Flexible terms: Ten year debenture term with semi-annual interest payments avoids problem of duration mismatch.
  - ✓ Increased Financial Scale: SBA leverage provides increased capital from which SBICs may fund more investments or increase funding to portfolio companies.
- Friendly to Bank Investors
  - ✓ Volcker Rule Exemption Benefits: Bank investments into SBICs are exempt, from the 3% cap set forth by the Volcker Rule enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (PL-111-203)
  - ✓ Community Reinvestment Act: Investments in Small Business Investment Companies are presumed qualified for Community Reinvestment Act credits.
- The Opportunity of "Small Business"
  - ✓ Despite being the bedrock of the American economy, the small business community is underserved and represents a value opportunity for investors.



How SBICs Operate

Robert McE. Stewart
General Manager
Spring Capital Partners II, LP
rms@springcap.com

Mission

- To contribute materially to the success of small businesses by providing critical components of investment capital
- To generate superior risk-adjusted returns for the Fund's limited partners

SCP Overview

- Founded in 1999: Fund I -- $75.0 million; Fund II -- $113.0 million
- Investments in 39 portfolio companies
- Investments of $148.4 million
  - -- SBA leverage used of $77.8 million
  - -- Limited partner capital used $49.7 million
- 21 active portfolio companies

Industry sectors for the 39 Portfolio Companies:

Manufacturing (11)	Retailers (3)
Aviation Services (7)	Software (3)
IT Outsourcing (6)	Healthcare Services (1)
Telecom (6)	Logistics (2)

Different Types of Funds

Investment Strategy

- Senior debt–stretch, cash flow, or "air ball"
- Purchase money financing–primarily for capital expenditures
- Enterprise value–mezzanine or second lien with equity upside through warrants
- Equity-oriented–unsecured, higher risk, higher return

Use of Proceeds

- Growth and expansion capital
- Acquisition/buyout financing
- Debt refinancing
- Recapitalizations

SBA Relationship

- $102.0 million of leverage commitments
- $45.0 million of leverage outstanding
- $32.8 million of leverage repaid
- Just-in-time funding with permanent 10-year fixed-rate takedowns market-based off of 10-year Treasuries
- Weighted average cost of funds: SCP I–5.36%
- Weighted average cost of funds: SCP II–4.77%

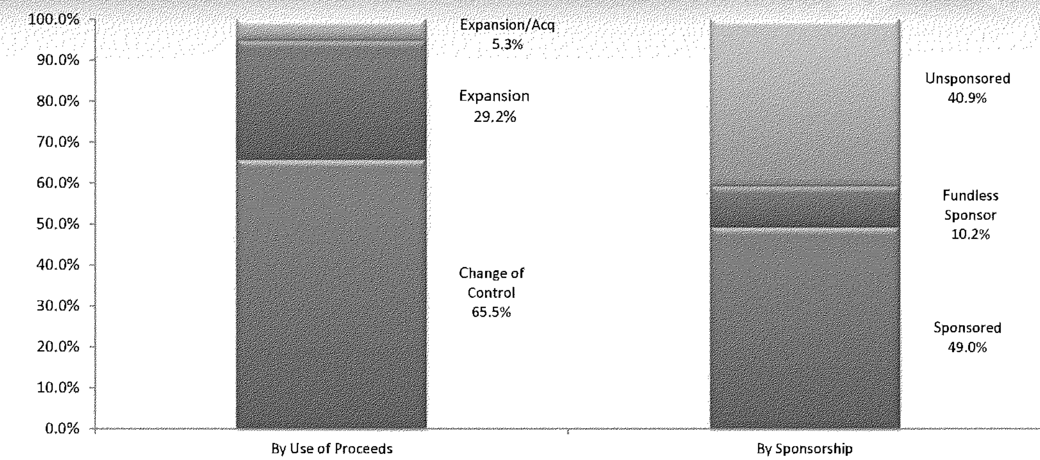
Investment Philosophy

- Strong products and market positions (execution risk, not product or market risk)
- Quality management with a significant equity stake
- Sound credit position ► equity sponsor, ample liquidity, or other identified source of additional junior capital if needed
- Minimum revenue of $10 million (most recent fiscal year or projected for the next fiscal year based on contracts or current run rate)
- Profitable and predictable financial performance
- Exit strategy, realization of equity value

Excluded Investments

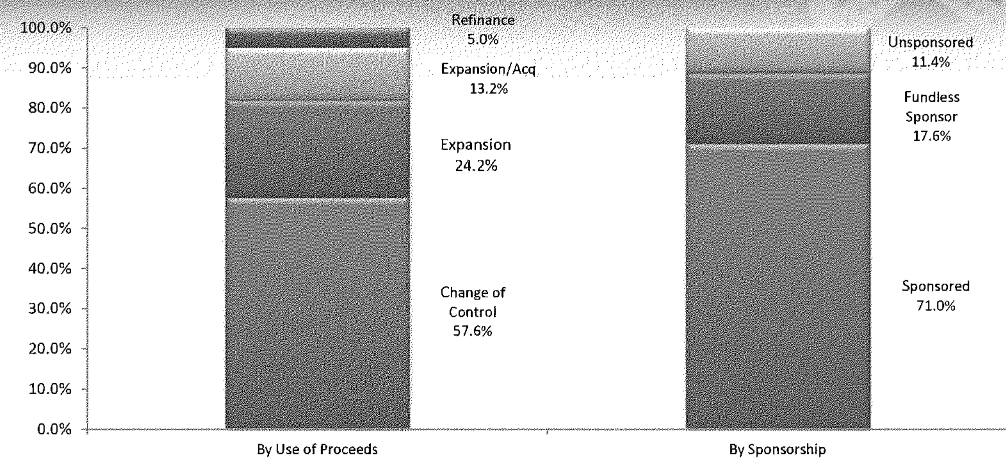
- Start-ups or seeds
- Turnarounds or bankruptcies
- Real estate companies
- Finance or investment companies
- Foreign companies

SCP I Investment Statistics



- Average Revenue at Close: ~$26 million
- Average EBITDA at Close: ~$1.9 million
- Average Investment per Company: ~$3.0 million

SCP II Investment Statistics



- Average Revenue at Close: ~$41.5 million
- Average EBITDA at Close: ~$4.5 million
- Average Investment per Company: ~$4.2 million

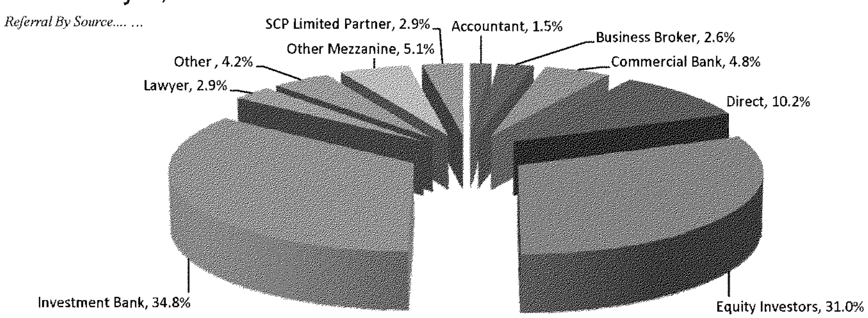
Fund Operations

- Origination
- Deal structuring
- Due diligence
- Investment approval
- Investment monitoring
- LP communications/reporting

Origination

- Approximately 2,500 referrals

Referral By Source.... ...



- Active participation in industry organizations
  - Small Business Investor Alliance (SBIA)
  - Association for Corporate Growth (ACG)
  - Mid-Atlantic Venture Association (MAVA)
  - Alliance of Merger & Acquisition Advisors (AMAA)
- Strategic partnering

Deal Structuring

Standard terms: Subordinated Debt With Warrants

- 12%-14% interest rate
- Warrants to achieve an expected return of 20+% with 5 year put right
- 5-year maturity
- 2% closing fee

Alternative Structure

- Coupon-only subordinated debt
- Minority equity position

Significant current return and redeemable equity upside on all investments

Due Diligence

- Site visits and management interviews by at least two principals
- Extensive business and legal due diligence checklists customized for each transaction
- Frequent utilization of knowledgeable network resources
- Background checks of key managers and investors
- Audited financials or independent accounting review
- Customer calls
- Investment memorandums and follow-up on Investment Committee questions

Investment Approval

- Investment committee of the General Partner: the principals and two outside members
- Unanimous approval required for all investments
- Advisory Board: 5-7 outsiders
- Quarterly meetings
- Review current portfolio companies, valuations, fund operations, and prospective investments

Investment Monitoring

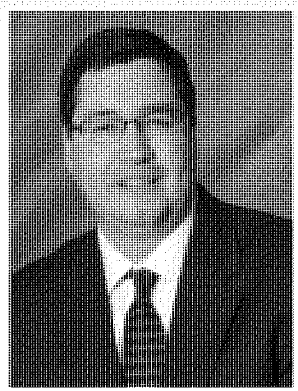
- Monthly financial packages
- Board observation rights–quarterly attendance
- Quarterly covenant compliance certification
- Consent rights on key events
- Advisory role as needed

LP Communications/Reporting

- Daily communication among principals
- Biweekly partners' meetings
- Investment Committee meetings as needed
  - Transaction approval
  - Approval of material changes in investment terms
- Quarterly Advisory Board meetings
- Quarterly reports to limited partners
  - Financial reports
  - Portfolio company reports
  - Letter from the General Partner
- Annual limited partners' meetings

Case Study

- Well-known government contractor providing high-end technical application software with underutilized IP
- Revenues at time of investment slightly over $17.0 million
  - EBITDA approximately $1.0 million
  - Investment of $3.75 million sub-debt and $750k of equity
  - New management /employees invested alongside venture fund
- After transaction company grew dramatically
  - Strong organic growth–domestic/international
  - Developed strong commercial products
  - Provided additional $2.0 million for growth capital
  - Increased employee base over 100% - largest small business contract
- Revenues/EBITDA at exit approximately $60 million/$3 million
  - Conducted extensive sale process
  - Global Fortune 100 acquired all stock
  - Management /employees retained by acquirer
- IRR in excess of 33% and cash-on-cash of 1.5x



Investing in SBICs:
A Bank LP's Perspective

Carl Kopfinger
Senior Vice President
Community Capital Group
TD Bank
carl.kopfinger@td.com

History With SBIC Program

- TD Bank has been investing in the SBIC asset class for more than a decade.
- TD Bank has a blended investment in both the mezzanine and participating securities programs within the bank's footprint from Maine to Florida.
- The participating securities program was terminated in October 2004 and expired on September 30, 2008, following the technology bubble burst.

Bank Investment Considerations

- Permissible bank investment under Dodd-Frank/ Volcker Rule–carve out for SBICs.

- Equally important is the expected economic returns generated for each bank's shareholders.

- Evaluate strong investment managers with a dependable track record of delivering solid results.

Other Investment Considerations

- Banking relationships that develop with the fund, the fund manager, the General Partners and the fund's portfolio companies.

- Investment asset diversification.

- An attraction for a bank is the CRA-qualified opportunity.

Due Diligence – Checklist

- Prior Track Record
- Management
- Investment Process
- Partnership Terms
- References
- Document Checklist
- Portfolio Monitoring

Due Diligence – Track Record

- Evaluate prior investment track record of Fund managers
  - Assess prior IRR returns
  - Contrast the team's deal underwriting to its stated strategy
    - Is it consistent or does the team deviate from its stated underwriting approach, e.g., investing in equity securities when its skill set is mezzanine lending?

Due Diligence - Management

- Team cohesiveness
  - How long has the team worked together and in what capacity?
- Team departures
  - Understand why there are changes
- Conduct face-to-face meeting with team
- Perform Lexis-Nexis background checks on senior professionals
- Understand how management communicates with its Limited Partners–e.g., does it provide quarterly LP updates?

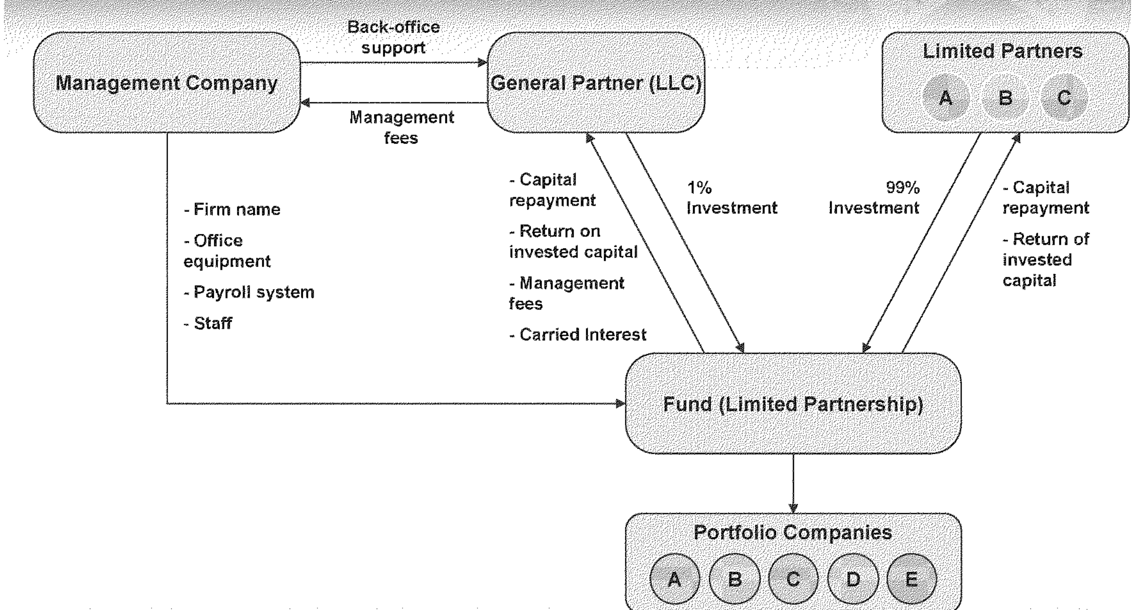
Due Diligence - Fund Investment Process

- What are the fund's key competitive differentiators?
- Decision-making process
- For new investments
  - What is the exit strategy thought process on the front end?
- Formal procedures managing portfolio risk
- Valuation process & policies
- Lessons learned & measures taken to avoid future risks

Due Diligence-Partnership Terms

- Limited partnership terms
  - Investment period
  - Recycling of returned capital
  - Diversification
- Fund capitalization–private LP capital vs. SBA match
- How much are the general partners contributing to the fund?
- Any preferred return to the limited partners
- How are losses/ gains distributed
- Investment Committee/ Advisory Board roles

Limited Partnership Structure



Due Diligence–Background References

- Co-investors
- Other limited partners (talk with LPs who are not returning LPs)
- Former partners
- Former employers
- Portfolio company CEOs
- Senior lenders

Due Diligence—Document Checklist

- Limited Partnership Agreement
- Subscription Agreement
- Private Placement Memo
- Management Assessment Questionnaire (MAQ)
- Most Recent PowerPoint Presentation
- Audited Financial Statements, if available

Portfolio Monitoring – Best Practices

- Conduct annual in-person meeting and more frequent telephonic meetings with the investment team
- Review fund communications–quarterly and audited annual financial statements, K-1s, etc.
- Obtain annual capital account statement

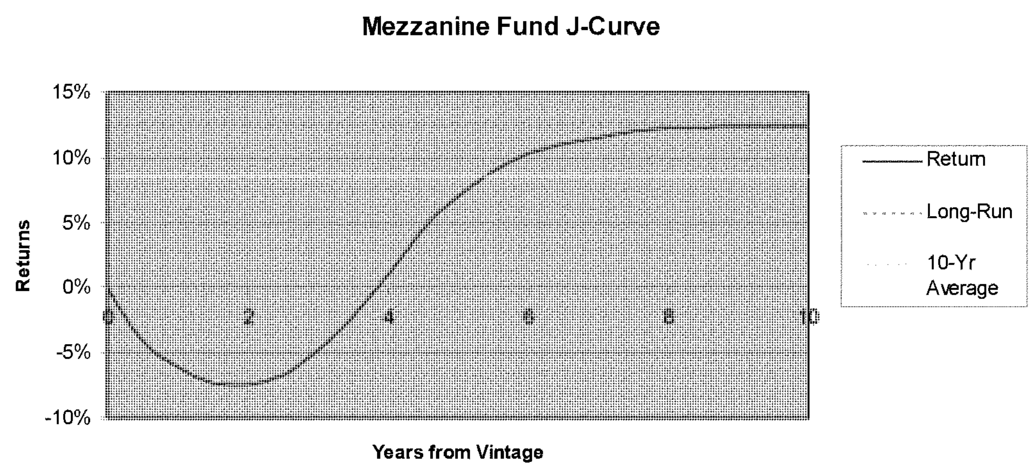
Risks

- Loss of capital–by far the greatest risk
- Fund impairment
  - Fund is required to provide SBA with quarterly Capital Impairment Worksheet.
- Timing of the "return of capital"
  - Understanding of when the SBA allows distributions of retained earnings available for distribution, or "READ," as it is referred to commonly

Risk Mitigants

- Mitigants
  - Meticulous due diligence process
  - Underwriting-experienced managers who have previously executed upon consistent strategy
  - Shallower J Curve for mezzanine funds

Return on Investor Capital



Summary

- SBA and OCC have a tremendous opportunity to educate the banking sector with this investment class
- Understand the SBIC program–talk with SBA
- CRA credit for Fund investment–talk with your OCC examiner
- Perform your own due diligence–do not rely on others
- Comfort with Fund Management team and its past performance
- Patient capital

Investing in SBICs: Regulatory Considerations

Barry Wides
Deputy Comptroller for Community Affairs
Office of the Comptroller of the Currency
barry.wides@occ.treas.gov

Identifying Suitable SBIC Investments

- Contact SBA to identify SBICs currently raising funds:
  - Send email to harry.haskins@sba.gov or sean.greene@sba.gov
  - The complete SBIC list is at http://www.sba.gov/content/all-sbic-licensees-state
- Choose a promising SBIC, and then review investment strategies with senior management
  - Investment should be consistent with bank's financial condition, risk profile, and risk tolerance
  - Industry sectors and geographies should align with bank's investment and business objectives
  - Evaluate risk/return thoroughly
    - Recognize invested capital is at risk
    - SBA leverage can increase return but also increases risk and delays return of capital
    - Equity funds pose greater risk than debt funds
    - Recognize the illiquid nature of the investment

Bank Due Diligence

- Steps for evaluating SBIC investment include reviewing:
  - Limited Partnership Agreement
  - Subscription Agreement
  - Private Placement Memo
  - Fund Marketing Package
  - Management Assessment Questionnaire
  - Performance/background of general partners
  - Audited financial statements for previous funds by the sponsor

SBIC Due Diligence

- Higher level of due diligence for initial SBIC fund offering
  - 'Full' Management Assessment Questionnaire (MAQ)
    - Gathers comprehensive information on proposed SBIC
  - 'Abbreviated' MAQ for investment in repeat fund from existing SBIC
    - Also request 'Full' MAQ for the first SBIC issued by the sponsor

Process to Manage Investment

- Establish a sound process for ongoing management of SBIC investment—
  - Investment valuation
  - Performance Reviews
  - Mechanisms for reporting

SBIC Investment Authority

- National banks and federal savings associations (FSA) may invest up to 5% of capital and surplus in SBICs (15 USC § 682[b]).
- SBICs are eligible public welfare investments
  - Public welfare authority for national banks (12 CFR 24)
  - *De minimus* public welfare investment authority for FSAs (12 CFR 160.36)
- FSAs also authorized to invest in service corporations engaged in a broad range of preapproved activities, including SBICs (12 CFR 159)

Capital Considerations for SBICs

- **Capital rules applying to SBIC investments**
  - **General risk-based capital rules for national banks**
    - SBICs fall into the category of nonfinancial equity investments.
    - 100% risk weight if, in aggregate, SBIC investments are less than 15% of a bank's Tier 1 capital.
    - Subject to deduction from capital if greater than 15% of a bank's Tier 1 capital.
  - **General risk-based capital rules for federal savings associations**
    - SBIC investments are risk-weighted at 100%.
  - **Advanced Approach capital rules for large national banks and FSAs**
    - 100% risk weight for SBIC equity exposures representing less than 10% of Tier 1 and Tier 2 capital (non-significant equity exposures).
    - 400% risk weight for equity exposures greater than 10% of Tier 1 and Tier 2 capital.

SBIC Investments Under CRA

- SBIC investments are qualified community development investments under CRA
  - Section 12(t)(4) of the Interagency Questions and Answers

- Assessment Area Issues—
  - CRA consideration is available if the SBIC plans to invest in a broader statewide or regional area that includes the institution's assessment area.
  - Assessment area(s) need not receive an immediate or direct benefit from the SBIC's investments, provided that the purpose, mandate, or function of the SBIC includes serving geographies or individuals located within the institution's assessment area.

- Dollar amount, innovativeness, complexity, and responsiveness are taken into consideration when evaluating an institution's investment in SBICs.

- Consideration Methods:
  - Firm information in fund's prospectus
  - Best efforts by fund manager
  - Specific earmarks in assessment areas

SBIC Investment Under CRA (cont.)

Investment Timing Treatment

- Current period CRA consideration for the entire funded and unfunded commitment amount, if the bank's commitment to invest in an SBIC is—
  - Unconditional and legally binding, and
  - Is included on the bank's balance sheet in accordance with Generally Accepted Accounting Principles (GAAP)
  - Section 23(e)-2 of the Interagency CRA Qs&As
- Investment commitments in SBICs that received full credit in the prior period and remain unfunded will be considered as prior-period qualified investments.

Small Bank Treatment

- A small bank can request that examiners review its performance in making qualified investments, such as SBICs, to enhance a satisfactory rating.
  - Performance in making qualified investments may not be used to lower a rating.
  - Cannot raise a "needs to improve" or "substantial noncompliance" rating.

Volcker Rule

- Section 619 of the Dodd-Frank Act–also known at the Volcker Rule–amended the Bank Holding Company Act to prohibit any banking entity from engaging in proprietary trading or from acquiring or retaining an ownership interest in or sponsoring a hedge fund or private equity fund ("covered fund")
- Generally prohibits a "banking entity" from sponsoring, acquiring, or retaining an ownership interest in a "covered fund."
- A "covered fund" is an issuer that would be an investment company but for sections 3(c)(1) or 3(c)(7) of the Investment Company Act.
- Statutory exemption for investments in any SBIC that would otherwise qualify as a "covered fund" under Volcker Rule.
- However, a banking entity may not enter into any "covered transaction" with a <u>permitted</u> covered fund that it <u>manages</u>, <u>advises,</u> or <u>sponsors</u>, including an SBIC.
    - "Covered transaction" includes loan or extension of credit, a guarantee, or purchase of certain assets.
- Express prohibition against any permitted activities that involve or result in:
    - Material conflict of interest;
    - Material exposures to a high-risk asset or trading strategy;
    - Threat to the safety and soundness of the bank; or
    - Threat to the financial stability of the United States

Resources

- Frequently Asked Questions About Small Business Finance, Office of Advocacy, Small Business Administration, September 2011 http://www.sba.gov/sites/default/files/Finance%20FAQ%208-25-11%20FINAL%20for%20web.pdf.
- Office of the Comptroller of the Currency, Community Affairs, Small Business Resource Directory http://www.occ.gov/topics/community-affairs/resource-directories/small-business/index-small-business.html
- Part 107 Small Business Investment Companies, Code of Federal Regulations, Title 13, Volume 1, Revised as of January 1, 2009, can be accessed from http://www.access.gpo.gov/nara/cfr/waisidx_09/13cfr107_09.html
- Guidance on Equity Investment and Merchant Banking Activities of Financial Holding Companies and Other Banking Organizations Supervised by the Federal Reserve, June 22, 2000 http://www.federalreserve.gov/boarddocs/SRLetters/2000/sr0009a1.pdf
- Private Equity Glossary of Terms http://mba.tuck.dartmouth.edu/pecenter/resources/glossary.html
- Small Business Administration Office of Investment http://www.sba.gov/about-offices-content/1/2890
- Small Business Investor Alliance http://www.nasbic.org/
- Staebler, Michael B., "Overview of the Small Business Investment Company Program", Pepper Hamilton, LLP, January 6, 2012 http://www.pepperlaw.com/publications_article.aspx?ArticleKey=13

Questions

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Questions and Answers

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Submit your comment/question in writing by clicking on the **General Chat** tab below. Enter your comment/question in the box below the chat area and press **Enter** or click **Send**.

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  OR

- Return it via fax

Mr. WIDES [continuing]. Of this presentation that we delivered. We had about 700 bankers on the line at the Comptroller of the Currency. Walsh and I were at the Independent Community Banker's conference last week in Nashville. There were 2,200 community bankers there.

I did a presentation on the SBIC program, had good interest from the community bankers, all of whom were saying the same things that you are hearing around the Committee table today, that they view the SBIC program as a way to bring in new customers and to help grow their banking business. And I think it is just a matter of getting the word out.

We at the OCC will be putting out a how-to guide for banks to invest in SBICs later this spring, and, you know, we continue to hold these seminars for banks, letting them know that they can get Community Reinvestment Act credit for investing in SBICs, so that hopefully is an incentive out there that banks see as being in their interest as well as, of course, the fact that they really can make money on investing in these funds and grow their businesses through developing relationships with the small businesses that are financed.

Chair LANDRIEU. Thank you. Carl, you wanted to say something?

Mr. KOPFINGER. Right. So I think Barry covered a lot of what I was going to say. I was going to mention that we did participate in a webinar for many of the banks, national banks or super regional banks, community banks that wanted to learn more about the SBIC program. I was going to mention that Barry is working on a white paper, and I am working with him on the white paper, that will be distributed to the banking community.

Chair LANDRIEU. Well, one of the big picture—and I will get to you, Vincent, in a minute. We are going to try to wrap up in about ten minutes. You know, I understand that it is in the private sector's interest to make money as fast as they can, as much as they can, and that is what a lot of people are motivated by. I have no problem with it.

But I have learned, as the Chair of this Committee, that there is great value and actually great strength in small businesses that are just businesses that feed one family. But that is a major contribution to make.

Although there are lots of people running around the Capitol that want to promote the Gazelles and the big businesses that they can spin off and everybody makes a lot of money and maybe they sell the company internationally, and I am all for that, in America, we have to honor the tradition of small businesses that only want two restaurants, but they feed 15 families for 30 years. There is nothing wrong with that.

I think that our country has, because of the concentration of capital, the rush to make as much money as you can and, you know, "die with all the toys," kind of attitude that we have gotten away from just the basics of trying to get money out to people who want to be their own boss, who have something to contribute, who do not want to travel all over the world, they just want to live in their neighborhood, raise their kids, go to church, have a happy life. Is there anything wrong with this?

This is why I so believe in community banks and getting money to Main Street, so that this can be America. There seems to be a cutting off of that kind of opportunity, and the only way you get it is to, like I said, Senator Moran, you either have to put your house at risk, your children's college fund at risk, all the money that you own at risk to get money to start a business, and all you want to do is feed your family and a couple of your neighbors.

This is a big problem right now. I am determined to find a way through this maze of all the fancy financing to figure out a way to get back to that, because our main streets are thirsty and dying because they cannot get the money they need.

So I think SBICs are one way. If we can help you all to be even better at what you do, it may not be the only way to do that. But with all due respect to these big funds and these big billion-dollar, $5 billion, $10 billion IPOs and Facebook and Google and everything, there are just a lot of people I represent who just want to run a restaurant.

I met a young lady the other day. She runs five ice cream stores. And you know what? She is real happy. She said, "Senator, that is all I ever wanted to do, run my own business. I have got five stores. I will be happy if I can do that for the rest of my life." There is nothing wrong with that.

Does anybody else want to say anything? Go ahead, Vincent.

Mr. FOSTER. I have kind of a simple suggestion, and I think Harry does a fantastic job.

Chair LANDRIEU. You have got to turn your microphone on, please.

Mr. FOSTER. I think Harry does a fantastic job with the resources he has, but if you go to SBA.gov, try to find the SBIC program. It is really hard.

Chair LANDRIEU. I will go. If I cannot find it, Harry, you are going to hear from me.

Mr. FOSTER. Well, it is really hard to find.

Mr. HASKINS. If you do find it, would you tell me?

[Laughter.]

Chair LANDRIEU. Where it is.

Mr. FOSTER. When you think about the lenders out there, the younger people, they use the Internet a lot more than we do. That is the first thing they do. They can find SBA.gov, but from there—so we really need to spend a little bit of money having a modern website. That is the first thing a lot of our companies do, is update their website to attract more customers. I think we can do the same thing.

Chair LANDRIEU. All right. That is going to be one of our first recommendations to the SBA and then to Treasury.

Senator, did you want to add anything? We are very happy that you joined us and why do you not say——

Senator MORAN. No, Chairman, I just would thank you. I think these roundtable discussions are often of greater value than the hearings we host much more frequently.

Chair LANDRIEU. Yes, they are.

Senator MORAN. I apologize for the schedule being such that I only have been here for the last 15 or 20 minutes, but I wanted to get a flavor for what was being said. We certainly want to make certain that we do the things that allow capital to be available so people can pursue the American dream. Everybody has a different American dream and we want each to be able to pursue their own.

I am so delighted to hear at least what I was able to hear this morning and look forward to working with you on this and other issues.

Chair LANDRIEU. Thank you. And I think, Vincent, while the Senator is here, just again, one of the great points about the program is no cost to the taxpayer and limited risk. If you would just go over that again?

Mr. FOSTER. Sure.

Chair LANDRIEU. And you are the SBIC of this year, right?

Mr. FOSTER. Last year.

Chair LANDRIEU. Last year.

Mr. FOSTER. I do not think they have announced this year yet. It is during Small Business Week.

Chair LANDRIEU. He was the best one last year in the country.

Mr. FOSTER. So the way the program works is you take the top end of the program. If you have more than one license, which several of us do, you can get $225 million of long-term Government-guaranteed financing at essentially the Government's cost to capital, but it is on a two-to-one basis to your private capital.

So for me to get $225 million guaranteed from Harry, I have to go raise $112.5 million. That is the way due diligence is performed to protect you because people are not going to give me $112.5 million if they do not think I know what I am doing. And their $112.5 million is on the hook first if we have defaults with respect to how we deploy that $337.5 million.

And the—what else did you want me to cover?

Chair LANDRIEU. That was it.

Mr. FOSTER. And so, in effect, what we do with the money——

Chair LANDRIEU. The risk and the cost.

Mr. FOSTER [continuing]. Is we start where the banks stop and we stop where private equity and traditional venture capital begin. So we are in that much needed void in between.

Senator MORAN. Thank you.

Chair LANDRIEU. Jim, and then we are going to wrap up with you. Go ahead.

Mr. GOODMAN. Well, just specifically to the point of what, if any, is the risk to the taxpayer, we have raised and managed five SBIC funds. The first three, which are now fully mature and have been sold off, generated more than $40 million of profit to SBA under the Participating Securities Program.

But every one of our funds has paid back more than we have borrowed. So we are a net generator of cash and profit to the program. Obviously, we hope that continues, but I think it is important to understand that if the program is well-managed, as it has been, and it uses its discretion in licensing new applicants, it can continue to exist at no cost to the taxpayer.

I think that is a really important point here, is that a well-run program, as Harry and his team have been able to do, can generate some valuable capital, create jobs, and do so at no cost to the taxpayer. We have been just one example of that.

Chair LANDRIEU. Dan and then Manuel and then we will end with Treasury.

Mr. PENBERTHY. I will tell you real simply why it is at zero cost to the taxpayer. RAND Capital borrowed $10 million, just $10 million from the SBA through the SBIC program. We paid interest on that at 6 percent, now above-market interest. We have paid you back $9.1 million. So for roughly $900,000 net risk to you at this time, we have created 500 jobs, created $200 million in growth and revenue.

In 2011 alone, the employees of our portfolio companies paid $7 million in Federal withholding taxes. We have created jobs, created wealth at zero cost to the taxpayer. That is the success of the SBIC. That is why it is important.

Chair LANDRIEU. Manuel and then we will end with Treasury.

Mr. HENRIQUEZ. Madam Chair, I want to go back to a point you raised earlier, how do we get Middle America, Main Street America the capital that it needs to have that young professional run her five ice cream stores. Free thinking as this forum you want it to be, suggestions I would tender to you would be the following.

I think that historically, SBA had a program that had about $25 million that was allocated to distressed economic regions. If you want to really induce companies that invest in America, you need to empower the equity to be that first lost capital that Vince referred to earlier. What I would suggest, Madam, to consider is that you want to encourage that equity capital to come in and start the small SBICs, call it $25 million SBIC, but they receive three or four times leverage on that capital in order to allow that small entrepreneur to get a $100,000 loan or a $500,000 loan.

By having that equity capital be able to be leveraged a little higher, but keep the fund at a smaller size from the SBA, you actually may see smaller amounts of capital.

Instead of the billion dollars you are referring to, you can go into that Main Street America through an economic development program that way, which I think if historically the SBA had a similar program on economic distressed areas, and I do not think it has been well-capitalized or well-used because there is no equity capital that wants to go into that small, you know, distressed economic region.

So you need to create an inducement to have that capital flow in there, and I think that you will see Main Street America start getting that small amount of capital that it is looking for.

Chair LANDRIEU. And, particularly, if you could partner with some of our more entrepreneurial mayors in this country that are trying to build their main streets, even in rural America, as well as in some of the more urban settings that have had effective economic development programs, that could be an interesting partnership as well. Okay. Dan, last word.

Mr. PENBERTHY. RAND is willing to go out to those rural and distressed areas. We went to Mexico, Missouri, and are building bricks; started up a defunct brick plant there. We are down in Waycross, Georgia, making boats. We are going to these severely distressed areas making very small investments in companies, and that is the importance of small funds to the program.

Chair LANDRIEU. Okay. Barry.

Mr. WIDES. A couple of points. Yeah, we have been out talking to community bankers about the SBIC program. A couple points of feedback which I have shared recently with the SBA, but I will share with you as well.

I think that there is an interest in using the Internet, maybe the SBIC's website, to find funds that are currently soliciting investors, and I would just encourage both—encourage the SBA to see if there is a way that they could make more prominent on their website funds that are soliciting capital now. And then we can send banks that are looking to participate to their website.

The other point that I have made to the SBA is that they might consider posting fund performance so that banks can see which Family of Funds have been the most successful. And I think, you know, having the data and the information available to the banks on fund performance, in terms of where they want to place their capital, might be helpful. And we have gotten that feedback from banks.

And just last point. In terms of your question about the smaller business, the mom-and-pop business that you were referring to a moment ago, the State Small Business Credit Initiative is just getting up and going. The OCC has been out meeting with the State agencies that are running those programs, encouraging banks to participate. Many of them run loss shares so that banks can take greater risk in those programs and make the kinds of loans that we have been hearing about that banks have been shying away from.

And then also, many of the very small loans, the micro enterprise loans, are made by Community Development Financial Institutions. CDFIs are certified by the Treasury Department, receive money through the CDFI fund, and a lot of banks are partnering with those CDFIs to provide them subordinated capital debt so that they can go out and leverage the grants that they get from SBA and the Ag Department and the Treasury, which is then used to make the really small business loans to those entrepreneurs in the low-income communities.

So we are out there trying to get banks more involved, but I agree, it is a huge challenge.

Chair LANDRIEU. Okay. I am going to try to wrap up, but I do not want to cut anyone off. Harry, do you want to say anything?

Mr. HASKINS. Just a couple comments. One is, as to the information that Barry is referring to, we are looking into the possibility of making that information more available in a way that respects the confidentiality of the providers of the information.

The second point is, we do not want to get entirely away from our roots, in a sense. We do have a requirement. Congress has seen fit to impose a requirement that 25 percent of all investments by SBICs be in smaller enterprises as opposed to just small business. So we try to make sure that the lower end of the economic scale is being addressed as well.

Chair LANDRIEU. And what do we define as smaller enterprise?

Mr. HASKINS. It is essentially one-third the size of a small business. So instead of $6 million in after-tax net income and $18 million net worth, it is $2 million in average after-tax income for the prior two years and $6 million in net worth.

Chair LANDRIEU. Carl, anything else?

Mr. KOPFINGER. I just want to expand on something that Barry said. To the extent that some of the funds are out there looking to solicit community banks for fund-raising, that would be a great tool for me because we are a very active investor and I get a lot of phone calls.

We are only investing within our footprint, which is from Maine to Florida, so at least I would love to be able to have a website to which I can refer them; if they are interested in investing in the SBICs, then they can go to that website.

One other point that I would like to make that I had not heard mentioned at all, too, is not only about the job creation, but also with job creation comes tax revenues.

Chair LANDRIEU. Yes.

Mr. KOPFINGER. Revenue taxes, payroll taxes, and with the direct cutback in Federal allocations, this is a great way for states to get additional revenue.

Chair LANDRIEU. Well, thank you all so much. This has been very, very, very interesting, very helpful. I think we got a tremendous amount of good information on the record. The record of this hearing will stay open for two weeks, so anything else you want to submit in writing, if there are other individuals that want to submit a statement through you, we would like for you to sign for it when it comes to the record. But if there is a colleague of yours or another person that has strong interest, maybe a professor from a think tank or university that has written about this you would like to submit, but under your name, please do.

I really thank you all for coming. We are going to hopefully put a major bill together and try to get it down to the Congress sometime in the next month or two. Thank you so much. Meeting adjourned.

[Whereupon, at 11:36 a.m., the roundtable was adjourned.]

APPENDIX MATERIAL SUBMITTED

R&H Supply, Inc.
Your Full Service Supply Company

March 22, 2012

Chairwoman Landrieu,
Ranking Member Snowe,
Members of the Senate Committee on Small Business & Entrepreneurship,
Friends of small business,

On behalf of MEP R&H Supply, Mangrove Equity Partners, and Patriot Capital, thank you for the opportunity to participate in this SBIC roundtable.

Headquartered in Broussard, LA, R&H Supply was founded nearly 30 years ago. The company provides sourcing, distribution and logistics support, to U.S. land-based natural gas and oil drilling rigs from 11 service locations, 24 - 7.

In October 2008, Mangrove Equity Partners recapitalized R&H Supply, providing liquidity to the founding entrepreneur and needed growth expertise to the company. Patriot Capital, our SBIC partner, provided capital to bridge equity and available commercial debt consisting of asset secured term financing and a revolving line of credit for working capital.

Shortly after our investment, there was an unanticipated collapse in oil and gas exploration. A perfect storm driven by the recession, plummeting commodity prices, and advances in drilling technology, contributed to a rapid decrease in exploration activity. During the first 6 months of 2009, nearly 60% of the domestic land based drilling rigs were idled. In other words, in just a few short months, we lost over half of our customers. The company was in crisis.

The industry subsequently realigned by shifting from natural gas to oil, from vertical drilling to horizontal, and from traditional plays to shale. To survive, R&H Supply had to follow its customers. Tough decisions had to be made quickly. Failure was never an option. Over the next two years, we closed 7 locations that became unprofitable due to rigs being shut down, while opening 8 new locations where there was new demand for energy drilling. This redeployment of people and assets required resources.

While our commercial bank was restricting capital, burdening the business, and planning for our demise, our SBIC partner proved to be invaluable. Patriot Capital still believed in our original underwriting thesis, and allied with Mangrove all the way, providing capital, relief, guidance, expertise, support, and encouragement.

Our actions preserved 67 jobs. We have recreated 45 jobs since bottoming in 2009, and the company plans to hire an additional 21 this year. This will bring our total employment to 133, netting a 25% job growth since our 2008 investment, with the company now profitable and positioned to continue growing.

The hard work of many and a recovering market all contributed to this success story. The SBIC alliance with Patriot Capital was absolutely vital. I can't imagine we would have survived without their help.

Thank you.

Roger E. Bates
President

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EQUITY PARTNERS

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CAPITAL

R&H Supply, Inc.
Your Full Service Supply Company

MEP R&H Supply, Inc

MANGROVE
EQUITY PARTNERS

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U.S. Senate Committee on Small Business and Entrepreneurship

"A Spotlight on Small Business Investment Companies and Their Role in the Entrepreneurship Ecosystem"

March 22, 2012

Comments submitted by: Vincent D. Foster
Chairman/CEO
Main Street Capital Corp.

Chairwoman Landrieu and Ranking Member Snow:

Summarized below are the main points I would like to emphasize as part of the roundtable entitled: "A Spotlight on Small Business Investment Companies and Their Role in the Entrepreneurship Ecosystem". I very much appreciate the Committee devoting time to this important topic and the opportunity to be a participant.

- Main Street has been a licensee in the SBIC program since 2002; we are a "family of funds" SBIC manager as we have two debenture program licenses. We operate out of a single location in Houston, TX.

- Since entering the program in 2002, we have invested over a half a billion dollars in over 90 small businesses, headquartered in 20 states. Our existing SBIC investments currently support the employment of 14,000 full-time workers. Eighty-five percent of our SBIC investments qualify as "smaller" small businesses, and over one-third of our SBIC investments are in companies located in "low to moderate income zones"; these companies have extremely difficult access to non-bank financing. We routinely provide capital to businesses operating in small towns such as Rush Center, Kansas and Corbin, Kentucky.

- The SBIC program is a unique public/private partnership in that it facilitates reasonably priced capital (that would otherwise be very difficult to access) to small businesses that drives job growth and makes money for the federal government. SBICs effectively fill the cash-flow financing gap for small businesses that has been vacated by traditional lenders.

- The SBIC program operates such that there are very stringent quality standards to be admitted as a licensed management team, but once you are admitted, the administrators are easy to work with- we have found them to be efficient, responsive and hard-working.

- As a family of funds manager, we currently face a hard cap on our level of program participation: $225 million of SBA guaranteed leverage, irrespective of the number of licensed funds that we manage. The current cap, which is not indexed to inflation, operates as a disincentive to management teams, that have successfully attracted significant amounts of equity capital, to remain in the SBIC program. More critically, those funds like ours which have reached the cap are having to turn qualified small businesses away.

- Senate Bill 2136 effectively addresses this issue by increasing the amount of leverage available for family of funds managers by $125 million. In the case of Main Street, this will facilitate the financing of another 20 businesses beginning immediately upon enactment, and multiples of this amount over time as the proceeds cycle through repayment and redeployment.

Thank you again for the opportunity to participate in today's roundtable and the Committee's continuing support of the SBIC program.

Attachment: Main Street Capital Fact Sheet

Main Street Capital Corporation

Capital for the Lower Middle Market

About Us	Main Street Capital Corporation ("Main Street") is a publicly traded investment company (NYSE: MAIN) with over $850 million of assets under management
Investment Objectives	➢ Provide lower middle market companies with capital and operational assistance to support the following types of transactions: ➢ Growth / expansion initiatives ➢ Management buyouts / change of control transactions ➢ Recapitalizations ➢ Acquisitions
Typical Portfolio Companies	➢ $5 - $40 million in revenue; $2 - $10 million in EBITDA ➢ Later stage businesses with a proven market position and historical / projected free cash flow in diverse industry sectors ➢ Management teams with established track records, high integrity, credible industry experience and financial investment ➢ Attractive growth / expansion opportunities
Investment Size	➢ $5 - $20 million
Typical Investment Structure	➢ Long-term debt capital, typically five year maturity ➢ Direct equity investments alongside term debt investments (when appropriate) ➢ Main Street has the flexibility to customize its investment structure and to provide "one-stop shop" financing solutions without any third party financing contingencies
Investment Portfolio	➢ As of December 31, 2011, Main Street has made investments in over 90 portfolio companies across diverse industries and geographic regions (see next page for a portfolio overview)
Management Team	➢ Main Street's management team has relevant experience with private equity investing, capital raising, public accounting, investment banking, governance, finance, valuation and operations
Decision Making	➢ Investment and management decisions are made solely by the Main Street management team, providing speed and flexibility through the investment process
Contact Information	Vince Foster Chief Executive Officer 713-350-6005 vdfoster@mainstcapital.com

Main Street Capital Corp.
1300 Post Oak Blvd. Suite 800
Houston, TX 77056

www.mainstcapital.com

Main Street Capital Corporation

Representative Portfolio Companies

Business Services

Affinity VideoNet – provider of high-definition video conference solutions

AmeriTech College – private, for-profit college providing nursing and healthcare degrees and diplomas

Audio Messaging Solutions – telephone on hold messaging solutions

California Healthcare Medical Billing – business services to physician practices and clinics

Compact Power Equipment Center – light to medium duty equipment rental operation

Condit Exhibits – manufacturer of trade show exhibits and permanent displays

Houston Plating & Coatings – provider of nickel plating and industrial coating services

Hydratec Holdings – provider of agricultural micro-irrigation products

Indianapolis Aviation Partners – a Fixed Base Operation ("FBO") at the Indianapolis International Airport

IRTH Solutions – provider of software and services to the underground infrastructure damage prevention industry

National Trench Safety – rental and sale of underground equipment and trench safety products

Olympus Building Services – custodial and facilities services

OPI International – provider of offshore construction services for the oil and gas industry

Principle Environmental – noise abatement solutions for the oil and gas industry

Radial Drilling Services – Houston-based provider of oil and gas well rehabilitation and production-enhancing services

Schneider Sales Management – publisher of proprietary sales training materials and consulting services

Uvalco Supply – farm and ranch supplies

Van Gilder Insurance Corporation – full-service regional insurance broker based in Denver, Colorado

Consumer Products/Services

Café Brazil – full service restaurant/coffee house chain in the Dallas/Ft. Worth area

Lamb's Tire and Automotive Centers – operator of Goodyear tire retail and automotive repair centers

Jensen Jewelers of Idaho – largest privately-owned jewelry chain in the Rocky Mountains

National Cardiovascular Partners – specialty hospitals and diagnostic centers

New York Pizza Department – New York-themed Pizzeria and Italian restaurant chain in Arizona

PPL RVs – consigner of pre-owned recreational vehicles and RV parts

Manufacturing & Distribution

American Sensor Technologies – manufactures and markets high performance industrial sensors

East Teak Fine Hardwoods – Leading provider of teak lumber and other exotic hardwood products

Gulf Manufacturing – machines and distributes specialty alloy products

Harrison Hydra-Gen – manufacturer of mobile hydraulic-driven generators

Hawthorne Customs & Dispatch Services – logistics service to facilitate import & export to and from the U.S.

KBK Industries – manufacturer of fiberglass tanks primarily for use in oil and gas production

MPI– Metal products manufacturer of custom, hollow metal frames and doors

NAPCO Precast – manufacturer of precast concrete products for the commercial construction industry

NRP Jones – Manufacturer of hydraulic, industrial, and oilfield hoses, fittings and assemblies

OMi Holdings – manufacturers and installs overhead material handling equipment

Smokey Point Distributing – specialty trucking and logistics

Technical Innovations – manufacturer of automated machines used primarily by medical device manufacturers

Thermal & Mechanical Equipment – designer & distributor of heat transfer and filtration equipment

Vision Sign – full service designer, manufacturer and installer of commercial signage

Technology

CBT Nuggets – produces and sells IT certification training videos

Drilling Info – a web-based information service for the domestic upstream oil and gas industry

Televerde – provides sales-lead and data acquisition and remediation services

WorldCall – a holding company which owns both regulated and unregulated communications service providers

Select Prior Investments

AHS ENSERV SUPPORT SYSTEMS HOMES iDriveonline LAUREN TRAVIS AGGREGATES

FEATURE

Small-Cap Private Equity

Issues, Strategies, Challenges

By James J. Goodman, JD

One of the most basic strategies of public equity investing is diversification across market capitalization classes, with large, mid, and small cap being the lingo of choice. Less precisely, similar diversification by investors in private equity can be a sensible strategy as well. This article surveys the smaller end of the institutional middle market of private equity, identifying and analyzing recent trends, risks, and opportunities.

Recent History of Private Equity

Since 1980 total capital committed annually to private equity (PE) has increased from less than $1 billion to a peak of more than $260 billion in 2007, with total assets under management estimated at $1 trillion by 2010. A specialty niche of transactional finance a mere 25 years ago, PE has become a major part of the U.S. economy, acquiring, for better or worse, such icons of U.S. business as RJR, Chrysler, Burger King, and HCA. Many firms that were leaders in the PE industry 25 years ago have increased their assets under management ten-fold to a hundred-fold. Funds of less than $250 million accounted for the preponderance of private equity 25 years ago but now represent less than 5 percent of the capital flowing into the PE sector.

PE in the 1980s and early 1990s was generally a funding source for the buyout of private companies too small and too slow-growing to become publicly traded. Since then, PE has evolved to become an alternative ownership and governance form for once and future public companies with multibillion dollar revenues and market capitalizations. PE also has expanded internationally, with many of the leading firms creating substantial operations in Europe, Asia, and Latin America.

Although the focus of PE has shifted from smaller and mid-sized private companies, an active PE industry still addresses these target sizes. PE strategies that focus on these smaller transactions can offer attractive opportunities for investors that are comfortable with the sector. One challenge is how to best access this sector.

Small-Cap Private Equity

Large-, mid-, and small-cap companies in the public markets are only loosely defined; these categories are even vaguer when applied to the private equity markets. Nonetheless, table 1 shows some commonly accepted definitions.

The small-cap PE market is defined as companies with revenues below $50 million and earnings before interest, taxes, depreciation, and amortization (EBITDA) below $5 million. Private equity firms pursuing this market usually have total committed capital below $250 million, and invest in amounts below $10 million per transaction.

Given the size definitions in table 1, at least three important elements vary markedly by PE size niche: deal competitiveness, ability to obtain leverage, and acquisition multiples. Considering only private companies with annual revenues exceeding $5 million, there are still hundreds of thousands of small-cap companies, and tens of thousands of mid-cap companies, but no more than a few thousand large-cap opportunities. Small-cap private companies constitute the bottom 90 percent of the private company pyramid, with mid-caps at

TABLE 1: PRIVATE EQUITY MARKETS BY SIZE

	Company		Fund	
Market	Revenue ($mm)	EBITDA ($mm)	Fund ($mm)	Investment ($mm)
Small	5–50	1–5	50–250	1–10
Mid	50–500	5–50	250–1,000	10–100
Large	500+	50+	1,000+	100+

TABLE 2: U.S. COMPANY DISTRIBUTION BY REVENUE

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nearly 10 percent, and large-cap private companies (defined as those with revenues exceeding $500 million) at less than one-half of one percent of all private companies. These results are derived from the data in table 2.

The capital resources pursuing PE transactions, however, form an inverse pyramid. New commitments to small-cap private equity funds constitute only about 5 percent of all new private equity commitments (table 3). Conversely, large-cap private equity funds, pursuing the largest one-half percent of all private companies, comprise about 85 percent of all the dollars raised by the PE industry. Note in table 4 that the distribution of the number of PE firms and funds (not dollar-weighted) is more evenly distributed, with comparable numbers of small- and large-cap oriented PE firms, and mid-cap PE firms only slightly greater in number than the other two categories.

Competitive Dynamics and Leverage Availability

In virtually all large-cap PE transactions, a company will be represented by an investment banker, usually involving an auction process where interested bidders will follow formal procedures, with the winner selected primarily on price considerations. Conversely, in the small-cap market, true auction processes are the exception; because there are so many potential deals available, small-cap-oriented PE firms focus more on originating proprietary transactions than evaluating offering memoranda produced pursuant to an auction process.

For small businesses, debt financing is more difficult than for mid- and large-size companies. Small-cap companies often have basic or minimal financial reporting and controls; their "bench strength" of senior management is usually thinner and less sophisticated, and they are more dependent on their individual founders and majority owners. As a result, lenders will lend less, relative to cash flow and earnings. Cash flow financing for large-cap PE transactions climbed as high as 7–8x EBITDA at the recent peak in 2007–08, and even today for qualified deals, debt financing is still often available at 4–5x EBITDA. By contrast, in small-cap PE deals, the peak lending levels were in the 3–4x range and have since declined to a 2–3x range.

Purchase Price Multiples

In the large-cap PE sector, relatively few potential transactions are being pursued by numerous firms, each qualified to obtain high levels of debt financing. In contrast, in the small-cap market niche, debt financing is more difficult and the number of potential transactions is far greater, implying that the competitive dynamic is not as fierce. These two factors together, predictably, yield substantial differences in average purchase price multiples.

Other factors besides revenue size also are important in explaining the purchase price multiple for a given transaction and include historical and projected growth of the company and its industry, competitive positioning, and depth and quality of management. These factors even out when broad averages by size class are calculated. At the recent peak, many large-cap PE deals traded in the 8–10x EBITDA range, while small-cap deals at the peak averaged 4.5–5.5x. As with all these comparisons, mid-cap valuations were in the middle between the two ends.

Multiple Expansion

The primary objective of PE firms is to increase the profitability of the companies in which they invest. As EBITDA increases, equity values increase disproportionately, reflecting the fixed value of the debt portion of the capital structure. In certain instances, it gets even better—what PE firms define as "multiple expansion" further enhances investment returns—when the exit valuation multiple is higher than the multiple paid on purchase. This can happen if a company's earnings become more regular and predictable, or if the company under PE ownership expands into industry sectors with higher growth prospects and therefore higher EBITDA multiples. These multiple expansions are created by increasing the quality of earnings, and this phenomenon can occur throughout the PE sector—small-, mid-, and large-cap. Small-cap PE strategies, however, can obtain multiple expansions from an increase in the quantity

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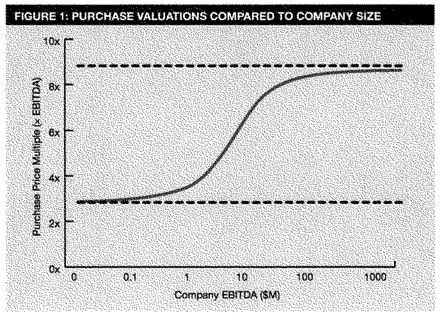
as well as the quality of earnings. For example, a company that triples its EBITDA from $4 million to $12 million over an investment period is likely to achieve significant multiple expansion whether or not the quality of earnings has improved over the time period. This is simply a function of the increase in average purchase price multiples as the company's EBITDA expands.

Historical experience suggests that the greatest multiple expansion derived from increasing size of a company occurs between $1 million and $10 million of EBITDA. This thesis is illustrated in figure 1, which conceptually illustrates increasing purchase valuations on the vertical axis, compared to company size, expressed logarithmically on the horizontal axis.

For the reasons described earlier—principally competitive dynamics and availability of debt financing—multiple expansion occurs most steeply between $1 million and $10 million of EBITDA. Although the data are not comprehensive, they indicate that the ease of multiple expansion is likely the primary reason that most studies have shown that PE returns in the small-cap sector are generally higher than those in the mid- and large-cap sectors. In fact, since the 1970s, studies have demonstrated that small-cap PE returns have approximated a +15-percent internal rate of return, while the overall PE industry average has been closer to +10 percent annually.

FIGURE 1: PURCHASE VALUATIONS COMPARED TO COMPANY SIZE



Lesser Competition in the Small-Cap PE Sector

If returns are in fact higher for small-cap PE, why is so little capital directed to this sector? Part of the explanation is the structure, economics, and incentives of PE firms. Basically, firms that focus on large PE investments are much more profitable for their owners than those focusing on small-cap PE opportunities. PE firms generally are compensated on the traditional "2 and 20" arrangement. The 2 refers to the annual management fee charged, expressed as a percentage of the PE fund's committed capital. Thus, a $50-million fund receives $1 million in annual management fees, while a $10-billion fund could receive as much as $200 million. Small PE firms have tried to charge 2.5 percent or 3 percent of capital annually, but the market generally has not allowed that outside of some early stage venture capital funds. On the other end of the spectrum some of the largest funds have reduced their annual fee structure to 1.5 percent from the standard 2 percent. A similar analysis holds with respect to the "20" of the 2 and 20 rule. PE firms typically receive 20 percent of the profits of a PE fund—the so-called "carried interest."

The human resources required to identify, evaluate, structure, and close PE transactions are similar whether the investment amount is $2 million per deal or $200 million. That is to say, completing a small-cap PE investment requires about as much due diligence, negotiation, structuring, and documentation effort as a PE investment 100 times as large. A typical small-cap PE firm might consist of five to eight investment professionals, collectively investing $20 million to $30 million per year. A typical large-cap PE firm might consist of 30–50 investment professionals investing $1billion to $3 billion per year. Although personnel levels increase with fund size, personnel per $100 million managed drops precipitously. Accordingly, firm gross margins are often 20 percent or less for small-cap PE firms, but can exceed 80 percent for large-cap firms.

The dramatic increase in institutional capital directed to PE combined with the higher margins of large-cap PE investing explains the relative dearth of firms pursuing small-cap PE strategies as well as the high turnover rate among them. Basically, it has been "up or out": Successful small-cap PE firms have doubled or tripled the size of each successive fund and unsuccessful small-cap PE firms disband and their principals exit PE for pursuits such as investment banking. As a result very few PE firms have remained within the small-cap sector for a decade or more. Compared to the now decades-long stability of most large-cap and many mid-cap PE firms, turnover in the small-cap sector is high and the year-over-year churn is considerable.

> The tax treatment of carried interest has been a prominent policy issue for many years, occasionally taking center stage as it did in the summer of 2010, when most observers expected it to be enacted.

New Entrants in Small-Cap PE

A number of new entrants have been filling the void in institutional small-cap PE. Two types identified and described briefly here are Small Business Investment Companies (SBICs) and fundless sponsor (FS) firms.

The U.S. Small Business Administration (SBA) has operated the SBIC program for more than 50 years. Traditionally SBICs mainly issued debentures, a form of debt, to small companies. Beginning in 1994, SBA created a companion SBIC program to provide equity capital to small private companies. SBA's total allocation of capital since the early 1990s often has exceeded $1 billion per year. In 2010, about 300 licensed SBICs made $2 billion of investments in 1,300 different companies. Virtually all SBIC activity is targeted toward what is defined here as small-cap PE investing. The growth of the SBIC program over the past 20 years partially has replaced the private capital flowing upward to the mid- and large-cap PE sectors. SBICs have structures that may enhance overall returns, but for certain investors the complicated nature of their structures, the extensive regulation by SBA, and some potentially negative tax implications may pose challenges that can preclude institutional capital in this niche.

A second and more-recent type has been a proliferation of fundless sponsor (FS) firms. Often organized like small PE firms, FS firms are typically two to four experienced private equity professionals that raise capital on a deal-by-deal basis. In addition to using their own personal funds, FS firms may affiliate with high-net-worth individuals and family offices and some smaller institutional investors as well. Rather than receiving annual management fees from a committed fund, FS firms charge transaction fees upon a successful closing, as well as monitoring fees for managing investments post-closing. Income of a successful FS firm can approximate the fee income of a small-cap PE committed fund. Additionally, the FS firm receives an allocation of equity warrants or purchases equity on preferential terms that operate in much the same way carried interest does for a traditional PE fund firm. The one major difference is the treatment of the gains and losses of a series of investments. Virtually all PE funds must net winning and losing investments and pay limited partners a preferred return (typically 8 percent compounded before taking any profit); an FS firm shares in profits of successful investments but is not penalized for unsuccessful investments.

Potential Impact of Carried Interest Legislation

As described earlier, institutional investing activity has declined in the small-cap PE sector as successful small-cap-focused firms have expanded, drawn by the lure of higher management fees and greater profitability. This void partially has been filled by the emergence of at least two alternatives to traditional PE firms: SBICs and FS firms. One potential development may accelerate the migration out of the small-cap PE sector: passage of frequently proposed legislation to change the tax treatment of carried interest from capital gains to ordinary income.

The tax treatment of carried interest has been a prominent policy issue for many years, occasionally taking center stage as it did in the summer of 2010, when most observers expected it to be enacted. The mid-term election last November deferred the issue, at least through 2012.

Putting aside the various arguments concerning tax fairness, and the potential negative impact on investing and job creation, it is likely that any negative effects of the proposed taxation change would disproportionately impact the small-cap sector of the PE industry. An analysis prepared for a PE industry trade association models the pre- and after-tax economics of small-, mid-, and large-cap PE firms and calculates the effect on after-tax general partner compensation from the recharacterization of carried interest. While the partners of large-cap PE firms might expect an after-tax income decline approximating –15 percent, for small-cap PE firms the number was projected at about twice that amount, or –30 percent (see table 5).

Because principals in large PE firms already are highly compensated, carried interest enactment would have only a

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Goodman

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minimal impact on larger firms. Most small PE firms already operate under more marginal circumstances, and an after-tax income reduction of ~30 percent likely would rapidly diminish the remaining role of traditional PE firms in the small-cap PE sector and accelerate the deployment of their investment professionals to outside the small-cap sector.

Review and Implications for Small-Cap PE Investing

Private equity has grown immensely over the past 20 years. Most PE activity in the 1980s and early 1990s pursued a small-cap strategy, but today that sector represents less than 5 percent of the PE industry. Evidence suggests that investment returns are higher in the small-cap sector, however, and the greater opportunity for multiple expansions may explain most of the potentially higher returns. Opportunities to participate for limited partners have diminished with the mass migration of PE firms to the mid-cap and large-cap sectors, attracted by superior firm economics. Partly filling the void left by the decline of the traditional PE firm in the small-cap sector have been some new entrants, including equity-oriented SBICs and fundless sponsors. These trends are likely to accelerate sharply if the tax treatment for carried interest is changed.

James J. Goodman, JD, is president of Gemini Investors in Wellesley, MA, a private equity firm that provides capital and strategic resources to smaller middle market companies. He earned AB, JD, and MBA degrees from Harvard University. Contact him at jgoodman@gemini-investors.com.

To take the CE quiz online, visit www.IMCA.org.

GEMINI INVESTORS

Gemini Overview

- A leading **SBIC Fund manager**, based in **Wellesley, MA**
- Awarded **5 SBIC licenses** from 1995 to 2010
- Have invested **$390 million in 93 small companies** since 1995
- Winner of the inaugural **SBIC of the Year** Award in **2009**

Gemini's Portfolio

- Invest in **rapidly growing**, established **small companies**
- **Broadly diversified** in consumer, business services, manufacturing, distribution
- **Experienced** in education, waste & recycling, franchising, aerospace companies
- Companies' headquarters located in **27 states**, with operations in 46 states
- Most companies less than **$12 million in revenues** at time of investment
- Currently manage **36 portfolio companies**
- **Two companies** awarded NASBIC **Portfolio Company of the Year**
- **Center Rock** highlighted in President's 2011 **State of the Union Address**

Investment Profile

- Average investment size: **$4.5 million**
- On average, an **equal mix of debt and equity** securities
- Use of proceeds: **growth capital**, **recapitalization,** acquisition, facility expansion
- Typical investment **holding period: 4 – 7 years**
- **Exit** through sale to **strategic or financial** buyers, recapitalization, or IPO
- **5 IPO exits** since 1998

Revenue Growth and Job Creation

- From **2002 – 2010**, Gemini's portfolio grew from 24 to 34 companies
- Combined **portfolio FTE jobs increased by 9,000** jobs, 4x increase in 8 years
- Indirectly, Gemini's **franchise companies created 1,000s** of additional jobs
- Gemini's 5 franchisors **created 100s of new small businesses**
- Companies' tax withholdings: **$600 million** Federal and state income tax

Investment Performance and Returns

- Private partners have already received **1.9x return** on all investment **to date**
- **SBA** received full return of principal + **$40 million of profit** from **first 3 funds**.
- **$93 million** of Leverage **outstanding** plus another **$104 mm committed**
- Overall, **net payments to SBA** expected to exceed borrowings by **$90mm+**

Selected Portfolio Companies

Buffalo Wild Wings, Minneapolis, MN (1999 – 2004)

- Franchisor of **chicken wing restaurants** with 800 locations
- **Gemini led 1999 round** of private capital
- Company grew from **80 to 400 locations** in 4 years
- BWLD **stock has increased 10x** since IPO in 2003
- **Revenues increased 23x** increase in 12 years, to $785 mm in 2011,
- **2004** NASBIC **Portfolio Company of the Year**

Restaurant Technology, Minneapolis, MN (2001 – 11)

- Provider of **cooking oil delivery systems** for fast food restaurants
- **Revenues increased 31x** over 10 year period
- Company opened dozens of oil delivery depots, **created 1,000s of jobs**
- Successful **sale in 2010** to corporate acquirer

Dealer Tire, Cleveland, OH (2002 – 09)

- Assists auto dealers in selling **replacement tires** to consumers
- **Revenues increased 21x** over 7 year period
- Company **directly created 100s of new jobs**, and many more at dealers
- **Recapitalization in 2009** provided strong returns to investors

Wingstop, Dallas, TX (2003 – 10)

- Franchisor of **fast casual wing restaurants**
- Units increased **from 90 to 450 units** in 7 years
- **Revenues increased 6x** over 7 years
- Added **200+ new franchisees**, mostly first timers
- Large percentage of franchisees **female and minority owned** new businesses

Marinello Schools, Los Angeles, CA (2004 -)

- Education company operating 54 **cosmetology schools** mostly in Western US
- Enrollment has **growth of 5,000 students** in last 8 years
- **Revenues increased 13x** over 8 years
- **2009** NASBIC **Portfolio Company of the Year**

Center Rock, Berlin, PA (2005 -)

- Provider of **drilling equipment and materials** for domestic energy exploration
- **Revenues grew 3.5x** in 6 years despite 2008 – 09 downturn
- Lead role in **rescuing trapped Chilean miners** in 2010
- President Obama highlighted company in **2011 State of the Union** address

Written summary statement of:
Manuel A. Henriquez, CEO
Hercules Technology Growth Capital

For the Roundtable Discussion for the Senate Committee on Small Business and Entrepreneurship
March 22, 2012

Thank you for the opportunity to participate in the Small Business and Entrepreneurship roundtable today.

My name is Manuel Henriquez. I am the CEO, Chairman and Co-Founder of Hercules Technology Growth Capital, a specialty finance firm and SBIC licensee that provides customized debt financing to venture capital backed technology and life science companies. Hercules is a NASDAQ-traded company with a $500 million market capitalization that has also elected to be regulated as a Business Development Company ("BDC"). I have had the privilege of investing in and building innovative technology and life science companies for the last 25 years, as both an entrepreneur, having started five companies including Hercules, and as a venture capitalist making equity investments in many innovative high growth companies.

I am greatly encouraged by the healthy debate currently taking place in the Senate on business growth and job creation focused on entrepreneurs and emerging growth companies, and specifically the proposed modification to the Small Business Investment Company ("SBIC") program. I strongly support the proposed modifications, which seek to (1) raise the amount of SBIC debt the Small Business Administration ("SBA") can guarantee from $3.0 billion to $4.0 billion, and (2) increase to $350.0 million the amount of SBA guaranteed debt a team of SBIC fund managers who operate multiple funds may borrow.

It is clear that Congress understands the vital partnership between government and the private sector for driving job growth as well as the important role of technological innovation in maintaining the Nation's competitive advantage in critical industries such as technology, life science and cleantech.

The Small Business Administration is an excellent example of how entrepreneurial companies can benefit from this type of public/private partnership. As an SBIC licensee and an active investor and capital provider to the U.S. venture capital industry, Hercules Technology Growth Capital provides a critical source of complimentary growth funding, in the form of venture debt financing, that serves to amplify the existing equity capital raised by many of its innovative, pre-IPO portfolio companies from capital received from the SBIC debenture program to assist these companies with their growth. The venture capital industry drives U.S. job creation and economic growth by helping entrepreneurs turn innovative ideas and scientific advances into products and services that change and improve the way we live and work. In 2011, the venture capital industry provided growth capital of over $32.6 billion to more than 3,200 companies, according to DowJones VentureSource, while Hercules provided commitments of over $630 million in that same year.

The venture capital industry and the entrepreneurial companies in which we invest are extremely effective and efficient job creating machines that are fueled by both equity and debt capital, which serves as of the basis for much of the American innovation we enjoy today. Consider these facts:

- Investment in venture-backed companies equates to between 0.1% and 0.2% of US GDP each year yet these companies employed 11% of the total US private sector workforce and generated revenue equal to 21% of US GDP.[1] This is an incredible return on investment.
- Venture-backed companies accounted for 12 million jobs and $3.1 trillion in revenue in the United States in 2010. [2]
- VC-backed companies have historically outperformed their non-venture backed counterparts in good times and bad. The 500 largest public companies with venture capital roots, such as Apple and Google increased their collective market capitalization by approximately $700 billion in just three years, rising from $2.1 trillion in 2008 to $2.8 trillion 2010. [3]
- Research shows that 92% of job growth for young companies occurs after their initial public offering, which underscores the importance of a robust American IPO market and ensuring that our most innovative entrepreneurial companies have access to the

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[1] 2011 IHS Global Insight Study, "*Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy*" (November 2011), page 4.
[2] Ibid, page 3.
[3] Ibid, page 4.

capital they need to grow and reach the IPO. [4]

- In my state of California, venture capital-backed Facebook, also a Hercules investment, could potentially contribute as much as $2.45 billion in additional revenue to the State over the next five years as a result of its initial public offering.[5]

As founder and CEO of a public company that has provided more than $2.7 billion in debt and equity capital, including $700 million in SBA loans, to fast growing, pre-IPO technology and life science companies, I have witnessed firsthand the enormous impact of strategic capital on the evolution of innovative companies as they grow from start-ups to market leaders.

The SBA has been an integral partner since I founded Hercules, and without its SBIC debenture program, Hercules' ability to help fund many of our portfolio companies would not have been possible and in turn many of those companies may have faced lay-offs or shut down operations had it not been for Hercules' partnership with the SBA which helps to extend the operational runway for entrepreneurial companies with strong business fundamentals. The SBIC program became even more critical during the 2007-2009 credit crisis, when many banks stopped lending entirely, our partnership with the SBA was instrumental in providing this very important funding source to

[4] Ibid, page 4.
[5] Tami Luhby, "California expected to reap Facebook windfall," *CNN Money*, http://money.cnn.com/2012/02/28/technology/california_facebook/?cnn=yes&hpt=hp_t3 (February 28, 2012).

both Hercules and the many entrepreneurial companies that received funding. Without programs such as the SBA's SBIC debenture program, billions of dollars in critical loans to private companies through accredited and proven lenders such as Hercules Technology Growth Capital would not have been possible. This program provides valuable growth capital to some of our nation's most promising companies that would otherwise not have access to capital.

From Hercules' own portfolio, examples of venture-backed companies that have benefitted from SBA loans include:

Aveo Pharmaceutical integrates a proprietary cancer biology platform with drug development and commercial expertise in its efforts to discover and develop targeted cancer therapeutics. The Company went public in 2010 and today has a market capitalization of approximately $550 million. It is based in Cambridge, MA.

Aegerion Pharmaceutical is an emerging biopharmaceutical company focused on the development and commercialization of novel life-altering therapeutics for debilitating and often fatal orphan diseases. The Company went public in 2010 and today has a market capitalization of approximately $325 million. Aegerion is based in Cambridge, MA.

Annie's, a natural food company, has been finding innovative ways to deliver convenient and healthy food for families for the last 20 years. The Company filed a registration statement for its initial public offering ("IPO") in 2011. Annie's is based in Berkeley, CA.

BrightSource Energy designs, develops and sells solar thermal power systems that deliver reliable clean energy to utilities and industrial companies. The Company filed a registration statement for its initial public offering ("IPO") in 2011. BrightSource is based in Oakland, CA.

Box, one of Silicon Valley's best-known start-up companies, provides a secure way for individuals and businesses to connect and collaborate online via "the cloud," with role-based access controls and data encryption using 256-bt SSL and SAS 70 II Certification. To date, Box has connected more than eight million individuals, small businesses and Fortune 500 companies. Box is based in Palo Alto, CA.

There are many more examples I could offer on the results of this ideal marriage; government relying on focused, experienced and accountable experts with proven track records of identifying breakthrough technologies, sound business models and proven leaders. Passage of this legislation would be an important step forward in continuing this successful public/private partnership and expanding growth opportunities for entrepreneurs to fuel job growth and continue to drive American innovation globally.

The mechanics and economics of the current SBA SBIC debenture program have proven to work very well with minimal government cost and risk. For example, the SBIC licensee must contribute regulatory capital of approximately $112.5 million or first loss capital to gain access to the full $225.0 million under the SBIC program. Furthermore, an SBIC licensee must repay all loans to the SBA before the licensee can receive its initial capital contributions, ensuring a direct alignment of interest with the Licensee and the SBA.

Hercules currently manages two SBA licensees for a total of $225.0 million outstanding under the program as of December 31, 2011. In terms of potential improvements in our experience, the program could be further improved by:

1. The increase to $4.0 billion loan guarantee does not go far enough. Given the efficiency of the program, it could easily scale up to guarantee additional loans due to its demonstrated controls and benefits from a transparent relationship.
2. Increase the use of technology as a means to maximize the current systems and administration for more efficient and timely delivery of information of required filings and collecting of critical economic data.

Again, thank you for the opportunity to participate in today's roundtable and I look forward to continuing our mutually beneficial relationship with the SBA.

Biography and Company Description for
Manuel A. Henriquez, CEO
Hercules Technology Growth Capital

For the Roundtable Discussion for the Senate Committee on Small Business and Entrepreneurship
March 22, 2012

Manuel A. Henriquez Biography

Co-founder, Chairman and CEO

Hercules Technology Growth Capital (NASDAQ: HTGC)

Manuel A. Henriquez is the co-founder, chairman and chief executive officer of Hercules Technology Growth Capital, a NASDAQ-traded specialty finance company with a $500 million market capitalization that has also elected to be regulated as a Business Development Company ("BDC"). Mr. Henriquez is a 25-year veteran of the venture capital and financing community. Under his leadership, Hercules has completed commitments of more than $2.7 billion to over 190 companies since it's founding in 2003.

Prior to co-founding the Company, Mr. Henriquez was a Managing Director at VantagePoint Venture Partners from August 2000 through July 2003 where he focused on technology investments. He is also the former president and chief investment officer of Comdisco Ventures, a division of Comdisco, Inc., a leading technology and financial services company, from November 1999 to March 2000. Prior to that, from March 1997 to November 1999, Mr. Henriquez was a Managing Director of Comdisco Ventures and a senior member of the investment team that originated over $2.0 billion of equipment lease, debt and equity transactions to venture capital backed companies from 1997 to 2000. Mr. Henriquez also has previous venture capital investing and operating experience, from his tenure at Robertson Stephens venture capital group, CrossLink Capital (formerly OmegaVentures), BancBoston Ventures, the corporate venture group of The First National Bank of Boston, and ON Technology.

Mr. Henriquez has served on the board of directors of numerous venture capital backed companies, and currently serves on the board of two of the Company's portfolio companies: E-Band Communications Corporation, supplier of ultra high capacity wireless solutions, and MaxVision, which designs and manufactures extremely high performance, rugged, portable computer workstations for the military and commercial markets.

Mr. Henriquez received a B.S. in Business Administration from Northeastern University and is a member of the University's Board of Directors. He is a long time advocate for children's health and education, and serves on the Board of Directors for the Lucille Packard Foundation for Children's Health and was recently on the Board of Trustees of The Charles Armstrong School, serving the dyslexic learner by providing an appropriate educational experience.

About Hercules Technology Growth Capital

Hercules Technology Growth Capital, Inc. (NASDAQ: HTGC) is the largest publicly traded specialty finance company addressing the capital needs of venture capital and private equity-backed companies. Hercules provides customized debt financing solutions to high growth, technology-related companies, including technology, cleantech, life science and select lower middle market companies to help them reach critical growth milestones at all stages of development.

Hercules' approach combines the strength of the public market, a partnership with the SBA and established roots as an entrepreneurial company. As an innovator in providing alternative or complimentary sources of capital to venture capital financed companies in the form of venture debt, Hercules made the transition to become a public company in 2005, and understands the growth challenges inherent in building a company and becoming a market leader while adhering to the many prerequisites of a public company. Hercules' customized venture debt financing solutions are designed to address the capital needs of growing companies.

With commitments to date of more than $2.7 billion to more than 190 companies, Hercules is recognized as the lender of choice for top entrepreneurs and venture capital and private equity firms seeking growth capital financing solutions for their technology-related growth portfolio companies.

Select Hercules Technology Growth Capital Portfolio Companies

Technology

Ancestry.com (www.ancestry.com): The Generations Network, Inc., founded in 1983, is the leading online network connecting families across distance and time. The Generations Network, Inc. provides people the content, community, and technology to empower them to find the people most important to them -- and discover and share their unique family stories.

Blurb (www.blurb.com): Blurb® is a creative publishing and marketing platform that unleashes the creative genius inside everyone. Blurb's platform makes it easy to design, publish, market and sell professional-quality books, using the Blurb Bookify™ online bookmaking tool, Blurb's free, award-winning Blurb BookSmart® app or by using Blurb's PDF to Book workflow. Blurb's bookstore and online marketing tools enable customers to market and sell their books, and keep 100% of their profit. Blurb's social and community features allow customers to create and share Blurb books among friends and colleagues with ease.

Box (www.box.net): Box provides a secure content sharing platform that both users and IT love and adopt. Content on Box can be shared internally and externally, accessed through iPad, iPhone, Android, TouchPad and PlayBook applications, and extended to partner applications such as Google Apps, NetSuite and Salesforce.

Facebook (www.facebook.com): Facebook's mission is to give people the power to share and make the world more open and connected. Today they connect more than 800 million people worldwide.

Reply! (www.reply.com): Reply.com operates a proprietary auction marketplace that enables advertisers to acquire locally targeted and category-specific customer prospects on a cost-per-Enhanced Click™ or cost-per-lead basis.

SugarSync (www.sugarsync.com): SugarSync is a provider of mobile Cloud services that enable users to access ALL of their data, anytime, anywhere, and from any device. SugarSync enables mobile consumers and professionals to backup, sync, access and share all their files on-the-go, instantly and securely from any Mac, PC, or mobile device (including iOS, Android, BlackBerry, Symbian and Windows Mobile devices).

Stoke (www.stoke.com): Stoke develops carrier-class multi-access convergence gateways specifically engineered to help fixed, mobile and Internet-based operators realize the economic benefits and competitive advantages of network convergence. Stoke's standards-based, integrated hardware and software platform uniquely addresses the security, quality of service and mobility challenges associated with optimizing subscribers' multimedia sessions across fixed, mobile, Wi-Fi and WiMAX networks.

Votizen (www.votizen.com): Votizen is a developer of a social networking service (SNS) Website for voters to connect with their elected representatives.

WageWorks (www.wageworks.com): WageWorks is a leading on-demand provider of tax-advantaged programs for consumer-directed spending solutions and services. Our solutions combine technology and service to bring out the best in consumer-directed benefits. WageWorks has filed a registration statement for its initial public offering ("IPO").

Cleantech

BrightSource Energy (www.brightsourceenergy.com): BrightSource Energy, Inc. designs, develops and sells solar thermal power systems that deliver reliable, clean energy to utilities and industrial companies. BrightSource has filed a registration statement for its initial public offering ("IPO").

Enphase Energy (www.enphaseenergy.com): Enphase Energy provides solar microinverter systems for residential and commercial markets. The company offers a system that includes high-efficiency power conversion, communications and web-based monitoring and analysis. The systems increase energy production, improve system reliability, and simplify design, installation and management.

GreatPoint Energy (www.greatpointenergy.com): GreatPoint Energy is the leading developer of highly-efficient catalytic hydromethanation technology, known as Bluegas™, by which coal, petroleum coke and biomass are converted directly into low-cost, clean, pipeline-quality natural gas, hydrogen and hydrogen-based power while allowing for the capture and sequestration of CO2 for enhanced oil recovery.

Trilliant (www.trilliantinc.com): Trilliant provides hardware, software and service solutions that deliver on the promise of Advanced Metering and Smart Grid to utilities and their customers including improved energy efficiency, grid reliability, lower operating cost, and integration of renewable energy resources.

Life Science

AcelRx (www.acelrx.com): AcelRx is a specialty pharmaceutical company focused on the development and commercialization of innovative therapies for the treatment of acute and breakthrough pain.

BARRX Medical (www.barrx.com): BARRX Medical develops treatment solutions for Barrett's esophagus, a precancerous condition of the lining of the esophagus (swallowing tube) caused by gastroesophageal reflux disease, or GERD. Its flagship product provides uniform and controlled therapy, which can remove Barrett's esophagus and allow the growth of normal cells.

Cempra (www.cempra.com): Cempra is a clinical-stage pharmaceutical company focused on developing antibiotics to meet critical medical needs in the treatment of bacterial infectious diseases. The company completed its initial public offering ("IPO") in February 2012.

Merrimack Pharmaceutical (www.merrimackpharma.com): Merrimack is dedicated to the discovery and development of innovative therapies for the treatment of autoimmune disease and cancer. The goal is to provide patients and physicians with not only the best possible treatments, but to support their pharmaceuticals with the tools to enable the prescription of the right drug for the right patient. Merrimack has filed a statement for its initial public offering ("IPO").

Novasys Medical (www.novasysmedical.com): Novasys Medical develops innovative therapies in women's health. The company's initial focus is the development and commercialization of a proprietary, non-surgical approach to the treatment of female stress urinary incontinence (SUI).

Lower Middle Market or Special Situations

Pacific Child & Family Associates (www.pacifichild.com): Pacific Child offers Applied Behavior Analysis (ABA) services to children and adults with autism and other developmental disabilities.

ScriptSave (www.scriptsave.com): ScriptSave is one of the nation's leading third party administrators of single network pharmacy cash card programs. ScriptSave has a 15-year history of working collaboratively with the retail pharmacy community to create solutions that attract, retain, and reward existing pharmacy customers.

Additional Resources

- SEC Filings: http://www.SEC.gov
- Hercules Portfolio companies: http://www.herculestech.com/portfoliohome.asp.
- Hercules Press Releases: http://investor.htgc.com/releases.cfm.
- Hercules' relationship with the SBA: http://investor.htgc.com/faq.cfm. Provides information about companies that benefit from SBA funding from Hercules, Hercules SBIC investment entities, and a general description of the SBIC program.

TD Bank

America's Most Convenient Bank®

TD Bank, N.A.
2005 Market Street, 20th Floor
Philadelphia, PA 19103

March 22, 2012

Good morning Senator Landrieu and thank you for inviting me to participate today.

By way of background – my name is Carl Kopfinger. I am a Senior Vice President with TD Bank, based in Philadelphia, Pa. I am responsible for the Banks' investments in SBICs within our footprint from Maine to Florida. Currently we are managing more than 60 SBIC investments, including both participating securities and mezzanine investments. We have been actively investing for more than a decade, including through the recent economic downturn, demonstrating the Bank's commitment to the SBIC program. Our allocation continues to be dependent upon current market and regulatory conditions. I don't see our allocation changing in the near term so long as SBICs remain a permissible investment under Dodd-Frank and the Volcker Rule and assuming SBIC investments are not deemed to be market makers.

Over the last five years, TD Bank has seen an increase in awareness, interest and consideration by both existing SBIC fund participants as well as from new applicants applying to the program. The latter group turned to the SBIC program during the economic downturn. While existing SBIC program participants understand the power of SBA leverage, new applicants were driven to the program for a variety of reasons, such as the financial illiquidity from some of their former Limited Partner base, as well as the benefit of SBA leverage on investment returns. These new entrants by and large had an uptiering effect on the program. Meaning that a fund family with $500MM or more of assets under management ("AUM"), and in some cases more than $1 billion of AUM, applied to the SBIC program. If not for recent illiquidity in the private equity markets, these funds would not be part of SBIC. This contrasts with many, but not all, of existing SBIC program participants which have less than $500MM of AUM.

Based on my personal observations and recommendations, the SBIC program would benefit if the SBA guarantee program limit was increased to $4 billion from $3 billion. As we heard from Harry Haskins of the SBA, the SBIC debenture program grew in popularity over the past few years. Thus, the recent increase in leverage the SBA awarded to debenture Funds necessitates this increase. This program popularity has resulted in more debenture Funds being licensed in the last several years than in prior periods. In fact, there were 143 licensed debenture funds at FYE 2011 as compared to 126 licensed debenture funds at FYE 2009.

Additionally, some of the more accomplished and stable existing fund managers are approaching, or have reached, their $225 million dollar program limit such that it makes sense to increase the fund family limit to $350MM from $225MM. TD Bank has a number of Fund families, with strong performance metrics, that are on their third or fourth SBIC fund and have reached the maximum $225MM threshold. These Funds have been terrific partners, not only for TD Bank, but also for the SBIC leverage program. It would be most unfortunate to see them abandon the system due only to their hitting the $225MM ceiling.

Several funds come to mind such as Praesidian Capital (NYC) – which is investing from its third fund; Ironwood Capital (Avon, CT) which will reach the ceiling once it successfully closes on its 4th SBIC fund in the 1H12; and, CapitalSouth Partners in Charlotte, NC, which is in the midst of its 4th fund raise but has limited SBA leverage available to it.

These same SBIC Fund managers provide critical funding for small and middle market companies across the US in a diverse set of industries. For example, we saw many of these same Fund managers provide senior debt for small businesses and middle market companies from 2007 through 2011. Boathouse Capital (Phila, Pa) is one such fund that had to provide senior debt financing for one of its portfolio companies when senior bank capital was scarce. Even today in certain geographic regions, companies have a difficult time accessing senior debt markets. This trend is especially pronounced for companies with less than $10MM of EBITDA or those with limited tangible collateral coverage. Other funds that continue to provide senior debt to these small businesses include Plexus Capital, Praesidian, and NewSpring Mezzanine. Thus, SBICs provide a valuable, unmatched safety net.

In conclusion, TD Bank invests primarily for CRA credit and we are not willing to sacrifice or trade equity returns just to achieve the primary goal. Thus, as any shareholder would expect of us, we focus on strong investment managers who have a dependable track record of delivering solid results and returning capital to its Limited Partners. We have seen firsthand the job creation, job retention, and revenue growth our fund partners have achieved with their portfolio companies. This revenue growth has a rippling effect on tax revenues generated in the states in which these companies operate. With cutbacks in direct federal funding, states need all the tax and payroll revenue they can collect.

Thank you again for your time and allowing me to present an LP's perspective on the important role the SBIC program plays in funding small businesses and generating jobs, tax revenue, and investment returns.

Respectfully submitted,

Carl Kopfinger
Senior Vice President
TD Bank, N.A.

Daniel P. Penberthy
Executive Vice President
dpenberthy@randcapital.com

Since 1969 2200 Rand Building / Buffalo, New York 14203 / Tel: 716-853-0802 Fax: 716-854-8480

March 20, 2012

VIA EMAIL

Ms Darla Ripchensky
Chief Clerk
United States Senate
Committee on Small Business & Entrepreneurship
Washington, DC 20510-6350

Dear Ms. Ripchensky:

Thank you for allowing me to share with you some history of Rand Capital Corporation and our involvement in the SBA's Small Business Investment Company (SBIC) program which has resulted in the creation of 500 jobs at zero cost to the taxpayer!

I am currently the CFO and Executive Vice President of Rand Capital, a publicly traded venture capital fund, classified as a Business Development Company, or BDC. Rand is one of the original or founding companies of NASDAQ, having been listed over 40 years since its 1971 IPO. Rand is unique being a very small venture fund, with $24.4 million in total assets. I truly understand the impact governmental regulation can have on a small public company.

Included in Rand's corporate structure is its wholly owned subsidiary, Rand Capital SBIC, Inc., a licensee SBIC investor of the Small Business Administration since 2002. During the last ten years my investment partner and I have operated our SBIC fund in one of the most challenging of financial environments.

Rand believes in supporting the entrepreneur community of Upstate New York. In this regard, I am currently the President of the Upstate Venture Association, the premium networking organization for entrepreneurs, established businesses and capital providers. I am also on the Board of Directors of the Western New York Venture Association which provides forums for entrepreneurs to pitch their investment ideas.

I am pleased to share with you some of Rand's results:

- We operate in Buffalo, New York, an underserved and economically depressed part of Upstate New York.
- Rand SBIC was established in 2002 with $5 million in Regulatory Capital, which permitted it to draw $10 million in SBA debenture leverage, resulting in $15 million of combined capital.

Ms Darla Ripchensky
Chief Clerk
United States Senate
Committee on Small Business & Entrepreneurship
March 20, 2012
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- Rand has since repaid >90% of this drawn debenture leverage. The government has received a positive return on capital while helping to create jobs.
- During the past ten years, Rand has invested its $15 million of capital, and then reinvested the proceeds of subsequent exits and repayments, into 30 portfolio companies, in over 83 separate financing transactions. We have been busy!
- Like any investor, we have some winners, as well as losers, and sometimes simply getting a return of capital is a win because this provides us the opportunity to re-invest our capital into additional business. Rand has invested almost 2X our original start-up capital or $27 million to date.
- These 30 companies which received financing from Rand represent 1,711 employees and have increased their employment by over 500+ jobs since the time of Rand's initial investment! Job creation is an important mission of the SBA's programs.
- These same 30 companies in which Rand has invested last reported Revenues of $367 million. This is a growth of $200 million since the time of Rand's initial investment!
- This job creation and revenue growth of our companies has been accomplished at zero cost to the taxpayer through the SBIC program!
- Rand is currently holding investments in 15 portfolio companies. These companies have achieved the following successes:
  - Using a combination of equity provided by Rand Capital from the SBA program and a loan from the United States Department of Agriculture designated for rural areas, we started Mid America Brick & Structural Clay Products, LLC. This abandoned plant was in the economically depressed home town of Senator Kit Bonds and now is the leading producer of bricks in Missouri. We are forecasting their employment to double in the near future.
  - In 2002 we invested in an early stage business internet web portal business founded by a student at the University of Buffalo. The business had 20 employees and $2 million in revenues. This business completed an IPO last month, now employs near 300 (15x growth) high paying software engineers and its revenues should exceed $120 million in 2012. Synacor, Inc. is changing the way media and entertainment is being delivered to Smartphones.
  - In the 1950's an aeronautical engineer in Buffalo developed a better way to manufacture airplanes. The company, Gemcor, struggled following the tragedy of September 11th, but Rand

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Chief Clerk
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believed in the management and the technology. Since that time Gemcor has doubled its employment, its revenues, and is shipping its aircraft riveting machinery all over the world. It has been stated that every Boeing airplane currently in flight has been touched by a Gemcor machine!

- Carolina Skiff employs 180 in rural southeast Georgia and in 2011 was the #1 fiberglass boat manufacturer in its class. Following the economic downturn of 2008 the business has grown, and is again building boats and employing workers in one of the poorest sections of Georgia.
- Our other companies produce lasers for high tech devices; software for critically ill patients; high tech medical devices; pico projectors for cell phones; green technology oil filters for vehicles, to a business which has developed new health care plans for small employer groups. These young businesses are driven by entrepreneurs who have a vision for change and are commercializing technologies from Upstate New York institutions such as Cornell.
- In addition to job growth, a beneficial outcome to the government is that the employees of the current 15 companies in the Rand portfolio are contributing to the federal tax system. These employees have had $6.9 million in federal employee tax withholdings in 2011.

Rand has accomplished this job growth, revenue creation and business vitality in an underserved and economically depressed area, at zero cost to the taxpayer! None of this could be possible without the SBIC.

While Rand Capital SBIC, Inc. has been participating in the SBIC program for the last ten years, we have recently been approved for an additional $8 million in SBA debenture leverage. I and my investment partner are currently evaluating new business proposals for fundings, which we believe will lead to future growth in employment.

Sincerely,

Daniel Penberthy
CFO & EVP

WELLS FARGO

To:	Senate Committee on Small Business & Entrepreneurship
Date	April 4, 2012
From:	Wells Fargo – Community Lending and Investments Tim Rafalovich tim.rafal@wellsfargo.com
Subject:	Senate Small Business Committee Roundtable on SBICs

Chairwoman Landrieu, Ranking Member Snowe and Members of the Committee:

Thank you for the opportunity to participate in the Senate Small Business Committee Roundtable entitled, *"A Spotlight on Small Business Investment Companies and Their Role in the Entrepreneurship Ecosystem"* on March 22, 2012. Please accept this "Statement for the Record" to amplify some of the points discussed at the Roundtable and share some of Wells Fargo's experiences with the SBIC program.

Wells Fargo's Experience with the SBIC Program

Wells Fargo invests bank balance sheet funds through a wholly owned subsidiary, Community Investment Holdings. Since December 2011, Wells Fargo has committed to invest $S9.5 million ($168.5 million with 2:1 leverage) in 8 funds. Wells Fargo expects to increase its investments in the SBIC program throughout the year.

There are three main benefits to the SBIC program: SBICs are good for the community, good for business and good for the economy.

First, SBIC's are good for the community because it fills a void in small business lending that will fund more small businesses. Communities with vibrant and growing small businesses provide jobs, opportunity and services to local residents and improve local economies.

Second, speaking for Wells Fargo, SBIC investments have been good for the bottom line. So far, returns have exceeded our cost of capital. Also, for financial institutions, there is powerful incentive to invest in SBICs because companies can receive Community Reinvestment Act (CRA) credit for such investments. I should also note that under recent Dodd-Frank financial reform legislation, SBIC investments are carved out of the Volcker Rule, thus reducing any impediments to participating in the program.

Finally, SBIC's are good for the overall economy because they have a track record of expanding small businesses and creating jobs. Also because the program is essentially self-funded through upfront fees, there is little risk to the U.S. taxpayer. Here are a few examples of successful Wells Fargo investments in SBICs and related small businesses that have created jobs and grown the economy:

- SolarCity, based in San Mateo, California, is a leading installer of residential and small commercial solar power systems. It has grown from 63 employees to 1,167 employees since the Fund's original investment in April 2007. Solar City has recently launched a Veterans Hiring

Program to recruit qualified veterans for solar installer positions, a win-win for the economy and providing veterans returning home from the battlefield with new career options.

- BrightSource Energy, located in Oakland, California, is a builder and operator of renewable power plants for industrial and utility customers in the United States. Since the Fund's initial investment in January of 2007, BrightSource has grown from 36 employees to 355 employees as of June 30, 2011 and is providing much needed jobs and tax revenues to the local community.
- There are also examples of the Funds' overall impact on job creation. For example, SJF Ventures Fund has created over 6,000 jobs since the Fund's first investment; 80% of these jobs were entry level, over 70% were minority employees, and over 60% were women.

The SBIC program benefits the underserved market

- Serving an Underserved Market: The SBIC fills a critical void between traditional small business lending and venture capital. As I discussed at the Roundtable, we do not view our SBIC investments as competing with, but rather complementary of, our overall small business lending portfolio. As the nation's largest small business lender, we value all of the small business tools at our disposal, including the SBIC program. For 2011, we invested $13.9 billion in overall new loan commitments in the small business sector in 2011, an 8 percent increase in new dollars loaned from 2010.

- Our commitment to small businesses would be enhanced by a funding increase to the SBIC program. Indeed, we view small business lending as a lifecycle. Companies that are SBIC customers one day, over time can become larger customers, or commercial, real estate or treasury management customers tomorrow. Thus, our SBIC investments do not compete with, but rather complement our overall small business lending portfolio. Indeed the SBIC program is a gateway to our traditional small business and mid-cap lending.

Improvements to the SBIC program

While the SBIC program is successful, there a few improvements that can make the program even more successful. Congress should remember that the SBIC program works best if small and large investors, limited partnerships and general partners have clear rules and if artificial bureaucratic requirements are not erected that hinder investment.

Here are a few suggestions to strengthen the SBIC Program:

- **Non-levered banks licensing should be very quick**: The SBIC program is structured so that it is self-funded through up-front fees from private sector participants, so there is little financial risk to the SBA program or to U.S. tax payers. As such, we recommend that the licensing process be simplified and streamlined: Perform a background check on the Directors and an abbreviated MAQ completed with licensure within one month. The SBA would be then free to spend its limited resources approving investors with a proven track record of success and help newer companies get up to speed more quickly, improving the overall impact of the program.

- **OCC accounting clarification and changes**: There is confusion on how banks receive CRA credit. The specific requirements for receiving CRA credit should be clarified.

- **Licensing bottleneck**: We suggest adding more resources to speed up licensing reviews and approvals.
- **Proposed FASB 946 may adversely impact SBICs**: Sole sponsored SBICs should be exempt.
- **Raise limits for family of funds from $250MM to $500MM**: Allow the SBIC to expand its options to support funds with successful track records. The SBA should also add the "adjust for inflation" provision.

Thank you for the opportunity to participate in the Roundtable. We look forward to working with the Committee in the future as it crafts public policy solutions to help America's small businesses.

BERINGEA

Senate Committee on Small Business & Entrepreneurship Roundtable
"A Spotlight on Small Business Investment Companies and Their Role in the Entrepreneurship Ecosystem"
Thursday, March 22, 2012

Written comments by Charles P. Rothstein, Founder and Senior Managing Director, Beringea:

Opening Remarks

I'm Charlie Rothstein, founder of Beringea, Michigan's largest venture capital firm. We are also managers of the Michigan Growth Capital Partners Funds, one of which is an SBIC. It is actually our second SBIC, so we have a long relationship with the Small Business Administration. Our current SBIC was licensed as part of the Impact Investment Initiative. It totals $130 million of which $50 million was provided by private investors and the balance, $80 million, coming in the form of debentures from the SBA.

While this roundtable concerns the SBIC program and changes that may be needed, I can tell you our first hand involvement with the program and its administrators has been fantastic. We've been able to put money to work in Michigan and support companies that are playing a key role in reviving our economy. In the meantime, we have generated an attractive rate of return for our limited partners. Michigan and several other areas targeted by the Impact program are bursting with innovation yet are starved for capital. The SBA plays an important role in filling this gap and has thus been a big part of our recovery.

In much the same way the Impact program addresses the need for debt financing in distressed or under-served regions, we need to ensure equity sources are plentiful for entrepreneurs, and not just for those in capital-rich regions like Silicon Valley. As fund managers struggle to raise new pools of capital from a decreasing number of institutional investors, the overall amount of equity available to young, fast growing businesses will be significantly constrained. It is important that we find ways through SBA or outside SBA to supply equity investors with the capital they need to fund entrepreneurs.

BERINGEA

About Beringea's U.S. Funds

The Michigan Growth Capital Partners program is a series of funds focused on strengthening and diversifying Michigan's economic base. The funds are co-managed by Credit Suisse's CFIG and Beringea.

- Michigan Growth Capital Partners, L.P. is a $185 million fund launched in 2008, which provides venture and expansion-stage capital to emerging businesses based in, or with substantial operations, in the state of Michigan.
  - The Fund's portfolio consists of 26 companies in a range of sectors, including health care and life sciences, clean technology, advanced manufacturing, media, Internet technologies and specialized consumer products.
  - The Fund employs more than 4,000 people in the state of Michigan.

- Michigan Growth Capital Partners SBIC, L.P. is a $130 million fund launched in 2011, which provides mezzanine debt or equity to lower middle market companies active in the state of Michigan.
  - The Fund was formed in partnership with the SBA through its Impact Investment SBIC Initiative.
  - **Michigan is the first state to benefit from the initiative.**
  - The Fund's portfolio employs nearly 1,000 people in the State of Michigan.

Opportunities Created by Capital Gaps and Economically Distressed Regions

Capital Gaps: Private capital markets have been inefficient in distributing growth capital across geographic regions; for instance, Michigan is one of the most innovative and technologically advanced states in the country, yet ranks low in its access to capital:

2011 CNBC's "America's Top States for Business"

State	Technology & Innovation	Access to Capital	2010 Patents Issued
Top ten states in "Technology & Innovation"			
California	1	1	27,337
New York	2	3	7,082
Massachusetts	3	2	4,923
Texas	4	4	7,545
Washington	5	8	5,258
Illinois	6	5	3,611
Pennsylvania	7	7	3,351
New Jersey	8	6	3,874
Michigan	9	31	3,823
Maryland	10	12	1,578
States ranked near Michigan in "Access to Capital"			
Nevada	37	29	540
Maine	40	30	211
Vermont	40	32	642
Hawaii	42	33	121

Source: CNBC and U.S. Patent and Trademark Office as of September 2011.

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Economically Distressed Regions: Because of its lower cost environment, an economically distressed region, such as Michigan and the Midwest, enables companies to be more capital efficient. On average, Midwest venture capital and growth equity backed companies raise nearly $7 million less capital than coastal companies, yet achieve cash-on-cash returns nearly four times higher:

Less Capital Invested & Greater Exit Values = Extraordinary Returns			
	Top Markets	**Midwest**	**Michigan**
Dollars Invested per Company	$15.5 million	$8.9 million	$8.8 million
Average Acquisition Value	$138.9 million	$116.7 million	$118.0 million
Multiple: Avg. Acquisition Value/Avg. VC Invested	9.0x	13.1x	13.4x
Target Market Premium	NA	46.1%	49.7%

Looming Capital Crisis – The Need for Equity

We know small businesses create a disproportionate share of new jobs. Yet, not enough has been done on a federal level to catalyze growth in this sector. Many good programs for debt financing exist, like the Start-Up America Impact Investment program. While this type of capital is ideal for larger, established businesses looking to grow, young businesses perform better when they are less leveraged, not more. Equity allows a company to capitalize on a business opportunity, expand a product line, increase R&D or hire new employees. Because there is no debt service involved, there is no risk of default. Unlike debt financing, which can choke a business when the economy stalls, equity is capital for all seasons.

There is no lack of entrepreneurial spirit or exciting young businesses looking for money. There is, however, a severe shortage of equity sources, particularly at the early or venture stage. This lack of capital can be traced to a shift away from venture capital as an asset class by the traditional L.P. investor base. At the end of 2010, the industry managed $176.7 billion dollars, down 38% from the peak in 2006, and the year saw fundraising levels at a mere 12% of the amount raised in 2000[1]. There are several reasons for fundraising difficulty:

(1) the denominator effect where **institutional investors found themselves over allocated to the asset class** as their overall portfolio valuations fell; and,
(2) while exit markets have improved from low levels, **fewer distributions back to investors from exits in recent years impairs the traditional "recycling" of capital** from mature fund exits to newly-emerging funds.

[1] NVCA Annual Yearbook, 2011

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Even as the universe of potential limited partners shrinks, the categories of these types of investors are also contracting. We are in the midst of a major shift from defined benefit to defined contribution retirement plans. Venture capital gets 50% of its funds from public and private pension funds, but it is almost impossible for a VC firm to take defined contribution money. If defined benefit plans continue to lose favor, there are few investor categories that could make up the difference. There is a finite number of endowments and foundations, federal laws make it hard to get money from banks and insurance companies, and tax laws don't favor this type of investing for HNWIs or family offices.

With the industry in a constrained fundraising environment, and many venture firms now struggling to raise new funds, we're heading toward an Innovation Economy that is short of innovation capital. Hopefully, this committee and others like it can develop solutions addressing the looming problem.

Charles P. Rothstein is the Founder and Senior Managing Director of Beringea, the largest provider of venture and growth capital in the state of Michigan. With offices in Farmington Hills, Mich. and London, the Firm has more than 70 portfolio companies in the U.S. and UK. Beringea has more than 20 years of investing experience in a range of sectors, including health care and life sciences, clean technology, advanced manufacturing, media, Internet technologies and specialized consumer products. The Firm is manager of Michigan Growth Capital Partners and Michigan Growth Capital Partners SBIC in the U.S., as well as the ProVen VCT family of funds in the UK, among others. For more information, visit www.beringea.com.

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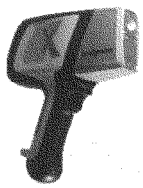
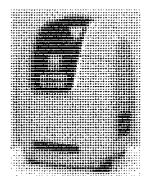
Innov-X Systems – An SBIC Success Story

March 20, 2012
Contact: Don Sackett, don.sackett@olympusndt.com

Company location: Woburn, Massachusetts

Products: Developed and manufactured analytical instruments for measuring elements and compounds in materials. Instruments used in the field, in production/factory floor or inspection areas. Selling price ranges between $20,000 to $250,000 depending on model.





Markets: Metals production and fabrication, mining and mineral exploration, environmental and restricted substances, lead in children's products, heavy transportation, oil & gas exploration and production, petrochemical & refining, pharmaceutical, aerospace.

Key Government Customers:

- Department of Energy for nuclear non-proliferation program, used globally for inspection of suspect materials. Used in Iraq in 2003 as part of UN weapons inspection program.
- US FDA for inspection of incoming food and food-related products for toxic metals,
- Military/DoD for a variety of materials testing as part of maintenance for high performance aircraft, ships and other assets,

History with SBIC Investment:

- Founded in 2001 by Don Sackett, Brad Hubbard-Nelson
- 2004 Pre-investment: Received SBIC investment (Rand Capital, Buffalo, NY) early 2004. Sales prior year (2003) were $4M annually. Company had about 25 employees.

- 2006: Within 3 years after SBIC investment, sales grew from $4M to $40M in 2006. Growth was fueled by new generation instruments developed using SBIC investment. Number of employees increased to 100.

- 2010: Sold company to Olympus, revenues at time of sale (trailing 12 months) $54M, 150 employees.

Company Highlights:

- SBIC investment fueled growth that created nearly 125 jobs with benefits including medical/dental, 90% of jobs in the USA, majority in State of Massachusetts,
- Approximately 70% of Innov-X sales are exports,
- 50% of sales are to Southeast Asia, predominately China,
- Distinction of manufacturing in Massachusetts and exporting most products to Asia and other countries,

Association of Small Business Development Centers

Statement for the record

C. E. "Tee" Rowe, President/CEO

Association of Small Business Development Centers

Committee on Small Business and Entrepreneurship

United States Senate

March 29, 2012

Statement of C. E. "Tee" Rowe March 29, 2012

Chairwoman Landrieu, Ranking Member Snowe, Members of the Committee. On behalf of the 63 State and Regional networks of Small Business Development Centers and their nearly 1,000 centers thank you for the opportunity to submit a statement regarding the US Small Business Administration's 2013 budget submission. My name is Tee Rowe and I am President and CEO of the Association of Small Business Development Centers.

As you know, for 30 years the SBDC network has been providing front line services to entrepreneurs and small business owners while growing and developing an infrastructure dedicated to assisting all small business owners and providing them free one on one consulting and advice on how to improve, finance, market and manage their businesses. The result of our efforts and the support of our host institutions has been establishment of a nationwide network of nearly 1,000 locations with over 4,500 dedicated professional counselors and business advisors that annually assist hundreds of thousands of small businesses and entrepreneurs in every state and territory as well as every conceivable type of business.

Today's hearing focuses on SBA's budget request and how they can best focus budget priorities to serve small business growth and innovation. At SBDCs we focus on that concept every day. It is a basic tenet of our accreditation process as authorized in the Small Business Act. Each SBDC must develop and implement a strategic plan focused on continuously improving our services and skills to provide our clients – the small business community - with high value, up to date services. SBDCs provide assistance to small business of all types, in all demographics and all regions but, those services can't be stagnant. We are always trying to expand and improve our services in an effort to support the growing needs of the small business sector and to adapt to a changing business environment. The advance of technology has changed the way most small businesses have to do business to survive and thrive. Through our Association, and individually, SBDCs partner with firms like Google, Intuit, Dell, Microsoft and literally hundreds of others to bring innovative and efficient ways of improving and managing small business operations.

However, our strongest partner has always been the Small Business Administration. This is why there is a profound sense of disappointment in the SBDC network with SBA's 2013 budget proposal. How can SBA expect their partners to develop more and better services for their clients when we are slated to be cut by a full ten percent? And this is no imaginary cut, no reduction of an expected increase; this is a straight line reduction.

ASBDC wishes to point out that support for the SBDC program will fund proven job creation and economic growth. The annual survey of SBDC small business economic impact reveals that in 2009-2010 SBDCs helped our long-term small business clients create 61,213 jobs and save another 69,363 jobs. That works out to a cost of only $1,760 for every job saved or created.

While the economy was struggling the average SBDC client had a 9.5% growth in jobs while the national average then was NEGATIVE 0.5%.

In addition, SBDCs helped their clients create over $4.7 billion dollars in new sales at a time when most small businesses are losing sales, and save another $5.1 billion in sales. At the same time SBDCs helped small businesses attract over $3.4 billion in financing in 2009-2010 and over $3.9 billion last year.

Finally, for every dollar that supported the SBDC program we helped our clients produce $234 million in federal revenues and $182 million in state tax revenues. We know of few, if any, other programs that can produce such significant results for such a reasonable federal investment. I would also add that long-term SBDC clients, on whom our study results are based, are only a portion of the overall SBDC clientele.

That figure is revenue, return on investment. There is another side and that is savings. I offer one example. In Mississippi between 2008-2010 the SBDC saved $17.7 million dollars in unemployment costs for the government. Its simple math, the SBDC helped create those jobs, the average costs of unemployment insurance for those persons was eliminated. I know some people believe that the jobs created and saved figures are a bit specious. Our numbers are based solely on the jobs created and saved as reported by MSBDC clients. Not a formula, the small business client. By the way, Mississippi represents only 1% of the population.

Were this budget recommendation to be enacted the result would be predictable, fewer services for small business owners. You can't fight that reality. In states like Maine, New Hampshire, Idaho, Wyoming or Alaska they'll go from a minimum funding level of $625,000 to $561,000 with a commensurate cut probably coming from the state or university matching funds. Does anyone think a SBDC can adequately cover all of Wyoming or Maine losing that sort of support?

Chairwoman Landrieu, you and your colleagues know that when a disaster strikes SBDCs are right out in front. Whether it is setting up Disaster Recovery Centers on the Gulf Coast after the BP Oil Spill or after the floods in northern Maine, SBDCs are the ones providing the support for small businesses trying to recover. And that support comes before the disaster as well as after. SBDCs are out there providing the training to enable small business to better recover. How much harder and more costly to the economy will disaster recovery be without SBDC assistance?

Two years ago Chairwoman Landrieu and Senators Snowe, Shaheen and Cardin sent a letter to GAO regarding inter-agency collaboration on exports. Since then SBDCs have been developing programs and capacities in support of small business exports in response to both the President's National Export Initiative and the export language in the Small Business Jobs Act. In Massachusetts and Illinois, as well as other states the SBDC network is the state's export outreach program.

SBDCs are intimately involved with USAID and the State Department, as well as SBA's Office of International Trade expanding outreach to small business exporters. We are now the State Department and USAID's preferred model for international economic development, as shown in El Salvador, Colombia and other Latin American nations. How will our efforts in expanding international trade opportunities be compatible with the reduction in resources?

Across the Potomac, Virginia's SBDC network is an example of the broad reach SBDCs have. In addition to their veteran's outreach program, their network includes a women's business center in Richmond and a rural outreach program, the Main Street project, to aid small businesses in small communities. They also assist small businesses with procurement, international trade, energy conservation and a host of other services - like SBDCs all across the country.

We know that SBA faces some tough choices and they want collaboration between programs. Allow me to tell you how some of that collaboration is already occurring. SBDCs incorporate Women's Business Centers; host SCORE counselors, VBOCs and PTACs. SBDCs work hand in glove with the Delta Regional Authority as well as the Appalachian Regional Commission and many other federal agencies. Yet at the same time, programs and initiatives often arise that seem to duplicate the efforts of existing programs and ignore the capabilities that are already in place.

Here is a concrete example of all the parts working together. In San Antonio, the SBDC has a client Kiolbassa Provision, a third generation family firm. The SBDC collaborated with a 504 lender to help Kiolbassa get the funds to expand their plant. The result of this collaboration was a tripling of the employment and a tripling of the revenue of that firm. They created 80 jobs through the collaboration of two SBA partners. Now that small business supplies Costco and Wal-Mart and expects to gross over $30 million this year.

So, a 504 loan supported by SBA goes through. It goes through because an SBDC supported by SBA helped develop the finance and marketing strategies for the small business. The small business triples its sales and employment returning more revenue to the federal and state government than ever before. But, what happens when you pull some of that support? The 504 lender can't provide the technical assistance if the borrower gets in trouble. Who is going to help do the workout?

That brings me back to collaboration, there could be more. SBDCs could be helping 7(a) and 504 lenders with workouts on troubled assets. Our clients already know us and use us as a resource if they have trouble. How many other small businesses could benefit if lenders referred troubled borrowers to SBDCs? We can't do that without resources.

No lender wants a loan to go bad but, most banks aren't equipped to provide those services when things start to slide. Why liquidate if we can save a business and the jobs? What would happen to subsidy rates if SBDCs could help more troubled borrowers. That said, there isn't much hope of SBDCs helping troubled borrowers if their already thin resources are reduced further.

Chairman Landrieu, SBDCs are seeking an appropriation of $117 million dollars, a four percent increase, enough to maintain services at the current level. That will provide a small population state like Maine or New Hampshire with a minimum funding level of $650,000. That will allow SBDCs to continue to be the backbone of SBA assistance. It will give them the resources to keep helping small business create jobs or help them retain the jobs that might be lost.

Thank you.

PATRIOT CAPITAL

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Overview

Patriot Capital's Investment Professionals have long operating and financial track records of investing in highly successful growth companies. We supply companies with capital for a variety of reasons. The most likely uses of proceeds include:

- Business Expansion
- Acquisition Financing
- Major Capital Expenditure
- Recapitalizations
- Management Buyouts

Each of these have slightly different dynamics and, as such, Patriot works closely with the management team, equity sponsors or boards of directors to structure the financing that best meets the requirements of the business.

Investment Criteria

Company Characteristics	• Management teams capable of delivering continued profitable growth • Long-term positive trends and sustainable competitive advantages • Proven track records of revenue and profit growth in order to service current coupon components of a Patriot investment • Strong cash flow from operations • Ability to benefit from the operating and financial experience of Patriot Capital's Investment Team
Investment Structure	• Equity and subordinated debt
Investment Amounts	• $3 - $15 million, with capacity to finance larger investments
Geography	• Mid-Atlantic, Midwest, Northeast and Southern United States
Industry Focus	• Business and Consumer Services • Niche Manufacturing and Distribution • Education Services • E-commerce & Application Software • Transportation • Telecom Services

PATRIOT CAPITAL

Representative Portfolio Transactions

Portfolio Companies	Industry	Business	Use of Capital
Stadco / Valley	Light Manufacturing	Manufacturer of Metal Components to the Aerospace and Defense Industry	Acquisition Capital/Growth
Vantage Media	Internet Software and Services	Integrated media and marketing services	Growth
mimeo.com	Digital Printing Services	Innovator of online, on-demand document printing and distribution	Growth
center manufacturing, inc.	Niche Manufacturing	Manufacturer of Highly Engineered Metal Assemblies and Components	Acquisition Capital/Growth
RJD Circuits	Technology Services & Testing	Provider of Testing Services & Equipment to Semiconductor Industry	Recapitalization
KLMK group	Facilities Services	Provider of Innovative Facility Solutions to Healthcare Organizations	Leveraged Buyout
	Niche Manufacturing	Manufacturer of Precision Machined Components	Leveraged Buyout
PPI TimeZero Performance Precision Integrity	Manufacturing Services	Provider of Manufacturing Services to the Aerospace and Defense Industry	Recapitalization
Cyalume Light Technology	Lighting	Manufacturer of Chemical and Electronic Lights for Safety and Security Applications	Recap/Growth
The Motley Fool To Educate, Amuse & Enrich	Technology Media	Multimedia Financial Services	Management Buyout/Growth
Cutex	Consumer Products	Combination of Two Leading Nail Polish Remover Companies	Leveraged Buyout
South Texas Dental	Healthcare Services	Dental Practice Management Services	Leveraged Buyout
towne park	Business Services	National Leader of Hospitality Contract Services and Parking Systems	Leveraged Buyout
	Energy Services	Horizontal Directional Drilling	Leveraged Buyout

Thomas Matthews Neale
Managing Partner
Patriot Capital

Tom Neale joined Patriot Capital in May 2008. Mr. Neale has over 25 years experience in corporate finance, commercial, and investment banking. Most recently, he was the Mid-Atlantic Commercial Banking Executive for HSBC Bank, USA, with responsibility for teams marketing the full array of HSBC's commercial banking, capital markets, and investment management services. Target companies were those with sales between $25 million and $5 billion, located from Pennsylvania to South Carolina.

Previously, Mr. Neale held direct relationship and senior management positions with JPMorgan Chase, Bank of America (and its predecessor banks), and Wachovia, where he had extensive experience arranging and underwriting senior debt and junior capital for middle market companies. Mr. Neale currently serves on the Board of Directors of R&H Supply, Gayesco International, and KLMK Group. He is a graduate of the University of Virginia (BA), and the College of William and Mary (MBA).

Mr. Neale is a member of the Association for Corporate Growth, where is he Chairman of the Private Equity Forum Committee, and the Upstate Venture Association of New York. He is also active on several not-for-profit boards in the Baltimore, Maryland region. Mr. Neale lives in Baltimore, MD, and is married with three children.

U.S. Small Business Administration

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SBA Program Helps to Bridge the Small Business Gap

WASHINGTON – The U.S. Small Business Administration's national network of Small Business Development Centers (SBDCs) plays an essential role in the economic development of their states and local communities through their direct, face-to-face counseling for small businesses, according to a report released today by the SBA. The report, produced by the National Small Business Development Center Advisory Board, focuses on SBDCs' impact on small business access to SBA's programs and services, including access to SBA capital, procurement, disaster and international trade programs.

"SBA's Small Business Development Centers give new and growing small businesses the resources they need throughout the year to grow and create jobs," said SBA Administrator Karen Mills. "The soundness of our economy depends on stable small businesses across the country and SBDCs are front and center helping entrepreneurs start, grow and expand their companies. These institutions reflect the diversity and individuality of their nearly 900 home towns and play an active and vital role in those."

The report confirms that SBA's SBDC program remains an essential part of the agency's mission to help small businesses. The report, *The SBDC Program: An Indispensable Partner in America's Economic Development*, demonstrates statistically the prolonged impact that SBA-funded SBDCs have on the formation and growth of small businesses. The report can be viewed online at http://www.sba.gov/sites/default/files/White%20Paper%20-%20FINAL%20-%2007-15-2011.pdf.

A key finding of the report is that SBDCs help local economies by improving the odds for startup small businesses. "SBDCs," the report says, "are solely focused on creating and supporting small businesses which in turn pay taxes, provide employment and diversify the economic base for their states. . . The businesses that work with the SBDCs are the job creators and enterprises that have the potential for survival and growth."

The report also highlights the effectiveness of SBDC counseling in improving the chances of small businesses that are seeking credit. "SBDCs have intimate knowledge of what lenders really want and need from borrowers to increase the likelihood of them being able to make a loan. The SBDC Business Advisors provide solid technical expertise to coach borrowers through the lending process."

-- more --

SBA News 12-3, page 2...

The report found that the 900 SBDC service locations provide a necessary local footprint in the communities they serve, delivering unique offerings tailored to the needs of its small business community.

The report also found that the SBDC program, for which the federal government covers half the cost, remains one of the government's best investments because of its close associations with other SBA resource partners, federal, state and local government small business assistance programs and service providers; universities and community colleges; and private enterprise and local nonprofit economic development organizations.

The nine-member independent advisory board provides advice and counsel to the SBA Administrator and associate administrator for the Office of Small Business Development Centers on the SBDC program.

Last year, more than 557,000 entrepreneurs received business advice and technical assistance through the SBDC program. In its more than 30-year history, SBDCs have assisted millions of small business owners and entrepreneurs to successfully start and grow small firms by fostering entrepreneurship and growth through innovation and efficiency.

# # #