

an indebtedness, and such pledge or hypothecation does not involve any transfer for which prior approval is required under § 107.701, written notice setting forth the terms of such transaction shall be furnished to SBA by the person (or persons) making such pledge or hypothecation within 5 calendar days from the date of the pledge or hypothecation.

LAWFUL OPERATIONS

§ 107.801 Amendments to Act and regulations.

A Licensee shall be subject to all existing and future provisions of the Act and regulations issued thereunder.

§ 107.802 Other laws.

Each Licensee shall comply with all applicable State or Federal law affecting its operation.

§ 107.803 Operations under Act.

A Licensee shall engage in and conduct only the activities set forth in and contemplated under the Act and shall not engage in or conduct any other activities.

§ 107.804 Identification as SBIC.

Any written communication made by or at the behest of a Licensee, shall identify that Licensee as "a Federal Licensee under the Small Business Investment Act of 1958."

§ 107.805 Postlicensing issuance of securities.

A Licensee may issue any of its securities, including stock options to management and employees, for (a) cash, (b) direct obligations of, or obligations guaranteed as to principal and interest by, the United States, (c) securities of which it is the issuer, in connection with a reclassification approved by SBA, (d) services previously rendered to the Licensee not to exceed fair value thereof, (e) physical assets to be currently employed in the operation of the Licensee at fair market value thereof, (f) as a dividend, and (g) in connection with a merger, consolidation, or reorganization approved by SBA: *Provided, however,* That any shares of stock issued as part of Licensee's minimum capital pursuant to § 107.101(e) must be paid for in cash or securities permitted by the last sentence of section 308(b) of the Act.

§ 107.806 Retention of loans and investments.

A Licensee may retain its investment in a concern which qualified as a small business concern at the time of Licensee's initial financing but which subsequently became large. Securities of a large business received by a Licensee in connection with the merger, consolidation, or affiliation of a portfolio concern with such large business may be retained as long as continued ownership does not interfere with the Licensee's ability to maintain on hand funds in adequate supply for the financing of small business concerns. The Licensee may, however, in any event retain such securities until it has fully recovered the amount of its original investment plus a reasonable return thereon. Additional financing may be provided only to the extent necessary (a) to honor a commitment made while the concern still qualified as a small business concern or (b) to protect Licensee's original investment.

§ 107.807 Purchase of securities from another Licensee.

A Licensee may exchange with or purchase for cash from another Licensee, without recourse against the seller (except for such liability as may result from the falsity of representations or warranties as to matters of fact), portfolio securities (or any interest therein) acquired from small business concerns, by such Licensee or any other Licensee: *Provided, however,* That a Licensee shall not have invested at any one time more than one-third of its total assets in such securities of small business concerns through such exchanges or purchases.

§ 107.808 Idle funds.

Idle funds of a Licensee not employed in current financing of small business concerns and not invested in accordance with the last sentence of section 308(b) of the Act shall, without delay, be placed on demand deposit, or in Time Certificates of Deposit maturing not later than 1 year after issuance, in any bank or banks which are members of the Federal Deposit Insurance Corporation: *Provided, however,* That a Licensee may maintain an imprest petty cash fund in an amount not to exceed \$500 at any one time.