

plan appears inadequate or unreasonable, SBA may notify and afford the Licensee and other parties concerned an opportunity to submit evidence as to whether renegotiation of the divestiture plan should be required. SBA approval shall be contingent upon full disclosure of all relevant facts and shall be subject to such conditions as SBA may determine are appropriate.

(e) The Licensee shall report to SBA in its annual financial report (SBA Form No. 468) a statement (in triplicate) setting forth current prospects for the implementation of the divestiture plan, and additional factors, if any, affecting the status or feasibility of relinquishing control.

(f) Subsequent events affecting plan: Where changed circumstances indicate that a workable arrangement no longer exists, SBA may, on its own initiative or upon application by the Licensee or other interested person, notify and afford the Licensee and other parties concerned an opportunity to submit evidence as to whether renegotiation of the divestiture plan should be required.

(g) Enforcement actions: (1) Divestiture plans entered into pursuant to this section shall not adversely affect or interfere with enforcement by the Licensee of its legal rights against a concern which has defaulted on its obligations to the Licensee and shall no longer continue in effect as a binding obligation on Licensee's part in the event of such enforcement action. (2) If the Licensee acquires control of the small business concern as the result of enforcement action taken, the Licensee shall immediately notify SBA and shall take steps to divest itself of control within a reasonable period of time pursuant to a plan approved in writing by SBA. In connection therewith, the Licensee shall be free to negotiate with any appropriate person or entity necessary to accomplish relinquishment of control.

(h) Licensees with existing plans: Licensees which have control of a small business concern on the effective date of this section, shall bring their plans for divestiture of control into compliance with this section not later than March 31, 1968: *Provided, however*, That the plan shall provide for relinquishment of such control within a reasonable period of time, but in no event later than March 31, 1975. Such plans shall be filed with SBA not later than April 30, 1968, and will be subject to SBA approval in accordance with the provisions of this section.

(i) Additional financing: Whenever a Licensee assumes control of a small concern, and later provides additional financing to it, the Licensee shall within thirty (30) days resubmit its divestiture plan (amended if necessary or appropriate) for SBA review and approval in accordance with the provisions of this section.

§ 107.902 Voluntary capital decrease.

A Licensee shall not voluntarily reduce its paid-in capital and paid-in surplus without prior written SBA approval. A Licensee may not purchase and hold more than 2 percent of any class of its stock without prior written SBA approval.

§ 107.903 Mergers, consolidations, and reorganizations.

Subject to the prior written approval of SBA, a Licensee may participate as a party to a statutory or other type of merger, consolidation, or reorganization with another Licensee or non-Licensee company where the resultant company will qualify as a Licensee. SBA's approval may be conditioned on such reasonable terms and conditions as it determines appropriate.

PROHIBITIONS

§ 107.1001 Prohibited uses of funds.

No funds may be provided by Licensee for:

(a) *Relending, reinvesting, etc.* Relending or reinvesting by the small business concern, nor may funds be provided to a small business concern if the business activity of such concern involves directly or indirectly the investing, lending, or other providing of funds to others in exchange for an equity interest or monetary obligation, purchase or discounting of debt obligations, factoring, or long-term leasing of equipment with no provision for maintenance or repair.

(b) *Financing Licensees.* Use, directly or indirectly, to purchase stock in or otherwise to provide capital for a Licensee, or to repay an indebtedness to accomplish such purpose.

(c) *Investments in unimproved real estate.* The acquisition, or payment of obligations relating to the prior acquisition, by a small business concern of land or improved real estate to be held, without prompt and substantial improvement or development, for resale or leasing to others. Improvement or development shall, for the purposes of this paragraph, be deemed prompt and substantial if (1) an