

§ 107.1505

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returns of capital, paid either to SBA or to your non-SBA investors.

(e) *Mandatory redemption of Participating Securities.* You must redeem Participating Securities at the redemption date, which is the same as the maturity date of the Trust Certificates for the Trust containing such securities. The redemption date can never be later than 15 years after the issue date. You must pay the Redemption Price plus any unpaid Earned Prioritized Payments and any earned Adjustments and earned Charges (see § 107.1520).

(f) *Priority of Participating Securities in liquidation of Licensee.* In the event of your liquidation, the following are senior in priority, for all purposes, to all other equity interests you have issued at any time:

- (1) The Redemption Price of Participating Securities;
- (2) Any Earned Prioritized Payments and any earned Adjustments and earned Charges (see § 107.1520); and
- (3) Any Profit Participation allocated to SBA under § 107.1530.

[61 FR 3189, Jan. 31, 1996, as amended at 63 FR 5869, Feb. 5, 1998]

**§ 107.1505 Liquidity requirements for Licensees issuing Participating Securities.**

If you have outstanding Participating Securities, you must maintain sufficient liquidity to avoid a condition of Liquidity Impairment. Such a condition will constitute noncompliance with the terms of your Leverage under § 107.1820(e).

(a) *Definition of Liquidity Impairment.* A condition of Liquidity Impairment exists when your Liquidity Ratio, as determined in paragraph (b) of this section, is less than 1.20. You are responsible for calculating whether you have a condition of Liquidity Impairment:

- (1) As of the close of your fiscal year;
- (2) At the time you apply for Leverage, unless SBA permits otherwise; and
- (3) At such time as you contemplate making any Distribution.

(b) *Computation of Liquidity Ratio.* Your Liquidity Ratio equals your Total Current Funds Available (A) divided by your Total Current Funds Required (B), as determined in the following table:

CALCULATION OF LIQUIDITY RATIO

Financial account	Amount reported on SBA form 468	Weight	Weighted amount
(1) Cash and invested idle funds .....	.....	×1.00	.....
(2) Commitments from investors .....	.....	×1.00	.....
(3) Current maturities .....	.....	×0.50	.....
(4) Other current assets .....	.....	×1.00	.....
(5) Publicly Traded and Marketable Securities .....	.....	×1.00	.....
(6) Anticipated operating revenue for next 12 months .....	(1) .....	×1.00	.....
(7) Total Current Funds Available .....	.....		A
(8) Current liabilities .....	.....	×1.00	.....
(9) Commitments to Small Businesses .....	.....	×0.75	.....
(10) Anticipated operating expense for next 12 months .....	(1) .....	×1.00	.....
(11) Anticipated interest expense for next 12 months .....	(1) .....	×1.00	.....
(12) Contingent liabilities (guarantees) .....	.....	×0.25	.....
(13) Total Current Funds Required .....	.....		B

<sup>1</sup> As determined by Licensee's management under its business plan.

[61 FR 3189, Jan. 31, 1996, as amended at 63 FR 5869, Feb. 5, 1998]

**§ 107.1510 How a Licensee computes Earmarked Profit (Loss).**

Computing your Earmarked Profit (Loss) is the first step in determining your obligations to pay Prioritized Payments, Adjustments and Charges under § 107.1520 and Profit Participation under § 107.1530.

(a) *Requirement to compute your Earmarked Profit (Loss).* While you have Participating Securities outstanding or have Earmarked Assets (as defined in paragraph (b) of this section), you must compute your Earmarked Profit (Loss) for:

- (1) Each full fiscal year.