

committee are striving desperately to increase aid incentives for such companies to stay in the program—and for SBIC's with capital below that level to increase their capital.

These are some of the projects now underway to bring about this result:

1. OVERLAPPING REGULATIONS

NASBIC has filed a formal application with SEC for exception of public SBIC's from a number of the provisions of the Investment Company Act of 1940. SBA and our officers are holding conferences with SEC staff on our application.

2. TAX FEATURES

In common with other SBIC's, we are pressing for the passage of the SBIC tax bill and are cooperating with SBA and the Internal Revenue Service on two critically important subjects: continuation of the 10 percent floor on reserves against bad debts and on the taxation of profits arising from the exercise of warrants or options. We hope both will be resolved soon.

3. THE CENTRAL, OR CAPITAL, BANK

Mr. Davis will mention this hoped-for innovation. If it can be established, it will certainly encourage larger SBIC's to stay in the program.

4. STATE INCENTIVES

This is another project we are working on which can be very valuable for all SBIC's, but particularly so for larger SBIC's which are restricted in the leverage they can obtain from SBA.

5. OPTIONS FOR MANAGERS OF PUBLIC SBIC'S

The Investment Company Act of 1940, as interpreted by SEC, prohibits the issuance of restricted stock options to officers of registered investment companies, which presently include publicly held SBIC's. As a result, these SBIC's too often have been unable to retain their most capable executives. We strongly believe these management incentives are particularly important for SBIC officers and we are trying to obtain them through administrative or legislative action.

Perhaps I have dwelt too long on the pessimistic aspect of our segment of the industry. On the other hand, the loss of these good SBIC's, these good SBIC executives, and these SBIC resources places upon me a responsibility to be completely candid with you men who are appraising the present posture and the future of our program.

In conclusion, though, let me point out some encouraging developments.

First of all, the investment performance of most of the public SBIC's during the past 2 years has been tremendous. A number of the public SBIC's outperformed the very best of the so-called "go-go" mutual funds which have gained the attention of Wall Street. We public SBIC's have been making more money, and our portfolio companies are stronger than ever before in our history. We look to a continuing flow of capital gains as our stronger portfolio companies go public.