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January 14, 2011

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

SUBJECT: FILE # S7-37-10

Dear Ms. Murphy:

I am a Managing Partner of a middle market private equity ("PE") firm called Cortec Group. For twenty-six years we have been investing capital on behalf of pension funds (such as the California State Teachers), endowments (such as the University of Texas) and other investors with the objective of growing companies and generating attractive returns on these investments. We have never, nor do we ever expect to, acquire any publicly-held company. Furthermore, most of our capital is invested to smoothly facilitate the transition of company ownership from their entrepreneur founders to retirement. Each of our investments is governed by the Security Acts of 1933 and 1940. We employ fourteen people in New York, NY, each of whom is fully covered by our health insurance and 401K plans. Among others, we have operated our firm with the following principles since our inception twenty-six years ago:

1) Consistently conduct yourself with the highest ethical standards
2) Do well by doing good, wherever possible
3) Do not make any donations to any public official
4) Do not trade in any public equity securities (except for your personal accounts)

Despite all of our activities being fully governed by previously existing securities laws, under the Dodd-Frank Act we now have to register to be monitored by the SEC, just as hedge funds will. This makes absolutely no sense to us, as middle market PE firms are fundamentally different from hedge funds. Hedge funds, by definition, trade public securities, potentially creating systemic risk. We do not trade any securities other than for personal accounts. Hedge funds typically manage many billions of dollars and employ those dollars with specific public market trading strategies, once again creating a form of systemic risk. We currently manage less than $750 million, none of which is or will be invested in public securities. Further, due to our small size, have no ability to impact any financial system. Because the companies we buy and sell are always privately held, the due diligence process around the purchase or sale of such companies is lengthy and exhaustive. In addition, it is typically vetted by Hart-Scott-Rodino filings and other Federal agencies.

Three major areas of Dodd-Frank will affect us: Custodial, Compliance and Registration. At present we are unregistered pursuant to the Private Placement Exemption of the Act. As previously mentioned, we do not engage in any securities trading; and we maintain our eight

unregistered stock certificates (for our eight portfolio company investments) in our office safe. In order to satisfy the custodial requirement under the Act, we have been told that we will have to pay a custodian $10-15,000 per year to "safeguard" these certificates. We have been told by our lawyers that it will cost us $75,000 to $150,000 to write a compliance manual. When asked the value of this exercise (for a fourteen person company) our counsel readily admitted that such a requirement adds no value to our business and certainly has nothing to do with "protecting the public from systemic risk". Furthermore, the Act requires we add a compliance officer (who has to be a senior-level executive), at a minimum annual compensation of $200,000, yet we do not engage in any activity the Act wishes to monitor. Finally, our counsel estimates a cost of $75,000 to $100,000 to document our efforts related to registration.

In summary, we are being required to spend $350,000-$500,000 simply to satisfy a U.S. governmental requirement that will generate zero protection to the public from any systemic risk.

I have an idea which I hope you will find constructive and pragmatic: provide private equity firms a one-year exemption from registration, under section 206B of the Investment Advisor Act of 1940. This one-year period will provide the SEC time to better understand the private equity industry, its benefits in providing capital primarily to smaller, privately-held companies (particularly for private equity firms managing under $5 billion) and its very low likelihood of generating systemic risk.

In closing, it is our sincere hope, both as U.S. business people and citizens, that the SEC deepen and broaden its review and regulatory enforcement of hedge funds and other entities that trade in public securities (such as the Madoff firm), rather than inadvertently penalizing people whose activities help build U.S. companies and, therefore, the U.S. economy. With the abundance of hedge funds that have been created over the last decade, we fear the SEC's efforts have already been diluted enough. We think it would be better to focus energy and dollars where they can have an impact. We believe this would be in effective monitoring and governance of hedge funds and other large entities which trade public securities and commodities.

If at all possible, please grant this extension promptly as many PE firms (including Cortec) are beginning to spend the sums referenced above in order to comply with the stipulated July 1, 2011 registration date.

Please feel free to call me if I can be further help at 212-916-0171.

Sincerely,

David L. Schnadig