Sentinel CAPITAL PARTNERS

Sentinel Capital Partners
330 Madison Avenue, 27th Floor
New York, NY 10017
212·688·3100 (Tel)
212·688·6513 (Fax)
www.sentinelpartners.com

BY EMAIL

January 16, 2011

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

Re: File # S7-37-10
Exemptions for Certain Advisors—Title IV Provisions of the Dodd-Frank Act

Dear Ms. Murphy:

I write to share my firm's deep concerns about the harm the recent Dodd-Frank Act is having on the middle market private equity business and to seek your help. During my 30 years in the private equity industry, I have never reached out for help to a senior government official. During these three decades, I have consistently felt the regulations the government has mandated for our industry have been reasonable and prudent. However, the passing of the Dodd-Frank Act will change our industry profoundly, for the worse, and directly harm our small private equity business. I therefore write to seek your help.

Our business mission is straightforward. We aim to generate solid investment returns by investing in promising smaller-sized businesses, enabling their talented entrepreneurial executives and workforces to build them into great mid-sized businesses, and in the process, achieve their boldest professional and financial dreams. I serve as the managing partner of Sentinel Capital Partners, a firm I founded 15 years ago. Our investors include major pension funds (serving both private and government employees), college and university endowments, and foundations. These highly sophisticated investors work with consultants and other industry specialists and secure market terms and other protective mechanisms to protect their interests. Also, our investment partnerships and each investment we make are all subject to existing Federal and State securities laws, including the Security Acts of 1933 and 1940.

We do not make many investments—no more than three or four each year—but we make each one count. All of our investments are privately negotiated and we do not engage in any public trading operations. We care deeply for each investee company and its employees. We have one office in New York City. All of our 23 employees pay considerable taxes; all are fully covered by our company-funded health insurance program; and everyone participates in our retirement and profit sharing plan. We have operated this way since our firm's inception. Moreover, neither Sentinel nor our employees has ever been accused of, investigated, or implicated in any securities violation or other breach of conduct. None of this is an accident—we are guided by the philosophy that business is good business if one can do it with the same person twice, and we have established clear policies and procedures designed to enable us to operate as model corporate citizens.

Although existing securities laws already govern our activities, Dodd-Frank has been imposed upon us as a byproduct of the government's goal of monitoring hedge funds and other similar public-trading entities. The Dodd-Frank Act was passed to avoid another Madoff-like Ponzi scheme and to manage systemic risk. Yet, as a lower middle market private equity firm with modest capital under management that exceeds the $150 million exemption threshold established by Dodd-Frank, (i) we do not engage in securities trading, and (ii) our modest size poses no systemic risk to the U.S. financial system. Moreover, before we buy or sell a business, we spend months undertaking, or responding to, an extensively documented due diligence process, and our transactions are typically vetted by Hart-Scott-Rodino filings and other Federal agencies. As is standard in our industry, all of our actions and conduct are governed by comprehensive, thoroughly negotiated, and carefully crafted partnership contracts with our highly sophisticated institutional investors.

Let me illustrate just one of the major requirements of Dodd-Frank that has little practical value: custodial requirements._Today, we are unregistered pursuant to the Private Placement Exemption of the 1933 Act. We do no securities trading and for the 15 companies in our investment portfolio, we maintain unregistered stock certificates in our bank safety deposit box. If the certificates were stolen, they would have no value, and we can easily replace them. Each year, our public accounting auditors ask us to retrieve the certificates so they can confirm that we indeed possess and own the securities. Yet, to satisfy the custodial requirement under the Dodd-Frank Act, our bank will charge us $10,000–$15,000 per year to put our 15 easily replaceable certificates in its vault and provide a letter confirming that the securities are indeed in its possession.

The bottom line for us is that in total we will have to spend between $500,000–$600,000 in 2011 and more than $375,000 per year thereafter for compliance manuals and oversight, employee trading records, legal documentation, and the hiring of additional compliance employees. To pay for this, we will need to cut employee costs elsewhere, and at the very least, we will have to postpone hiring productive professionals who can help us grow our business. To me, this is a great shame and an unproductive use of our talent and resources. Moreover, when all is said and done, the information we will capture under the new regulations will prove of limited value to eliminating insider trading and reducing systemic risk.

My partners and I fully recognize that the onus of implementing Dodd-Frank has been thrust upon the SEC. We also understand that overseeing private equity is not an area in which the SEC has significant historical experience. In addition to my role as managing partner of a lower middle market private equity firm, I am also a taxpayer who has a great deal of respect for the important role the SEC plays. In the current environment where the electorate is signaling a need to reduce government spending, I fear that the SEC's resources may be inadequate to do the job the SEC is currently are charged with doing and tackling the new oversight requirements of Dodd-Frank as applied to private equity. With the increasing complexity of the public financial markets, the SEC's resources should be focused where the greatest risk and need is.

Accordingly, my colleagues and I would be deeply grateful if, under the authority granted the SEC under Section 206B of the Investors Advisor Act of 1940, you would grant private equity a one-year exemption, until July 1, 2012. During this extra year, the SEC can further study the specific needs and requirements of the private equity industry and formulate highly targeted regulatory requirements that make sense for our industry. We understand that there is ample precedent for such a delay, as was granted to the venture capital subsector of private equity and to the Sarbanes-Oxley requirements relating to small companies. The benefits to such a measured approach are manifold, including the elimination of unnecessary expenditures of time and money and the ability for our firm and others like us, to channel our efforts into productive pursuits at the exactly the time the country needs it most.

Our goal and request is to seek your help to get lower middle market private equity excluded from aspects of the Dodd-Frank regulations that are not appropriate to our industry, before we have to spend the time, effort, and money preparing for these onerous regulations, which will take effect in July 2011. We would be most grateful if you would utilize your good office to speedily grant a one-year delay before we actually spend the time, effort, and resources to prepare.

Respectfully yours,

David S. Lobel

David S. Lobel
Managing Partner