

Dear Senator Nelson:

I am the Chief Operating Officer of the Riverside Company a private equity firm which has spent the last 22 years investing in small U.S. businesses. Typically the companies we consider for investment have between 50 and 500 employees and earnings between \$1 million and \$15 million. Our business model is completely dependent on our ability to generate gains for our investors by improving the underlying value of the companies we buy through sales and earnings growth, not by the balance sheet restructuring common among the big institutional firms. Many private equity firms have some sort of specialty; ours is size. We are the largest buyout firm focused solely on small companies. Since our founding, we've invested \$2 billion in 211 "little leaders" of niche industries ; companies that seek to boost their growth through a partnership with Riverside. We do not participate in hostile takeovers. Today, we own 50 companies in the U.S. employing roughly 14,000 people.

The proposed "Carried Interest" legislation in its current form appears to affect us dramatically, because our principal source of return consists of a share of the profits of the companies that we invest in. I urge you to consider the adverse impact of the proposed legislation on small-business investing and to address in your legislation the following considerations:

- Investing in small U.S. businesses has traditionally been encouraged through U.S. tax policy, for good reason. These businesses are a major source of U.S. job growth, and they pay U.S. taxes at higher effective tax rates than large multinational corporations. For example, we own 8 companies in Florida; over the past 3 years during one of the worst recessions in history, our Florida based companies have had 24% job growth and 19% earnings growth
- Long-term investment provides stability in the U.S. economy and reduces employment risk. Recently Senator Baucus has introduced a version of the "Carried Interest" legislation to address the foregoing point, by treating investments held for 7 years or more differently than shorter term investments of one year. We think this is the right direction.
- There is a real difference between firms like Riverside, where the partners commit a substantial percentage of the actual capital (in our case 10%), and institutional LBO firms where the partners' capital commitment is a tiny fraction of the fees that they earn. In our firm, we stand to lose a great deal of money on transactions that don't work out.
- The proposed legislation also places us at an unfair competitive disadvantage to "promoters" who do not operate with committed pools of capital. In the small business world, we often compete against promoters who have little, if any, capital to invest but who try to "lock up" a deal through a Letter of Intent and then find actual investors after the fact. In return for putting the deal together they receive a fee in the form of a profits interest in the target company. There is no good policy reason for these promoters to enjoy a lower tax rate on their profits interest than firms like ours in which our investors – all current or retired executives – have committed their capital to the transaction upfront. Yet versions of the legislation appear to leave open the possibility of favoring "promoters" over committed capital. This can easily be, and should be, addressed.

Thank you for your consideration of the foregoing points.

Sincerely,  
Pamela B. Hendrickson