Azalea Capital

February 17, 2011

Via E-Mail to: Rule-comments@sec.gov

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

Re: **Proposed Rule: Exemptions for Certain Advisors: Title IV Provisions of the Dodd-Frank Act**

Subject File: #S7-37-10

Dear Ms. Murphy:

We are the Principals of Azalea Capital, a lower middle market private equity firm located in South Carolina, currently holding assets under management of approximately $175 million. We have been in private equity investing for 12 years. Our focus is on purchasing promising companies and growing the companies in numerous ways including expanding geographical reach, adding new products and augmenting distribution channels, each of which typically foster job creation. We have had considerable success in meeting those objectives over the past 12 years.

We are writing regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act that will require most managers of private equity funds, including Azalea Capital, to register with the SEC as an investment advisor. Under this Act, we will need to provide information about our trades and portfolios that is necessary to the assessment of systemic risk. We certainly recognize the pressure the SEC is facing to develop regulations on trading businesses in a post-Madoff world. However, we believe the business activities of a lower middle market private equity firm with less than $1 billion under management would not be in a position to contribute to the systemic risk of the U.S. financial system. Our business model is simple; we invest in several privately held businesses a year. We do not have a trading operation. Our typical investment is in a private company where the management team wishes to invest in the company by becoming part of the buying group.

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Recapitalizations are also structured for business owners who desire immediate liquidity yet wish to participate in the growth of their business.

Let us first state that we are concerned over numerous issues with certain financial firms over the past several years. We are supportive of having the private equity industry operate to the highest ethical and fiduciary standards, as we believe our firm does.

As part of these new regulations, we are required to develop a compliance program; hire a compliance officer; custody our private company stock certificates, which are worthless to any party not part of the original purchase agreement; and register with the SEC. The cost of complying with these new regulations is estimated to be $50,000 to $100,000 per year, which is a significant sum for a firm that invests in two to three private companies each year.

Below is an analysis of the big picture concerns we have as a nation and analysis of these risk factors in relation to the private equity industry:

RISK	APPLICATION TO PRIVATE EQUITY
Contagion between financial institutions	Private equity portfolio companies are almost universally structured with independent capital structures with significant equity invested at the outset of the deal. Further, private equity funds are also almost universally discrete entities.
Counter party risk	Private equity funds have virtually no contingent obligations to others (such as unfunded revolvers, backstopping derivatives, or credit insurance).
Packaging substandard investments and selling them to others	Private equity "eats its own cooking" and typically holds investments for 4-6 years.
Deposits are taken which are federally insured and then used to invest in risky assets	The vast majority of private equity firms (excluding banks which can be separately regulated) do not have federally insured deposits as a funding source.
Unsophisticated investors must be protected	Private equity investors are typically very sophisticated and substantial investors who have a variety of their own mechanisms to provide protection and oversight. All of Azalea Capital's investors are accredited investors.
Bailout concerns	In an era of bailouts of banks, investment banks, auto companies, and now the talk of certain governmental jurisdictions, there has never been, to our knowledge, a discussion of bailing out a private equity fund.

Therefore, we believe there is no need for regulating private equity per se, from a risk perspective.

The oversight of our business currently falls under the SEC Investment Acts of 1933 and 1940. Our investment authority and fiduciary responsibility to our investors is governed by a lengthy limited partnership agreement that is heavily negotiated by our investors at the time of the fund's formation. We refer to this limited partnership agreement almost daily as we consider investments. In addition, from the inception of our firm we follow a few simple rules to run our business:

1. Follow a conduct of absolute integrity.
2. Align our interest with our investors' portfolio companies; we invest alongside our investors and portfolio companies and hold Board seats at most of our companies.
3. Foster a culture of teamwork and mutual respect.
4. Do not invest personally in a public company if we have non-public priority information.
5. Do not make political contributions to officials who have influence over our investors or investments.

But, in addition to that, the information, as we understand it, to be gathered under Dodd-Frank will have virtually no use. A couple of quick examples are as follows:

- Our securities are typically held 4-6 years, and as private securities are not tradable. Having to deposit stock certificates with third party financial institutions will serve no practical purpose.

- Private equity invests in only a small percentage of companies that are public. (In our case, we have never invested in a public company). The extensive reporting of stock positions held by private equity professionals is unnecessary. The vast majority of private equity funds do not have trading operations (and if they do, then separate regulations could apply).

We understand that regulators needed to act quickly to pass the Dodd-Frank Act in order to help ensure the stability of the financial markets. However, we also believe that the SEC has a limited knowledge of the inner workings of private equity. We urge you to provide those private equity firms that do not conduct trading operations an exemption from registration under Section 206B of the Investors Act of 1940.

Granting this exemption by the end of February, if possible, is needed as the July 1, 2011 registration schedule requires private equity firms to spend enormous sums of money and time in

order to send data to the SEC, which, in our opinion, will not be helpful or useful in minimizing risk to the financial system and will take money and time away from creating jobs.

We appreciate your time considering our concerns.

Sincerely,

AZALEA MANAGEMENT III, LLC

Marshall H. Cole III:

Patrick A. Duncan:

Benny LaRussa, Jr.:

James M. Micali:

Porter B. Rose:

R. Patrick Weston:

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