Rumbles of regulation don't worry PE industry

BY CHUCK GREEN
SPECIAL TO THE JOURNAL

As a number of private equity firms ıfuse large amounts of cash into ompany acquisitions, it has trigered speculation that a regulatory ush could get a boost if Democrats ıke the House or Senate in Novemer or win the White House in 2008.

But **Dana Callow**, for one, isn't fretng. While Callow, managing parter, **Boston Millennia Partners**, acnowledged "the amount of money ıat has gone into private equity, the ze of these deals and the power on ıe private equity side — particuırly the buyout business — is going bring attention, I don't think leglation will stop the momentum of eals, although it might change their ature."

Recent press reports have stated ıat the private equity industry has epped up their federal lobbying efırts and have explored the possibily of starting a trade group with the oal of pre-empting calls for regulaon that have of late buffeted hedge ınds.

Callow said that while legislation on't stop the momentum of deals, "could increase or delay the cost f some deals, reduce — at least to a egree — the returns to the buyers, r refocus some of the money from ıe type of deals with greater politiıl exposure to more technology-cenered buy outs."

Additionally, Callow noted, "there ıight be pension fund monitoring or ther forms of employment protecon structures, and no doubt you'll ave more scrutiny in the world of ansparency."

Overall, though, he believes busiess is going to run its course.

John LeClaire, chairman of the priate equity group at **Goodwin Procter LP**, said that to understand what ıight spark calls for industry reguıtion, "You'd have to ask, 'What's appening that's causing people to be urt, angry or abused?' Most often, rivate equity deals, because they're rivate by definition, occur under the adar. You can argue these deals win or everyone: The public stockholders et a premium; management gets to ın the company and own a signifiınt equity in it; and the private eqity investors make a good or great eturn. This is a chance for manageıent to not just be well paid, but to et really rich. That could bring about ealousy, which is always a factor in olitics, especially given the current olitical and economic environment."

He also hypothesized if money connues to pour into companies and ebt continues to multiply, it could esult in "visible crash-outs and posibly people losing their jobs." In that vent, "I think you'll see rigorous enforcement of the bankruptcy and fraudulent-conveyance laws and perhaps some sort of litigation for the people who took money out. But that presupposes the market overheats and deals start crashing. You could also see state-sponsored funds like CalPERS (California Public Employees' Retirement System) not liking private equity firms that receive large fees from the portfolio companies and don't share them with the LPs."

W. MARC BERNSAU | BUSINESS JOURNAL

Dana Callow, managing partner of Boston Millennia Partners, says that legislation targeting the industry shouldn't stop the momentum of deals.

LeClaire believes private equity firms must continue to stress fundamentals.

"What's going on in the market is not at all like the stealing that (former WorldCom CEO) **Bernie Ebbers** and the like did," he said. "But hubris begets a fall, and if you reach and reach on bigger and bigger things, eventually your train could go off the track."

The notion that a power shift in the nation's capital could stimulate regulations isn't at all off track to **Mark Heesen**, president of the **National Venture Capital Association**.

"If the House of Representatives changes control, let's say a major corporation with whom a buyout firm was associated suddenly goes under, there could be politicians — more on the Democratic than the Republican side — who might want to call for investigations of why a particular transaction occurred and factors such as how many jobs were lost. That could put these buyout shops in the limelight. In the past, that's not something they've been part of. It would dampen the climate as far as the level of activity."