

99-216

EDGEWATER PRIVATE EQUITY FUND III, L.P.
c/o Gordon Management, Inc.
900 North Michigan, 14th Floor
Chicago, Illinois 60611

August 6, 1999

Commonwealth of Pennsylvania
Public School Employes' Retirement System
Five North Fifth Street
Harrisburg, Pennsylvania 17101

Attention: John C. Lane
Chief Investment Officer

Re: Edgewater Private Equity Fund III, L.P.

Dear Mr. Lane:

This letter is being written and delivered to confirm certain agreements with regard to the investment made by the Public School Employes' Retirement System ("PSERS") in Edgewater Private Equity Fund III, L.P., a Delaware limited partnership (the "Partnership") pursuant to the amended and restated Limited Partnership Agreement dated as of August 6, 1999 (the "Agreement") and the Subscription Agreement between the General Partner and PSERS dated as of August 6, 1999. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to them in the Agreement.

The Partnership, General Partner and PSERS hereby acknowledge and agree that the special terms set forth below are in consideration of PSERS' initial Capital Commitment of 25% of the Partnership's total Capital Commitments (not to exceed \$62,500,000), and that the special terms set forth below would not be available to PSERS and agreed to by the Partnership and the General Partner had PSERS' initial Capital Commitment been less than said amount.

1. The General Partner understands that PSERS reserves all immunities, defenses, rights or actions arising out of its status as a sovereign state or entity, including those under the Eleventh Amendment to the United States Constitution. No provision of the Agreement or the Subscription Agreement shall be construed as a waiver or limitation of such immunities, defenses, rights or actions.

2. The General Partner hereby agrees and acknowledges that any contract claim asserted against PSERS arising out of the Agreement or the Subscription Agreement may only be brought before and subject to the exclusive jurisdiction of the Board of Claims of the Commonwealth of Pennsylvania pursuant to §§ 4651-1 et seq. of Title 72 Pa. Statutes, and shall

be governed by the substantive and procedural rules of the Commonwealth of Pennsylvania, without regard to the principles of conflicts of law.

3. The General Partner hereby confirms that the Agreement and the Subscription Agreement do not impose any personal indemnification obligations on PSERS and shall not be applied or construed to require PSERS to provide indemnification directly to any person or entity thereunder. PSERS, however, acknowledges that it is obligated as a Limited Partner to make capital contributions as called pursuant to the terms of the Agreement. Subject to the obligations noted in the foregoing sentence, to the extent that any legal action is maintained against PSERS seeking to establish personal liability against PSERS with respect to its status as a limited partner of the Partnership, liability will fall where it does by law against the responsible party. In no event shall the liability of PSERS under the Agreement or the Subscription Agreement exceed PSERS' Capital Commitment.

4. The General Partner hereby agrees to preserve all financial and accounting records pertaining to the Partnership Agreement during the term of the Agreement and for four years thereafter, and during such period, PSERS or any other department or representatives of the Commonwealth of Pennsylvania, upon reasonable notice, shall have the right to audit such records in regard thereto to the fullest extent permitted by law. The General Partner shall have the right to preserve all records and accounts in original form or on microfilm, magnetic tape, or any similar process.

5. The Partnership and General Partner represent and warrant that neither the Partnership nor the General Partner shall have entered into any side letter or similar agreement on or prior to the date hereof with any investor or Partner to the Partnership except as disclosed to PSERS in writing on or prior to the date hereof. At any time, should any investor receive any side letter or similar agreement, then PSERS will be given copies of such side letter(s) or similar agreement(s). Neither the Partnership nor the General Partner shall enter into any side letter or similar agreement with an existing or future investor who is or becomes a Limited Partner in the Partnership after the date hereof that has the affect of establishing rights or otherwise benefiting such investor in a manner more favorable in any material respect to such investor than the rights and benefits established in favor of PSERS pursuant to this side letter, unless, in any such case, PSERS has been given the same rights and benefits or such side letter or similar agreement is made pursuant to an amendment to the Agreement.

6. Notwithstanding the definition of "Event of Default" in the Agreement, PSERS shall be given ten days after receipt of any notice of Default in accordance with Section 3.3(a) or 10.5 to cure any Default.

7. The General Partner agrees that its Capital Commitment shall at all times be equal to not less than 5% of the aggregate Capital Commitments of the Partnership.

8. Drawdown Notices shall contain the total amount of the Drawdown Amount, the portion thereof to be contributed by PSERS and a breakdown of the purpose(s) for which such

Drawdown Amount is being called. Because PSERS cannot commit to having its Capital Contribution paid in immediately available funds by 10:00 a.m. (Central Time) on the specified Drawdown Date, PSERS hereby commits to paying any such Capital Contribution in immediately available funds by 5:00 p.m. (Central Time) on the preceding business day provided that the General Partner provides PSERS with the Drawdown Notice at least 10 business days prior to such payment date.

9. PSERS may elect to terminate its obligation to make further Capital Contributions for the purpose of funding new Investment commitments (i) if James A. Gordon ceases to be involved in the management of the Partnership (in his capacity as an employee of the General Partner or otherwise), or (ii) upon the occurrence of any two instances of indemnification hereunder of \$500,000 or more; provided, however, that, in either event, PSERS shall continue to be obligated to make Capital Contributions for the purpose of funding Follow-on Investments, Investments as to which the Partnership has a then-existing commitment and for the purpose of paying the Partnership's expenses (including, but not limited to, Management Fees).

10. The General Partner hereby agrees that "reputable legal counsel satisfactory to the General Partner" under Section 3.3(g) of the Agreement shall include any attorney within the Office of General Counsel of PSERS or within the office of the Attorney General of the Commonwealth of Pennsylvania or any private attorney appointed by either such office.

11. All Net Cash Flow that would otherwise be distributed to the General Partner and PSERS pursuant to Section 4.2 of the Agreement shall instead be distributed between the General Partner and PSERS pursuant to the provisions set forth in Exhibit A hereto. All references in the Agreement to Section 4.2 thereof shall for all purposes applicable to the relationship among the General Partner, PSERS and the Partnership, be deemed to refer to the provisions set forth in Exhibit A hereto instead of Section 4.2 of the Agreement.

12. During the term of the Partnership, the General Partner shall refrain from distributing any assets to PSERS other than cash and freely-tradable, liquid securities. Following the dissolution and liquidation of the Partnership, the General Partner agrees to continue to manage any illiquid assets distributed to PSERS upon the Partnership's liquidation until such illiquid assets are converted to cash or freely-tradable liquid securities, and the General Partner shall be entitled only to receive from PSERS only reasonable out-of-pocket costs and expenses it incurs in connection with such services.

13. In furtherance of Section 5.5(a) of the Agreement, the General Partner shall allocate investment opportunities it identifies as meeting the Partnership's investment objectives to the Partnership in first priority until the Partnership's investment objectives and best interests with respect to any such investment opportunity have been fully satisfied in the General Partner's reasonable business judgment.

14. The General Partner agrees to prepare at no additional cost to PSERS and to deliver to PSERS within 120 days following the end of each fiscal year and within 60 days

following the end of each interim calendar quarter a "Capital Account Summary" substantially in the form appended hereto as Exhibit B.

15. Notwithstanding Section 5.7(a) of the Agreement, with respect to the portion of any Capital Commitment of PSERS in excess of \$30 million (the "Excess Amount"), the Management Fee thereon shall equal 1.5% per annum of the Excess Amount for a period of three years following the admission of PSERS to the Partnership, and 1.25% of the Excess Amount following such three year period through the Partnership's dissolution. The Management Fee shall be treated as an expense of the Partnership that is specially allocated among the Limited Partners (including PSERS) in their respective amounts as determined in this Section 5.7(a) of the Agreement.

16. The General Partner agrees that the Advisory Board shall at all times be comprised of between three and five Limited Partners that are not affiliated with the General Partner. The General Partner further agrees that PSERS shall have the right to designate one member of the Advisory Board so long as PSERS is a Limited Partner (other than a Defaulting Partner).

17. With respect to any matter concerning an Indemnified Person and PSERS, all references to "gross negligence" in Sections 8.1 and 8.2 shall be changed to "negligence;" provided, however, that no loss from an investment made and managed by an Indemnified Person in the good faith exercise of its reasonable business judgment shall be construed hereunder as violating any standard of conduct or care that would prevent exculpation of any such Indemnified Person under the Agreement (as amended by this side letter).

18. If any annual meeting of Partners pursuant to Section 10.1 is held other than in conjunction with a meeting of the Advisory Board, the General Partner agrees to reimburse PSERS for the reasonable out-of-pocket expenses incurred by PSERS in sending one representative to any such meeting.

19. The General Partner agrees that it shall not allow any Partnership assets to be utilized for purposes of paying placement agent fees in connection with the private placement of Limited Partner interests in the Partnership.


20. Any opportunities for Limited Partners to co-invest with the Partnership shall be offered to participating Limited Partners proportionately based on their respective Capital Commitments.

Commonwealth of Pennsylvania
Public School Employes' Retirement System
August 6, 1999
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Sincerely yours,


EDGEWATER PRIVATE EQUITY FUND III, L.P.

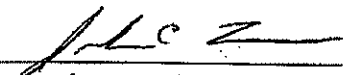
By Gordon Management, Inc.
Its General Partner

By 
Name: Brian Thompson
Title: Vice President

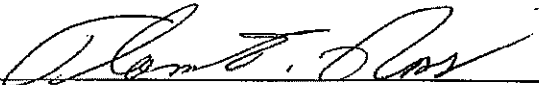
AGREED TO AND ACKNOWLEDGED:

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYES' RETIREMENT SYSTEM

By 
Name: Dale H. Everhart
Title: Executive Director

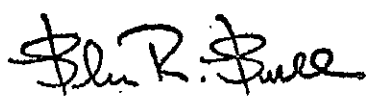
By 
Name: John C. Lane
Title: Chief Investment Officer

Approved for form and legality:


Thomas E. Ross, Chief Counsel
Public School Employes' Retirement System

See attached approval memo.

Chief Deputy Attorney General
Office of Attorney General



Deputy General Counsel
Office of General Counsel

Exhibit A

4.2 Net Cash Flow.

(a) As soon as reasonably practicable following the disposition of any Investment, distributable assets ("Total Distributions") shall be divided into two amounts -- an amount distributable between the General Partner and the Limited Partners other than PSERS ("Class A Distributions") and an amount distributable between the General Partner and PSERS ("Class B Distributions"). Class A Distributions shall equal the portion of Total Distributions calculated by multiplying the amount of such Total Distributions by a fraction (expressed as a percentage (the "Class A Percentage")) equal to the quotient of the combined Capital Commitments of the Limited Partners (excluding PSERS) over the combined Capital Commitments of all Partners (other than the General Partner). Class B Distributions shall equal the portion of Total Distributions calculated by multiplying the amount of such Total Distributions by a fraction (expressed as a percentage (the "Class B Percentage")) equal to the quotient of PSERS's Capital Commitment over the combined Capital Commitments of all Partners (other than the General Partner).

(b) Class A Distributions

(i) Except as provided in paragraphs (ii) and (iii) of this Section 4.2(b) or in Section 4.3, Class A Distributions shall be distributed among the Partners (other than PSERS) (the "Class A Partners") as follows:

(A) Until the Class A Partners have received cumulative distributions equal to their Realized Capital, all Class A Distributions shall be distributed among the Class A Partners in proportion to their respective Capital Contributions.

(B) All Class A Distributions in excess of Realized Capital attributable to the Class A Partners shall be distributed (I) 80% to the Class A Partners based on their respective Capital Contributions, and (II) 20% to the General Partner.

(ii) Notwithstanding Section 4.2(b)(i), until the Class A Partners have received cumulative distributions equal to their aggregate Capital Contributions as Class A Partners, all distributions that would otherwise have been paid to the General Partner pursuant to Section 4.2(b)(i)(B)(II) shall instead be distributed to and among the Class A Partners ratably in accordance with their respective Capital Contributions.

(iii) After the Class A Partners have received cumulative distributions equal to their aggregate Capital Contributions as Class A Partners, the General Partner shall be entitled to all Class A Distributions until it has received, under this Section 4.2(b)(iii), distributions equal to the amounts distributed to the Partners under Section 4.2(b)(ii). Thereafter, all distributions shall be made pursuant to Section 4.2(b)(i).

(iv) Notwithstanding paragraphs (ii) and (iii) of this Section 4.2(b), if the sum of the cumulative distributions to the Partners (including distributions pursuant to Section 4.3) plus the Net Asset Value of the Partnership (which shall be calculated net of any such distributions) exceeds 125% of the aggregate Capital Contributions of the Partners, the General Partner may elect to distribute cash or other distributable assets of the Partnership pursuant to Section 4.2(b)(i).

(v) For purposes of this Section 4.2(b), the General Partner's Capital Contributions in its capacity as a Class A Partner shall be deemed to be the General Partner's total Capital Contributions multiplied by the Class A Percentage.

(c) Class B Distributions

(i) Except as provided in paragraphs (ii) and (iii) of this Section 4.2(c) or in Section 4.3, Class B Distributions shall be distributed between the General Partner and PSERS (the "Class B Partners") as follows:

(A) Until the Class B Partners have received cumulative distributions equal to the "Preferred Return" (defined in clause (vi) below), all Class B Distributions shall be distributed among the Class B Partners in proportion to their respective Capital Contributions.

(B) Next, 100% to the General Partner until the distributions under this Section 4.2(c)(i)(B) to the General Partner equal 25% of the cumulative distributions to the Class B Partners under Section 4.2(c)(1)(A) (other than distributions representing a return of their Capital Contributions).

(C) Thereafter, all additional Class B Distributions shall be distributed (I) 80% to the Class B Partners based on their respective Capital Contributions, and (II) 20% to the General Partner.

(ii) Notwithstanding Section 4.2(c)(i), until the Class B Partners have received cumulative distributions equal to their aggregate Capital Contributions as Class B Partners, all distributions that would otherwise have been paid to the General Partner pursuant to Sections 4.2(c)(i)(B) and 4.2(c)(i)(C)(II) shall instead be distributed to and among the Class B Partners ratably in accordance with their respective Capital Contributions.

(iii) After the Class B Partners have received cumulative distributions equal to their aggregate Capital Contributions as Class B Partners, the General Partner shall be entitled to all distributions until it has received, under this Section 4.2(c)(iii), Class B Distributions equal to the amounts distributed to the Partners under Section 4.2(c)(ii). Thereafter, all Class B Distributions shall be made pursuant to Section 4.2(c)(i).

(iv) Notwithstanding paragraphs (ii) and (iii) of this Section 4.2(c), if the sum of the cumulative distributions to the Partners (including distributions pursuant to Section 4.3) plus the Net Asset Value of the Partnership (which shall be calculated net of any such distributions) exceeds 125% of the aggregate Capital Contributions of the Class B Partners, the General Partner may elect to distribute cash or other distributable assets of the Partnership pursuant to Section 4.2(c)(i).

(v) For purposes of this Section 4.2(c), the General Partner's Capital Contributions in its capacity as a Class B Partner shall be deemed to be the General Partner's total Capital Contributions multiplied by the Class B Percentage.

(vi) For purposes of this Section 4.2(c), the "Preferred Return" shall mean an amount equal to Realized Capital plus an investment return thereon of 8% per annum.

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