

Mezzanine Finance



Mezzanine Finance from All Angles.

Members of Chapman and Cutler LLP's Mezzanine Finance Group, composed of attorneys from a variety of practice areas, participate in mezzanine debt transactions involving a wide variety of securities and issuers, ranging along the risk/return spectrum from venture capital financing for start-up entities to later-stage equity transactions and transactions for more established private and public companies.

The Group represents clients with a range of investment approaches, from those who take a "lending" approach to those who take an "equity" approach, including institutional investors, banks, mezzanine funds and pension funds.

Careful analysis of equityholder rights and exit strategies at the outset of each transaction is a critical part of the Group's focus. The Group has participated in a significant number of transactions which have matured to exit, with institutional investors (as well as management, private equity professionals and other equity participants) realizing on their investment through strategic sales, initial public offerings and recapitalization. These successful exit transactions underscore the importance of strategic exit analysis at the outset of every private equity transaction, including the protection of the mezzanine lender's equity interest through tag-along rights, preemptive rights, rights of first refusal and anti-dilution provisions as well as registration rights and put rights.

Types of equity issued are as varied as the issuers that participate in this market and include common and preferred equity, membership interests, partnership interests and warrants in traditional C corporations, S corporations, limited partnerships, LLCs and trusts, as well as equity securities created to address specific issuer and investor requirements, such as put rights to third parties and capital or stock appreciation rights. Preferred stock issues have included convertible, exchangeable and PIK dividend features.

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Related Practices

Asset-Based Lending
Certified Capital Company Finance (CAPCOs)
Conventional Secured and Unsecured Debt Finance
Corporate Finance and Securities
Corporate Trustee Transactions
Credit and Liquidity Enhancement of Securities
Credit Tenant Loan Finance
Cross-Border Institutional Private Placements

The Group understands the complex tax issues presented by different securities and structures from the perspective of both the borrower and the lender, including unique tax issues raised by mezzanine financing terms, such as those derived from the OID (*Original Issue Discount*), UBTI (*Unrelated Business Taxable Income*), and AHYDO (*Applicable High Yield Debt Obligation*) rules.

Representative Transactions

- Acquisition financing of the nation's largest R.V. retailer, including senior revolving, term and capital expenditure facilities, floor plan financing, subordinated term debt and warrants
- Senior subordinated notes of an auto-parts inventory manager and supplier secured by a blanket second lien on assets, with warrants to purchase common stock of the parent
- Acquisition financing of a major U.S. sporting goods company financed with senior subordinated debt and warrants of the acquiring entity, with follow-on acquisition financing available on substantially similar terms
- Subordinated debt investment in a start-up project financing of a cold process steel mill facility
- Roll-up of a cluster of small cell-phone and paging businesses financed with senior revolving and term debt, subordinated term debt, warrants and preferred stock
- Product development financing for a computer consulting company specializing in security systems, structured as redeemable preferred stock exchangeable at the option of the issuer for subordinated debentures, issued with warrants to purchase common stock
- Cross-border acquisition financing of a special events lighting company, financed with senior debt, subordinated debt and warrants of the acquiring entity
- Recapitalization of an existing mezzanine/equity investment in a domestic limited partnership, restructured and recapitalized with additional acquisition financing into a Canadian limited partnership
- Product development capital provided for the design and manufacture of a new model of small aircraft, including subordinated debt and warrants to purchase common stock
- Leveraged buyout of a household product manufacturer financed with senior debt, subordinated debt and warrants of the acquiring entity

Derivative Transactions
Federal Government Finance
Private High Yield
Private Investment in Public Entities (PIPEs)
Project Finance
Public-Private Partnerships
Real Estate Finance
Real Estate Investment Trusts (REITs)
Rule 144A and Other Exempt Offerings
SEC and Stock Exchange Compliance
SEC Registered Offerings (Debt and Equity)
Second Lien Financings
Secondary Market Transactions
Secondary Offerings
Sports Finance
Utility Finance

- Management buyout of a U.S. direct mail (catalog) business owned by a Canadian corporation, financed with senior and subordinated debt with warrants and preferred stock
- Public tender to take a manufacturer private, financed with senior, subordinated and working capital debt with common stock and equity warrants
- Acquisition by auto-parts manufacturer of a new manufacturing division, financed with subordinated debt and detachable equity appreciation rights
- Acquisition of a ceramics coating business, financed with subordinated notes of U.S. and Belgian sister subsidiaries and warrants exercisable into common stock of the U.S. holding corporation