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# MEZZANINE INVESTMENTS

(A Timely Addition To Your Private Equity Portfolio)

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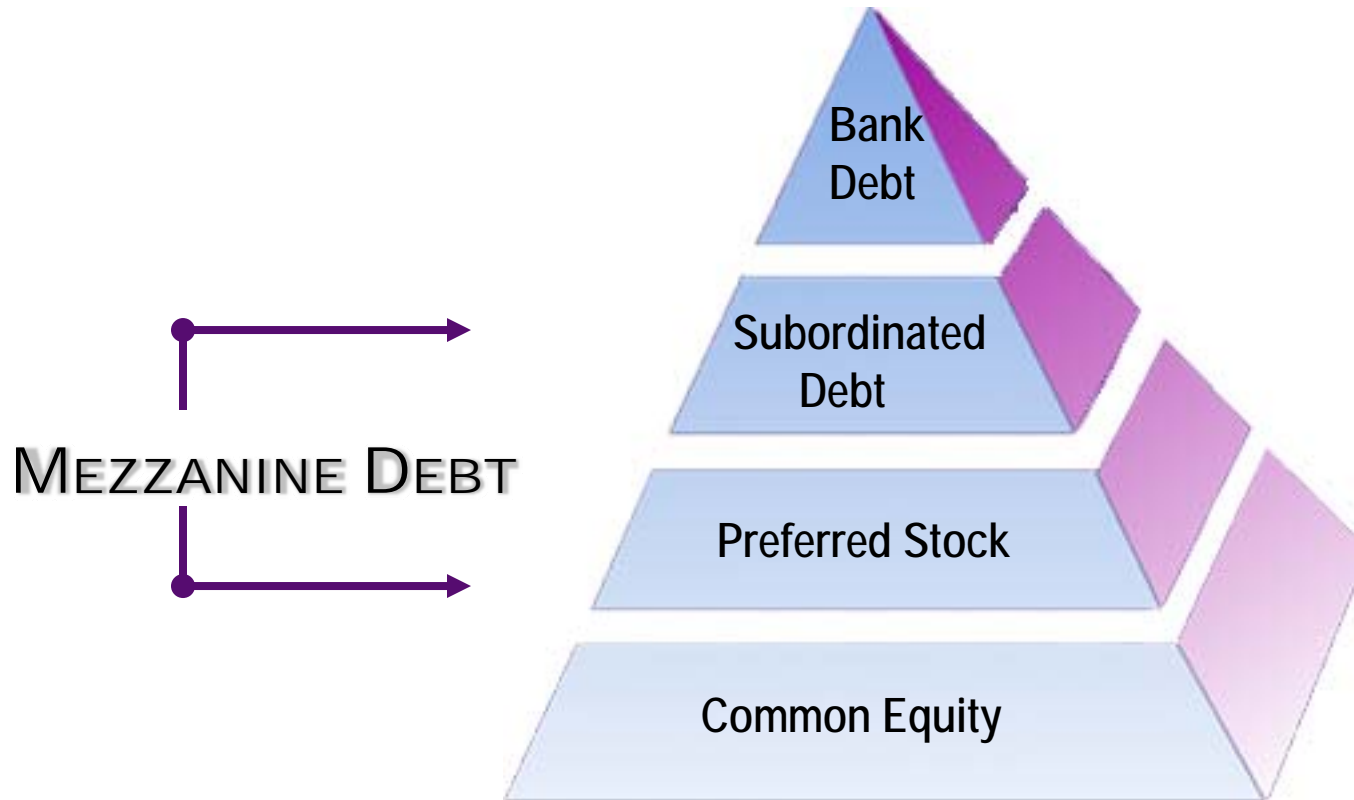
SMITH WHILEY & COMPANY

- Founded in 1994 through a joint venture with Aetna, Inc.
- Registered Investment Advisor headquartered in Hartford, Connecticut with an office in Evanston, Illinois
- Seasoned Principals in deal execution and in fund operations
- Established brand - has managed the SW Pelham Funds for 11 years
- General Partner of SW Pelham Fund, L.P. ("Pelham I"), a \$100 million 1998 vintage year fund  
General Partner of SW Pelham Fund II, L.P. ("Pelham II"), a \$100 million 2003 vintage year fund  
General Partner of SW Pelham Fund III, L.P. ("Pelham III"), a \$100 million 2006 vintage year fund  
General Partner of SW Pelham Fund IV, L.P. ("Pelham IV"), a \$250 million 2009 vintage year fund (in formation)
- Industry recognition of performance in asset class and deal execution
- Significant investment experience - historical track record in alternative investments totals \$9 billion; managed \$21 billion in assets <sup>(1)</sup>
- Smith Whiley has managed over \$500 million in assets since inception and invested in over 30 portfolio companies

Note: <sup>(1)</sup> Investment and management experience primarily reflects that of the Principals in prior capacities with other financial institutions.



# CAPITAL PYRAMID



# WHAT IS MEZZANINE DEBT

- Mezzanine: subordinated debt with equity participation or preferred stock
- More flexible than traditional bank financing
- Mezzanine is typically less expensive than new equity financing with current return expectations of 16% to 18%
- Equity participation (“kickers”) include:
  - Options (such as call or put rights)
  - Rights to participate in cash flow or earnings
- Mezzanine financing is attractive for companies who need capital for:
  - Growth and acquisitions
  - Management buyouts
  - Product development
  - Consolidation and recapitalization



# CAPITAL STRUCTURE

CAPITAL PYRAMID	PRE CREDIT CRUNCH	CURRENT ENVIRONMENT
SENIOR DEBT	60% to 70%	30%
SUBORDINATED DEBT	10% to 15%	20% to 25%
PRIVATE EQUITY	20% to 30%	45% to 50%
TOTAL %	100%	100%



# MEZZANINE: STRUCTURING VERSATILITY

Coupon 18%  
Warrant 0%



Coupon 10% +  
Equity < 30%

High Coupon  
Note

Participating  
(Non-control)  
Security



# CASE STUDY # 1

## VSA PARTNERS, INC. ("VSA")



### Sponsor:

- Cognitive Capital Partners

### Purpose:

- Acquisition Finance

### Mezzanine Structure:

- \$6.0 million subordinated debt
- \$3.5 million common units

### Mezzanine Features:

- Current Coupon plus PIK Feature
- Common Units

### Sponsor Contribution:

- Common Units



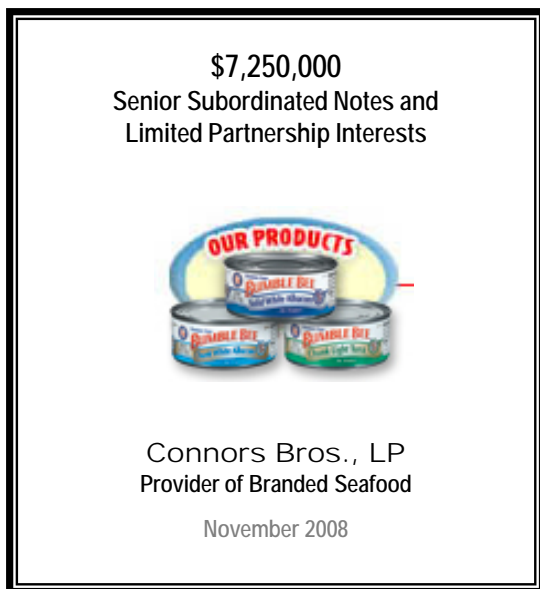
## VALUE PROPOSITION - VSA PARTNERS, INC.

- Leading provider of brand strategy, design, marketing and consulting services
- Advisor to blue chip fortune 100 customers
- Seasoned stable management team with strong operating controls
- Demonstrated strong consistent historic cash flow with double digit profit margin
- Low overhead and high profit margins allow sufficient operating cushion to weather economic downturns



# CASE STUDY # 2

## CONNORS BROS., LP ("CB")



### Sponsor:

- Centre Partners

### Purpose:

- Acquisition Financing

### Mezzanine Structure:

- \$6.5 million Sr. Subordinated Notes
- \$0.75 million Limited Partnership Interests

### Mezzanine Features:

- Current Coupon
- PIK Feature
- Limited Partnership Interests



## VALUE PROPOSITION - CONNORS BROS., LP

- Holding company of Bumble Bee Food & Clover Leaf Seafood
- Mature, non-cyclical, shelf stable seafood market
- Company has significant market share in all product lines (largest brand in North America)
- Company has strong cash flow capability in good times and bad times
- Highly motivated management team with significant equity stake in the company
- Brand name and market share provide protection in economic downturn

