

OVERVIEW: MB Capital, an affiliate of Rhode Island Capital, invests mezzanine capital from \$1 million to \$5 million in companies that require additional capital outside of conventional debt or equity financing channels. This financing is typically utilized where there are strong prospects for company growth, expansion capital, management transitions or acquisitions.

INVESTMENT CRITERIA: Rhode Island Capital looks to identify exceptional mezzanine investment opportunities by targeting companies with the following attributes:

- ◆ Solid management team with demonstrated record of performance, experience, and integrity
- ◆ Management team with a significant equity stake
- ◆ Defensible market position or proprietary technology
- ◆ Annual sales of \$7.5 million or more
- ◆ Positive cash flow
- ◆ Significant growth potential
- ◆ Sufficient resources to service debt and provide collateral

Typical situations where Rhode Island Capital financing is applicable include:

- ◆ Strategic acquisitions
- ◆ Buyouts by internal or external management teams
- ◆ Recapitalizations to provide shareholder liquidity or inter-generational wealth transfer
- ◆ Patient capital to support growth
- ◆ Equipment and owner occupied real estate purchases
- ◆ Insufficient collateral for additional bank financing

INVESTMENT STRUCTURE: Rhode Island Capital investments are structured as subordinated investments with equity features. The investment term is usually for five years, requires payment of a market rate of interest and requires regular amortization of the investment. The equity component of the investment can take several forms. The first is a warrant-based arrangement structured in a typical mezzanine format, giving Rhode Island Capital the right to purchase a predetermined number of shares of stock in the client company. These warrants are usually repurchased by the client at the end of the investment period at fair market value or under a predetermined formula. As an alternative to warrants, certain clients may be offered a royalty structure that allows the company to repay the equity feature during the term of the investment with a predetermined royalty return based upon a percentage of sales of the company. This particular arrangement requires no stock ownership in the company and may provide an attractive lower-cost alternative to warrants. A combination of a warrant and royalty structure may also be offered in certain situations.

**INVESTMENT
PROCESS:**

The investment process formally begins with the submission of a business plan which includes:

- ◆ A brief overview of the company
- ◆ Experience and background of key management
- ◆ A description of the company's products or services
- ◆ An analysis of the served market, its size and growth prospects
- ◆ An evaluation of the competitive environment
- ◆ A discussion of the company's strategic plan
- ◆ Financial history and projections
- ◆ Amount of financing required and the proposed use of the funds
- ◆ Personal financial statement for principals

MB Capital's due diligence process includes meetings with management and onsite visits. Investment opportunities which have the support of MB Capital management are presented to the MB Capital Investment Committee for review and final approval.

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