c) Mezzanine Financing

This is a comical notion that one also finds in buildings, i.e. the mezzanine floor. But actually the term is well chosen because mezzanine financing is a mixed form of financing: It's not debt and not equity, but rather something in between.

There are virtually no limits with regard to what form this can take in practice - e.g. a subordinated loan, a convertible bond, a warrant bond, etc. Debt is often given a stronger weight by a term limit (usually five years) and immense interest payments (double digits with mezzanine loans). The equity aspect is created by subordination or mutability, which means that this form of financing can be assigned to equity.

The advantage from the point of view of existing shareholders and the company is that no dilution occurs through any relinquishing of capital and voting rights (at least with pure subordinated mezzanine loans) and investors are longer part of the picture after they're repaid. Another advantage is that this is often the only way for certain companies to finance growth or launching. Banks tend to avoid getting involved in such undertakings due to the associated risks, so this form of financing represents an acceptable alternative. Subordination and the relationship to equity strengthen the capital base, which allows for a sounder equity position and access to conventional loans. Financiers that offer such financing are usually private equity investors, both private and institutional.

To ensure this capital can be assigned to equity, look at everything with an auditor before signing a contract, and make sure the auditor gives his blessing. Under certain circumstances, the financing agreement might have to be adjusted.

The disadvantages here are high interest rates and (if not changed) the associated repayment installments, which can be a great burden on young companies especially. Particular care should be taken with regard to the repayment plan because these payouts usually have a major impact on liquidity. The impression may arise that companies that take on mezzanine loans have not thought things through, or even want to. Instead, they just want to get their hands on the money - the future and God will take care of the rest. This view is very wrong. For one thing, the future has already usually been written in the moment when the contract is signed.

Mezzanine capital is now often the only way for young and growing companies to ever gain access to money. However, just as with many other things, you have to consider what the conditions are and whether the company can manage them.

Moreover, one has to consider from whom the money comes from. Here another quick anecdote: I've been working a lot with young companies in recent years, and along with my operational role as CFO, I often go looking for forms of financing for these companies. I once did this for a Swiss company that had developed a promising product concept. As always, it was a very tedious undertaking to find financial backers for the project. While looking through a well-known daily newspaper, I found under the heading "Capital Market" an ad in which an investor was offering millions in financing to companies in Switzerland. Contrary to normal practice, the contact information was in the form of a phone number and e-mail address rather than a box number. I called and described the project. They promised me that a competent contact partner would soon get in touch with me. A staff member did in fact then phone me and I explained our situation to him: We needed funding, preferably in the form of a mezzanine loan of at least 5 years, etc. I then noticed that the employee had difficulty following me. He told me that he was not a professional; his job was only to conduct a preliminary discussion on the matter. After that, he said, the owner of the financing company in Italy would contact me. I like Italy and have friends there, but funding from Italy - well, after I heard that, the alarms went

off. He suggested that I meet with the owner and discuss everything in detail. I agreed. A few days later, I received the name of the person and the company, as well as a date for a meeting in a hotel near Como. I then had friends of mine check the names in all information systems used by banks. They couldn't find anything. I traveled to Como and got there a little early. I sat down in a corner of the hotel lobby, where I had a good view, and waited. At the appointed time, a man about the age of 35 arrived. He was of medium build, athletic, wore a suit and tie and had shoulder-length hair. He also had a large crescent-shaped scar on his right cheek that pretty much dominated his face. I thought the whole thing was some kind of gag and started looking for a hidden camera, but could find nothing. The man immediately started talking, but after I asked him two technical questions, I realised he had no real knowledge of the subject we were supposedly discussing. He offered a mezzanine loan at 3.5% for 10 years. After an hour, I was finally able to grab my things and tell the man I would discuss it with the owner. This was obviously not a serious business meeting. Still, I didn't understand what the trick was. I thought he wanted a lucrative commission, but he denied this during our conversation, and it also would have been strange had he wanted a fat commission, since he claimed to be the owner's son. It was also extremely odd that both he and the owner clearly did not want to travel to Switzerland and instead suggested a meeting in Italy with the young founder of the Swiss company. Normally, one looks at the company one is planning to invest in. As a precaution, I decided to not pursue these dealings any further. After I returned to Switzerland, I told the board of directors and the young entrepreneur what had happened and what I thought of the whole thing. It was very hard for them to accept because the money seemed so close, right there for the taking, and I was telling them they shouldn't take it. I was not very popular in the weeks thereafter.

The mobsters tried a few more times to get me to go to a meeting, but then gave up. Months later my cell phone rang - it was a detective from a federal state in Germany calling. He asked if I knew Mr. so and so. I had in fact often talked to that person on the phone. The man in question was the employee who had called me and arranged the