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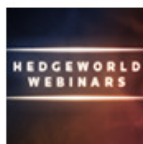


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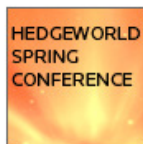


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Opinion: A Duck is Still a Duck—GM and the Greatest PIPE Deal of Our Time

Hedgeworld
By Corey S. Ribotsky, The NIR Group
Friday, June 12, 2009

As the managing partner of a hedge fund firm that has for over a decade specialized in Direct Investments or PIPE transactions, my opinion is often sought after on matters of finance and deal structure. Recently I was asked for my thoughts on the government's General Motors Corp. bailout plan. Without hesitation I opined that it's a PIPE transaction funded by the largest, most accredited investor in the world, the United States of America.

To demonstrate my thesis, I offer the definition of a PIPE transaction and then the core of the government's bailout plan:

A Private Investment in Public Equity is a transaction in which accredited investors are allowed to purchase stock in a company, at a predetermined price. The stock is registered with the SEC so that it may later be resold. There are many facets that a PIPE transaction can have in addition including a coupon rate if debt is involved and a detached option or warrant package.

Prior to the inevitable bankruptcy filing for GM the government invested \$19.4 billion in a structure that already resembled that of the typical PIPE transaction. The use of the structure and its attributes validates the investment structure as a mainstream form of financing. In the bankruptcy proceeding of GM the additional financing required even further resembles a PIPE transaction.

The government's core bailout plan for GM includes providing an additional \$30.1 billion in financing to get the public company through bankruptcy and taking a 60% stake, including \$8.8 billion in debt and preferred stock, in the new public company. In addition, the province of Ontario, Canada—where some GM plants are located—will lend \$9.5 billion to the carmaker in exchange for \$1.7 billion in debt and preferred stock and 12% of the equity of the new public entity. These preferred shares will be registered with the SEC so that they may be resold to the public at a later date.

When one compares the above definition of a PIPE transaction to the proposed GM bailout plan, the similarities are glaringly obvious.


As we delve a bit deeper into the bailout of GM and its bankruptcy as it applies to the secured senior lenders, we find another major similarity between the bailout plan and a PIPE transaction: Some PIPE investments are secured by the assets of the public entity—so in a worst case scenario they are the most protected of all investor classes. Under established bankruptcy law in this country, senior secured debt holders get paid first, and typically get repaid in full before other parties, as they reside as the king of the financial jungle so-to-speak. Most often common stock holders get absolutely nothing, and usually all other parties in between battle over pennies on the dollar.

In our typical PIPE transaction the investors are treated as senior secured debt holders as defined above because the PIPE investment requires a top-line lien on the company's assets and therefore are first in line to receive any funds recovered in case of a restructure. In stark contrast to common stock holders, convertible debentures,

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bonds with their senior secured position typically enjoy full post-bankruptcy recovery.

In GM's case an agreement was secured last Saturday [June 6] in which holders of 54% of the \$27 billion in bonds agreed to the government backed deal. This is a positive sign and much needed step when hoping to orchestrate a smooth bankruptcy, as judges tend to look more favorably on restructuring plans that have broad approval from creditors. The new agreed-upon deal gives bondholders an immediate 10% equity stake in the restructured GM and two separate sets of performance warrants equivalent to an additional 15% as long as the stock price hits certain plateaus. This is another feature commonly seen in a PIPE transaction.

By now it is obvious to any reader that the government led bailout plan of GM mirrors a PIPE transaction in many ways. The bondholders who enjoy a secured senior position will survive the new company. They will receive stock, interest on their debt and warrants for future compensation. Finally, we have the ultimate accredited investor—the United States of America—awarded preferred stock in exchange for debt, which is then registered so it can be converted and sold to the public for a profit.

If it looks like a duck and quacks like a duck, then it must be a duck.

Corey S. Ribotsky is Managing Member and Founder of The NIR Group, an Alternative Asset Management Firm. Mr. Ribotsky has been investing in public companies since 1992. He can be reached at CRibotsky@NIRGROUP.com.