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Amaranth, a Slave to Fashion, Loaded Up on Spacs: Susan Antilla

Commentary by Susan Antilla - September 22, 2006 04:15 EDT

Sept. 22 (Bloomberg) -- Let's just get over it and say something nice about Amaranth Advisors LLC, the latest hedge fund to forget to look up the definition of ``hedge'' before it burned up billions of its clients' money.

It may be liquidating. It may be the joke of headline writers at city tabloids. But you can't say those guys didn't have a knack for fashion.

Consider the ill-fated hedge fund's love affair with one of Wall Street's latest dumb fads: Spacs.

Spacs are one of those wonderful financial contraptions that only a serious Wall Street mind could devise: A bunch of hedge fund and private-equity types get together with some executives and dream up a name of a new company that might own a business one day. What makes it great fun is that nobody has to work at the Spac full-time.

With the company duly named, and nobody putting in a 40-hour week, papers are filed with the U.S. Securities and Exchange Commission. Then they invite public investors to fund their venture, which has no revenue, no earnings and, to keep it simple, no operations at all. If they don't find something to do with the initial public offering proceeds within 18 months, investors get most of their money back -- that is, if nothing goes wrong, such as a lawsuit that drains the coffers.

Spac, which stands for special purpose acquisition company, has a close cousin known as a Start (specified term acquisition reserve trust security). The main difference between the two is the number of different kinds of securities the two hawk to the public.

Passion for Fashion

Amaranth, like any slave to fashion, liked Starts, too.

The Greenwich, Connecticut-based hedge fund filed documents with the SEC showing ownership in 25 Spacs and Starts in 2006. Among its holdings were 1.3 million shares of Acquicor Technology Inc. as of June 30, when Amaranth last disclosed its public holdings to the SEC.

What's Acquicor? Nothing much yet, but it does boast that its chief technology officer is Steve Wozniak, cofounder of Apple Computer Inc. Acquicor is looking to buy a company in the "technology, multimedia and networking businesses," according to its regulatory filings.

Amaranth also had a sizeable stake in Cold Spring Capital Inc., a Spac on the hunt for a financial or real-estate business. The hedge fund's 2.2 million shares represented almost 8 percent of Cold Spring's shares outstanding.

And, at the end of March 2006, the hedge fund was the largest holder of a Start called Good Harbor Partners Acquisition Corp. with 7.8 percent of Good Harbor's Class B securities. Good Harbor, whose chairman is Richard A. Clarke, the former White House counterterrorism chief, wants to buy a company in the security business.

Trading Surge

Word on Sept. 18 that Amaranth's funds had suffered a year- to-date loss of more than 35 percent by betting the wrong way on natural-gas prices sent trading volume soaring in the Spacs that Amaranth last listed as holdings.

Trading in shares of JK Acquisition Corp., which earlier this month agreed to buy an oil driller, soared to 1.64 million compared with a daily average of 66,100 in the prior three months. Star Maritime Acquisition Corp., one of Amaranth's top 10 holdings on June 30, traded 2.5 million shares on Sept. 18 compared with 71,400 on an average day in the previous three months. Star Maritime aims to buy a company in the shipping industry.

'Stupid Bet'

Trading soared in other Amaranth holdings, too. Steve Bruce, a spokesman for Amaranth, declined to comment on any aspect of the hedge fund's involvement in Spacs.

Because Spacs typically have several classes of stock, hedge funds often trade them to exploit the arbitrage opportunities that present themselves when one security class becomes cheap or expensive relative to another. Spacs are also viewed as a way for hedge funds to take part in private-equity investing with the benefit of a public market.

Mitchell Littman, a lawyer at Littman Krooks LLP in New York who gives advice on Spac deals, says Amaranth's mistakes won't shake up the Spac market. "This is one guy making a stupid bet"on gas prices, he says.

Spacs, though, have looked riskier to investors in recent months. Littman says that a year ago, investors were willing to buy Spacs that put only 88 percent to 90 percent of the offering proceeds into escrow while awaiting a target company to come along. Today, many Spacs are coming close to putting 100 percent in escrow, Littman says, as investors demand that management devote several million of their own dollars to make up the difference for what gets set aside for fees and other expenses.

"Investors are saying 'If we're writing a check, you should be writing a check with us,'" he says.

Say Goodbye

The damage to a big Spac fan like Amaranth may make it tougher to do new Spac deals, says Brett Goetschius, editor-in- chief of the Reverse Merger Report, a newsletter. So far, the market has been liquid enough to absorb selling of existing inventory by Amaranth, he said.

Almost a year ago, I quoted Goetschius in a column on the subject of Spacs. `"There is a lot of private equity and hedge fund capital out there having a tough time finding a home," he said at the time. "Too much money chasing too few deals."

Markets do have a way of taking care of problems like that. Say goodbye to one big Spac purchaser who won't be scrounging for places to put its money anymore.

(Susan Antilla, author of “Tales From the Boom-Boom Room: The Landmark Legal Battles That Exposed Wall Street's Shocking Culture of Sexual Harassment,” is a Bloomberg News columnist. The opinions expressed are her own.)

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