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Hundreds of publicly listed small-to-medium-sized companies in the United States have been obliged over the past four years to turn to expensive equity line financing and convertible debentures to keep themselves afloat. Some of those companies, however, have discovered why these financings, known as PIPEs -- for private investment in public entities -- are also sometimes referred to as "toxic financings."

Sixty companies identified in a report submitted recently to U.S. government authorities were all recipients of so called PIPE fundings via trustee companies of a Liechtenstein law firm, Dr. Dr. Batliner & Partners, and a Monaco- and Panama-based investment fund called Amro International S.A. Many of these companies saw their share prices drop precipitously after the financings were closed. Now, one of the 60 is fighting back.

Customer-relations management software provider Sedona Corp. last week announced it had requested investigations by the U.S. Securities and Exchange Commission and the National Association of Securities Dealers regarding alleged improprieties in the trading of its stock. The King of Prussia, Pa.-based company said that pending such investigations it would not honor requests for conversion of its outstanding convertible debenture.

Sedona Chairman Laurence Osterwise said that unexpected downward trading patterns had early on raised concern and suspicion among company management, and Sedona brought those concerns to the attention of the NASD at the end of last year. After learning recently that a report mentioning Sedona and other companies had been submitted to the authorities, the company felt compelled to take further action.

Indeed, Sedona is not alone. Further research by The Daily Deal suggests that companies identified in the market professional's report performed on average less well than companies that received financings from other investment funds at the same time.

This stock performance was traced on PlacementTracker.com, a popular Web site for PIPE investment operated by DirectPlacement Inc., a subsidiary of PPI Capital Group Inc. Data on the Web site for 149 equity line financings closed between Jan. 1, 2000 and Dec. 31, 2000 show that the 25 companies identified by The Daily Deal which closed financings with Batliner trusts during this period lost an average of 74.58% of their stock price value since that time. In comparison, the average drop in share price for the other 123 companies closing equity lines during this time was only 59.53%. Losses for the periods one month, three months, six months and 12 months after closing on Batliner financings were also higher than the average for those periods.

According to information provided on PlacementTracker, most of the financings for these 60 companies were arranged by Rhino Advisors, a New York hedge fund that is one of the major players in the equity line finance field. Rhino manages two families of private funds, Creon Management and Amro International, whose investors are described as "European high net worth individuals." An SEC filing in April 2000 states of Rhino that "in three years of operation its investment strategies have nearly quadrupled the base capital deposited into Amro and Creon."

Rhino's name seldom appears on any filings in connection with the deals, which is a common practice among hedge funds. But Brian Overstreet, the president of DirectPlacement, said filings patterns established through known Rhino deals suggested that Rhino regularly had set up investment funds through the Batliner firm and a few other overseas firms. Overstreet says his company has repeatedly asked Rhino to confirm or deny the information on the Web site, but Rhino has declined to assist. "A lot of the hedge funds enjoy doing things this way," Overstreet said.

The president of Rhino Advisors, Thomas Badian, confirmed that Rhino had dealt with the Batliner firm in the past. But after becoming aware of The Daily Deal's article last September on investigations being carried out on Batliner in Europe, he said Rhino moved its accounts to another service provider. "We had no way of knowing what was going on over there, but we take our reputation and our investors' reputations very seriously," Badian said.

Among the 60 companies mentioned in the report which were PIPE-financed by Batliner and Amro International, 29 of them also involved Ladenburg Thalmann & Co. Inc., a New York investment bank, according to separate research by The Daily Deal. Available records at the SEC also indicate that Ladenburg arranged PIPEs for public companies very frequently through Batliner and Amro in 1999 and 2000.

The majority shareholder of Ladenburg Thalmann is New Valley Corp., a company controlled by corporate raiders Bennett Lebow and Carl Icahn.Ladenburg's minority shareholder is Berliner Effektengesellschaft AG, a German group that controls the largest market maker on the Berlin Stock Exchange.

SEC filings indicate that Ladenburg first began arranging investments from the Batliner trust companies in late 1999, around the time that Berliner Effektengesellschaft acquired its stake in Ladenburg. Epstein Becker & Green, P.C., a New York law firm, served as escrow agent for 46 Batliner and Amro PIPEs.

Ladenburg Thalmann's current managing director for its Structured Finance Group is Joseph A. Smith, previously a partner with Epstein Becker who was signatory for a large number of the Batliner and Amro PIPEs.

A spokesman for Epstein Becker, Jim Haggerty, said all of the escrow accounts referred to were closed or transferred after Smith left the firm. When first contacted by The Daily Deal, Joseph Smith said that Ladenburg Thalmann "never dealt with the Batliner firm directly."

Later he added that Ladenburg "remains absolutely comfortable with its due diligence."