INNOVATION DEAL OF THE YEAR

WARRANT DIVIDEND STRATEGY, PUBLIC COMPANIES CAPITAL RAISING SOLUTION?

By Decklyn Uttmark

Transaction:	*Diana Shipping Issues Warrants as Dividend in New Capital Markets Strategy*
Winners:	*B. Dyson Capital Advisors*

The misalignment of cost of capital cycles and shipping cycles has been an issue plaguing publicly listed shipping companies for ages.

Private shipowners can strategically time their equity injections to buy assets, and when they take returns, without dilution to their interests. But public companies often face steep share price discounts to NAV and criticism for diluting their public shareholder's interests when they want to raise equity, even when prospective investment returns may be high. To avoid dilution, they may pile on debt during the cycle upswing, leaving the balance sheet over-leveraged and at risk in the next downturn.

Diana Shipping, advised by last year's Equity-Linked Deal of the Year winner B. Dyson Capital Advisors, may have found a solution to this capital-formation/return-of-capital conundrum as it endeavors to bring some of the investment efficiency of private ownership to the public capital markets.

B. Dyson Capital advised Diana on a pro rata dividend of warrants to shareholders. The dividend provides each shareholder the opportunity to inject new equity by purchasing additional shares on advantageous terms. The dividends were distributed on December 14th, with one warrant to buy one share at $4.00 awarded for every five shares owned as of the record date of December 6th. The warrants are designed so that in an upswing, Diana raises equity capital from its own shareholders, who are rewarded for holding their stock by getting the first rights to invest additional capital at a fixed price. The warrants are listed, liquid, and tradable on the NYSE. Listing provides an incremental and attractive cash return for shareholders who prefer to sell the warrant to receive its value in cash rather than exercising.

The structure includes a bonus-share feature to incentivize and reward shareholders who exercise early. Shareholders who exercise during the bonus-share period receive an extra half a share for no additional cost, lowering their per-share purchase price to $2.67. Diana announced on its Q4 earnings call that in just the first two months, 1.9 million warrants were early exercised — almost 9 percent of the total number distributed.

The majority of the capital is expected to be raised before the bonus period expires. Shareholders enjoy the opportunity to invest on a pro rata basis at $2.67 only until shares reach $3.50 for 20 days in a 30-day period. Diana retains the right to accelerate the expiry of the bonus-share period to a date specified on not less than 20 business days' notice. The warrants themselves expire either in three years or after the share price trades at $4.00 for 20 days in a 30-day period, upon which Diana will provide 20 days' notice of the upcoming expiry. A benefit for shareholders is that investment timing risk is reduced. Shareholders control the timing of exercise and have ample opportunity to invest in a rising market at a below-market price.

The warrant-dividend strategy certainly is innovative in its effort to provide public shipping companies and their shareholders some of the flexibility private shipowners enjoy. And should it continue to be as effective as is now playing out, this strategy can be repeated by Diana as well as other public shipping companies!

B. Dyson Capital Advisors served as financial advisor, while Seward and Kissel were the legal advisors in the transaction.