SPAC Transactions

SPACs

Introduction: The Rise of the SPAC IPO

By now you have almost certainly heard about a SPAC IPO, or a Special Purpose Acquisition Company Initial Public Offering. One of the hottest trends on Wall Street right now, SPACs are constantly in the news. According to NPR, even well-known figures such as Shaquille O'Neal and Paul Ryan have recently been involved with a SPAC. As an alternative to a traditional IPO, SPACs are a way to go public faster and with less paperwork and more control, which is driving their popularity. The use of SPACs has quadrupled in the past year, and with well-regarded, high profile companies increasingly getting involved with them, the market is signaling they are here to stay. According to Skadden's 2021 Insights, 2021 will be the year of the SPAC, with 247 SPAC IPOs in 2020 and already 186 SPAC IPOs in the first two months of 2021.

Definition of SPAC

SPACs are blank-check companies that are created exclusively to raise capital in an IPO. They then use those proceeds to acquire businesses not yet identified at the time of the IPO. SPACs provide private companies with an alternative to the traditional IPO process.

SPACs vs. Traditional IPOs

SPACs can be an appealing alternative to traditional IPOs for many reasons. The listing of a shell company often costs less since the filing is simpler and comments from the Securities and Exchange Commission ("SEC") are less likely. There is also greater flexibility in acquiring new companies since funds are readily available in a trust account. Additionally, they often require less debt funding than traditional private equity deals, resulting in a quicker transaction.

Funding the SPAC

Capital Funding

SPACs are initially funded by the management team that sponsors the SPAC. This team contributes capital to cover all offering expenses, including underwriting costs and initial working capital, in exchange for founder shares. The SPAC then goes through the traditional IPO process and files an initial registration statement with the SEC.

Capital Structure

The members of the management team of the SPAC purchase founder shares prior to the initial filing with the SEC. These shares typically make up 20% of the total shares outstanding after the IPO.

Public investors in SPAC IPOs are sold units, which are one share of common stock and a portion of a warrant to purchase a share of common stock in the future. These warrants are exercisable once a SPAC acquires its first target.

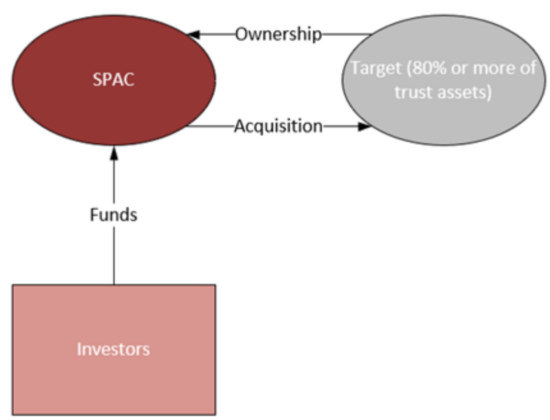
While public investors receive fractions of warrants, sponsors typically receive warrants to purchase whole shares. Upon the acquisition of a target, whole warrants can be exercised, and the strike price is always out of the money.

All proceeds raised in the IPO are held in a trust until needed for an acquisition.

"De-SPAC" Transactions: Acquiring Business Targets

De-SPAC Transactions

From the date of its IPO, a SPAC has 18 to 24 months depending on its charter to acquire a target company. This acquisition is also known as a De-SPAC transaction. The assets acquired in a De-SPAC transaction must have a fair market value of at least 80% of the assets in the trust account.



Funding for De-SPAC Transactions

Funding for these acquisitions comes from the trust account. If additional funds are needed, these might come from loans provided by the sponsors or additional issuance of common stock to public investors. Private investment in public entity

("PIPE") commitments may be used as well to finance part of the acquisition. The sponsors might also enter into forward purchase agreements for preferred equity if the De-SPAC transaction requires additional funding.

Shareholder Rights

Once a target is found, shareholders may redeem their shares for a pro rata portion of the funds held in the trust account if they do not want to invest in the target company.

After the De-SPAC Transaction

Once the shell company has acquired the business target, the entity resulting from the business combination is a publicly traded company. The sponsors may act as management of the new combined company, or they might retain management of the target.

How We Can Help

Transforming a company from private to public is both exciting and challenging. The benefits of going public include easier access to capital, increased visibility and prestige, and potentially enhanced employee benefits, such as the option to acquire company stock along with the rest of the public. Proper execution of this transition requires thoughtful planning, extensive due diligence, and a thorough understanding of the risks, requirements, and difficulties faced by public companies.

Unlike those that are privately held, publicly traded companies must be particularly sensitive to the market and their shareholders, and they must adhere to various financial reporting, internal control, and corporate governance requirements. This is where Chess can help.

Chess has extensive experience helping companies with SEC and SOX compliance and assessing and facilitating readiness capabilities to go public. Our team helps companies develop and execute long-term, cost-effective solutions to handle the requirements of U.S. securities laws, SEC regulations, and SOX by analyzing a company's approach to corporate governance, internal controls, financial reporting, and public reporting of both financial and non-financial data. Chess can assist clients in the following areas, among others:

- **PCAOB Top-Off Audit Support –** assess audit needs for relevant reporting periods and develop necessary documentation and support for external auditors. to critical accounting issues and develop memos and audit support for public company reporting;
- **Complex Accounting** – assess critical accounting areas/issues and develop "white papers" to support and document technical accounting positions;
- **Disclosures** – determine the appropriate financial and non-financial disclosures and analyze the ability to deliver accurate disclosure information in a timely manner;
- **Governance** – review the role of the board of directors in the financial reporting process and consider a disclosure committee to ensure appropriate review of SEC filings.

With this new option to bring your company public, proper support is more important than ever. Getting the help of a team with deep industry knowledge, supportable positions that have been proven to withstand scrutiny from regulatory agencies, and a focus on profitability is fundamental in making for a smooth and successful transition.

We have the knowledge and resources to help you prepare your accounting and finance function to effectively operate as a public company. Through all phases of the process, including pre-IPO readiness, the initial public offering and subsequent reporting as a public company, we will help you navigate this transformation, avoid pitfalls along the way and experience a successful IPO. We can assist you with:

- Training on SEC regulations and the IPO process
- Developing/updating accounting policies and controls
- Assessing technical accounting and reporting issues (segment reporting, accounting acquirer determination, equity-based incentive plans, convertible notes, warrants and preferred stock, acquired businesses – Rule 3-05, etc.)
- PCAOB top-off audit readiness
- Preparing the registration statement and road-show presentations
- Addressing SEC comments
- Drafting pro forma financial statements
- Preparing independent auditor comfort letters backup and support
- Assisting with preparation of initial 8-K/S-4 and initial 10-Q and 10-K
- Overall IPO project management office ("PMO") support
- Designing SOX controls

About Us

Chess is a business advisory firm that helps domestic and international clients and their outside counsel develop practical and sustainable solutions to address accounting and regulatory compliance issues. Among our specialties is helping government contractors manage their critical business and compliance risks associated with selling to the U.S. Government.