CHESS
CONSULTING LLC
When the right move matters

SPAC Transactions
Complex Accounting and Risk Management

By now you have almost certainly heard about a SPAC IPO, or a Special Purpose Acquisition Company Initial Public Offering. 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.

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 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 subsequent to the IPO. Additionally, they often require less debt funding than traditional private equity deals, resulting in a quicker transaction.

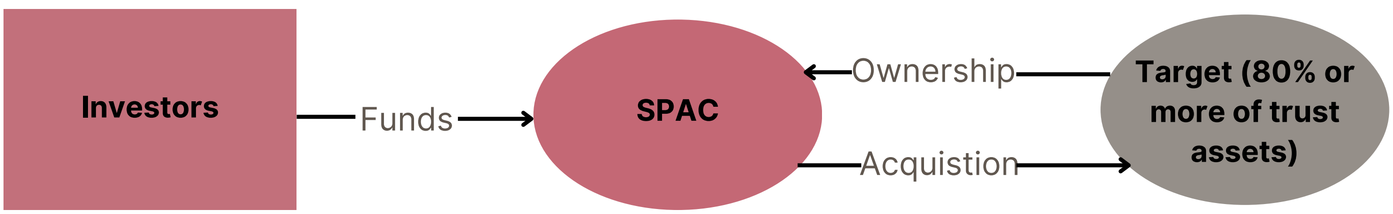
SPACs are initially funded by the management team that sponsors/establishes the SPAC. This team contributes capital to cover all offering expenses, including underwriting costs and initial working capital, in exchange for founder shares. The SPAC then goes through the traditional IPO process and files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

The members of the SPAC management team 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 the intrinsic value or "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

"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 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 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.

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.

THE CHESS CONSULTING ADVANTAGE

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 Sarbanes Oxley ("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**
- **Accounting and financial reporting technical "white papers" positions**
- **Disclosures**
- **Governance**
- **SOX process and controls**
- **Drafting of financial statements**
- **Addressing SEC comments**
- **Project Management**

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.

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When the right move matters, contact Chess Consulting.