BDO KNOWS SPACs

ACCOUNTING CONSIDERATIONS FOR SPONSORS OF SPECIAL PURPOSE ACQUISITION COMPANIES

Special Purpose Acquisition Companies are publicly-traded companies formed with the sole purpose of raising capital to acquire one or more unspecified businesses. The management team that forms the SPAC (the "sponsor") forms the entity and funds the offering expenses in exchange for founder's shares.

Although SPACs provide several advantages to going public - in terms of timing and cost - they are not without risk. The following are sponsor-side accounting considerations to keep in mind.

BDO is dedicated to helping both sponsors and target companies navigate going public through Special Purpose Acquisition Companies. In a series of articles, we'll provide an introduction outlining the current SPAC market and talk through tax, accounting, and valuation considerations to keep in mind. You can find the full series on our Special Purpose Acquisition Companies Hub Page.

FORMATION AND IPO

The initial IPO is streamlined for a SPAC entity. With no significant operating history and limited business risks to present, the IPO document instead focuses on the entity's potential in acquiring a successful target as opposed to its own operational effectiveness. As a result, the IPO registration document focuses on the experience and abilities of the SPAC's investment group and current management as its primary indicator for a successful De-SPAC transaction.

The SPAC must ensure compliance with the target identification rules throughout the IPO process, as identifying even a potential target prior to filing would nullify many of the benefits of a SPAC IPO. This is because the historical financial statements of the target would need to be included and upgraded to comply with SEC reporting standards within the IPO filing – which is typically an onerous and time-intensive process.

SEC REPORTING COMPLIANCE

Despite having little to no operations, a SPAC must still comply with its recurring SEC filing requirements (i.e. the periodic filing of Form 10-Q and Form 10-K as needed). The timing of these filings can affect the historical filing requirements of the future target financials, such as expanding the historical target financials from two to three years or requiring additional interim periods to be included and reviewed by an independent accounting firm pending the previous filings of the SPAC.

Once a De-SPAC transaction has closed, the SPAC must announce the merger via Form 8-K within four days which starts the clock on compiling and presenting the effects of the acquisition and any related pro-forma disclosures. This information is typically filed in what is referred to as a Super 8-K and must include all information required in a Form 10 registration statement (the registration statement for companies that become public reporting companies other than through a registered IPO).

EFFECTIVE DUE DILIGENCE: CHOOSING THE RIGHT TARGET

SPACs typically have a finite life span of two years, with a potential option to extend in order to finalize an identified acquisition. If a SPAC fails to consummate a merger within the specified term, the trust is liquidated and returned to the stockholders, while warrants expire worthless. This finite life could give the seller an advantage since the SPAC is motivated to complete the transaction within a defined window of time. Conversely, the expedited timeline could also increase pressure to find an operating company, even a sub-par company, that could pose risk to long-term shareholder value. Additionally, shareholders must vote to approve the merger or their funds are returned and removed from the trust. This means that SPACs can be left without enough cash to execute an intended transaction, requiring committed funding from sponsors or new institutional investors in a private investment in public equity, or PIPE deal, which can also cause significant delays and frustration from participating investors.

BDO INSIGHT

Education is important for SPAC sponsors to stay compliant with complex regulations. Management teams should ensure they have trustworthy and experienced legal, capital, and accounting advisors in place for a smooth transaction.

CONTACT

MICHAEL STEVENSON
Partner
Accounting & Reporting Advisory Services, National Practice Leader
214-665-0707 / mstevenson@bdo.com

MATTHEW COKER
Director
Accounting & Reporting Advisory Services
214-665-0743 / mcoker@bdo.com

ROB BRIGHT
Partner
Accounting & Reporting Advisory Services
610-455-2066 / rbright@bdo.com

FAISAL JEDDY
Partner
Accounting & Reporting Advisory Services, West Region Practice Leader
408-352-3603 / fjeddy@bdo.com

ROB TRINCHETTO
Partner
Accounting & Reporting Advisory Services, Northeast Region Practice Leader
631-927-1171 / rtrinchetto@bdo.com

RICHARD LIEBMAN
Managing Director
National Core Tax Services
312-863-2324 / rliebman@bdo.com