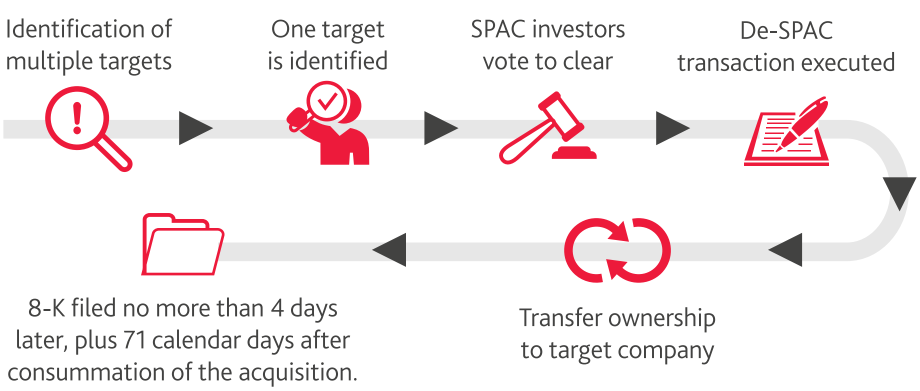
BDO KNOWS SPACs

ACCOUNTING CONSIDERATIONS FOR TARGET COMPANIES 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.

Previously, we discussed the [accounting considerations for SPAC sponsors](). Additionally, there are a number of considerations for target companies in preparing for the De-SPAC transaction, which is when the SPAC sponsor acquires a target company as intended and completes the merger. Through the De-SPAC transaction, the target company becomes the operational public company.

HOW A DE-SPAC TRANSACTION WORKS:



UPGRADE TO PUBLIC COMPANY REPORTING

To fulfill many of the requirements for completing the De-SPAC transaction, the target company must supply all necessary information for the SPAC's SEC filing, including audited historical financial statements, including compliance with Regulation S-X and associated disclosures. Consequently, any prior audits performed under AICPA standards must be re-audited under PCAOB standards, in addition to completing any required interim reviews. Those audits and reviews must be completed by an independent accounting firm under the SEC independence rules, which may require a change in auditors to a firm that is registered with the PCAOB.

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.

INTERNAL PROCESSES AND CONTROLS

Most acquired entities are exempt from Sarbanes Oxley 404(b) and related internal control disclosure rules from the Dodd-Frank Act under the emerging growth entity filer status upon acquisition. However, it is vital that management implement a plan to address these requirements as soon as practicable due to the amount of time and effort required to complete the process. Implementation efforts can require a robust risk assessment, additional hiring and training of personnel, and new processes or systems to support financial reporting and operational management. The company must also review its entity structure and organizational management, financial reporting close process, IT systems, investor relations, treasury functions, and internal or external SEC legal functions.

TECHNICAL ACCOUNTING COMPLEXITIES AND NEW STANDARD IMPLEMENTATION

There are a number of technical accounting complexities associated with a SPAC IPO and the subsequent De-SPAC transaction. The application of Accounting Standards Codification 805, *Business Combinations*, (ASC 805) to the De-SPAC transaction requires the accounting acquirer to be identified, which may be a difficult process requiring substantial judgment. The determination of the accounting acquirer has a significant impact on the basis of the financial statement presentation and which company's financial statements are required to be reported at fair value in accordance with ASC 805 on the date of the De-SPAC transaction.

The SPAC IPO and De-SPAC transaction may also involve a number of financial instruments that can be highly complex. These instruments may include multiple classes of redeemable and non-redeemable stock, warrants, promissory notes to the sponsors for funds used to pay fees until completion of the SPAC IPO, and, in some deals, a forward purchase agreement, among others. Additional complexities arise if a PIPE commitment is obtained to finance a portion of the purchase price.

There are also important accounting standard differences between public and private companies to prepare for, including ASC 842, *Leases*, and ASC 326, *Current Expected Credit Losses* ("CECL"). These accounting standards and others have differing implementation dates for publicly-traded and non-publicly-traded entities. In addition, there are a number of private company accounting elections and practical expedients that may require the unwinding of historical accounting as well as increased disclosure requirements for new public companies.

BDO INSIGHT

Early preparation is vital for SPAC target companies to stay compliant with complex regulations. Company leaders should ensure they have trustworthy and experienced legal, capital, and accounting advisors in place for a smooth transaction.

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