CFGI

A GUIDE TO

Accounting for an Efficient SPAC Merger:

Streamlining Finance Processes When Going Public

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Introduction

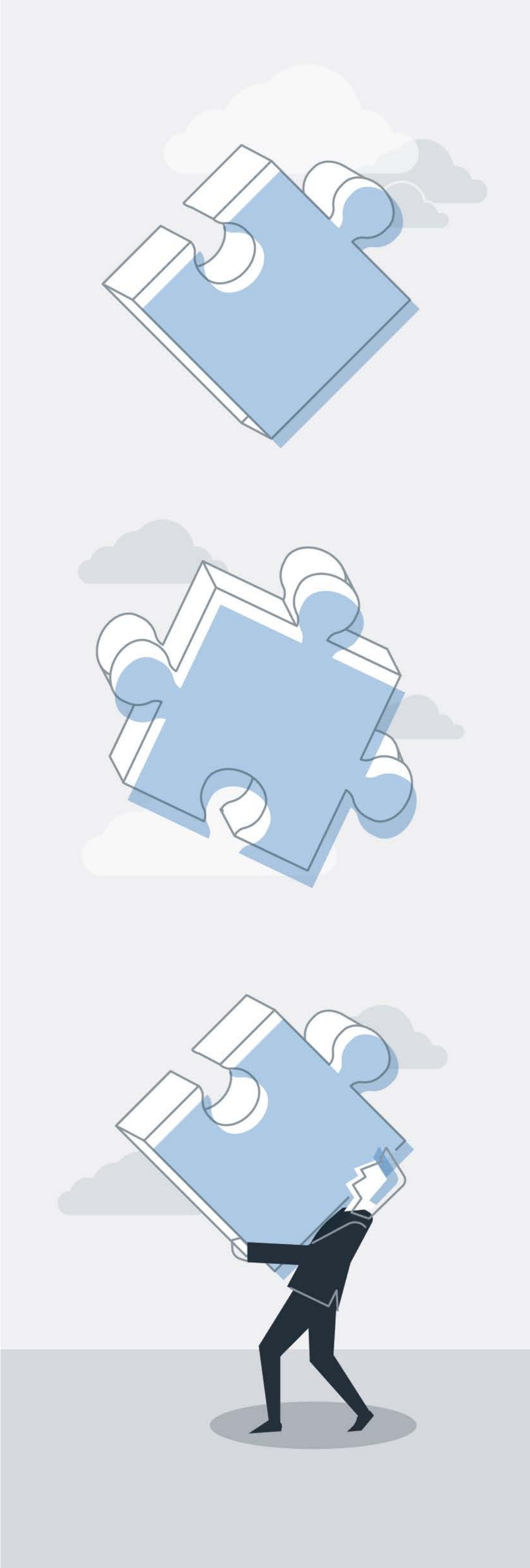
Going public is a natural step in the business cycle. Special purpose acquisition companies (SPACs) open up new funding options, quicker access to financing and opportunities for accelerated growth and progress. A SPAC, also known as a "blank check company," is a public company listed on a stock exchange with the purpose of acquiring a private operating company, thus making the private operating company public without going through the traditional initial public offering process. The SPAC mergers are also partially funded by private investment in public equity (PIPE) investors.

SPAC mergers are major undertakings for any organization. They require an enormous amount of collaboration between different stakeholders, including:

- SPAC and target company employees.
- Bankers.
- Legal counsel representatives.
- Investor relations consultants.
- Auditors.
- Finance and accounting consultants.
- PIPE investors.

Private companies that wish to go public through a SPAC merger will have to identify a suitable SPAC partner. From there, a proper process must follow to ensure that the two entities can cement the transaction.

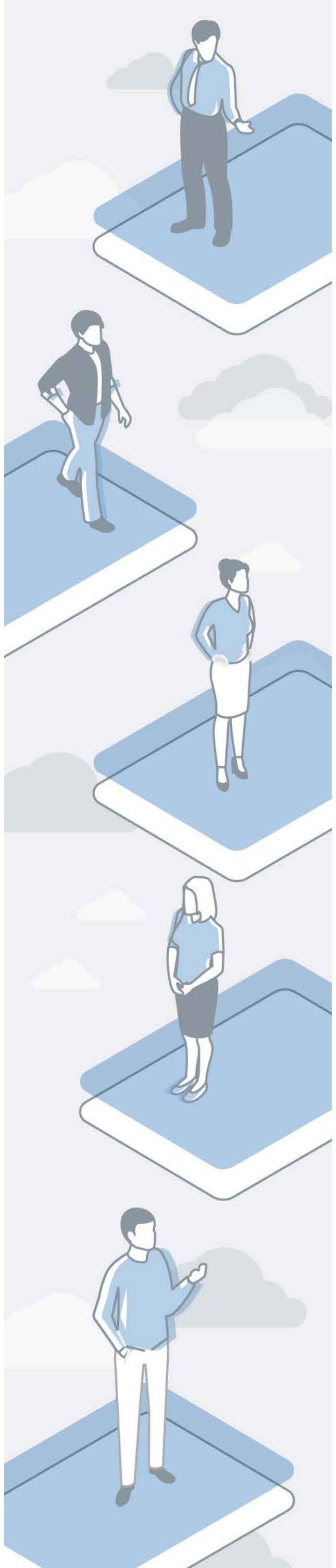
Once the SPAC partner is located, the two companies will have to come together to craft and sign a letter of intent.



After this document is executed, there are several steps that have to take place. First, proper due diligence must be conducted. Then, a merger agreement is drafted and executed. The accounting considerations regarding which entity is the accounting acquirer need to be thoroughly vetted and documented, among many other accounting matters directly related to the SPAC merger. Filings related to the merger are then completed, and with the SEC's declaration that the registration statement or the Form S-4 is effective, the parties can move forward with closing the deal.

The registration statement, typically on Form S-4, is the first milestone in a SPAC merger finance process. The filing contains information about both the SPAC and target company businesses, operations, management and financial information, which includes historical financial statements, management's discussion and analysis of financial condition and results of operations (MD&A), and Article 11 pro forma financial information, among other financial disclosures. In addition, the registration statement includes important and voluminous legal disclosures. The registration statements are filed with the Securities and Exchange Commission (SEC) and are reviewed by the SEC Staff, which could result in comments to update or improve finance or legal disclosures. Amended registration statements are subsequently filed to address SEC Staff comments and/or to update for more recent financial information or material events.

The SPAC process can be incredibly stressful and time-consuming for everyone involved, from attorneys to bankers to finance teams. Working with experienced accounting advisory consultants will make the process much smoother, as they provide deep technical accounting and SEC reporting experience and assist with the financial component of the SPAC merger process to ease the strain placed on other stakeholders.



Manage teams and facilitate collaboration

SPAC mergers bring many stakeholders together to collaborate and work toward the common goal of going public. As noted, the SPAC merger teams will include company representatives from all departments, lawyers, auditors, consultants, investors and more. With so many different people in the mix, the potential for miscommunication is high, and companies can't afford to fall behind during the SPAC merger process.

In addition, when companies go public, they may face significant personnel and staffing issues that could lead to more headaches, including:

- Accounting teams missing key roles (e.g., controller, accounting manager, accounting staff).
- Lack of technical accounting and SEC reporting expertise.
- Team members who are new to public company accounting and financial reporting.
- Lack of manpower to get ready for a public company audit.
- Lack of formal internal control processes and procedures.
- Individuals splitting time between the SPAC merger work streams and their day-to-day duties.

A disconnect between team members responsible for different areas of the SPAC merger process can also be a major issue. This is especially true when it comes to finance concerns, like updating financial statements, MD&A and pro forma financial information, among other finance areas.

A qualified consultant who understands the process inside and out can guide teams through each step and foresee potential issues, facilitating communication and collaboration between different stakeholders and keeping the project on track.

Implement audit readiness procedures

Before the registration statement for the SPAC merger can be filed with the SEC, the target company will need to have its public company-compliant financial statements audited under PCAOB standards. These audits are very thorough, adhering to public company requirements that private companies may not be accustomed to meeting.

Audit readiness processes entail technical accounting preparations, such as performing reconciliations, ensuring proper cutoff of transactions, instituting more frequent financial reporting and/or correcting historical technical accounting. Companies may also need to create complex technical accounting memos.

Additionally, preparing public company-compliant financial statements for these audits is important. **There are a variety of common issues that stakeholder teams need to account for at this stage, including but not limited to:**

- Preparing position papers on complex accounting matters.
- Assessing the accounting implications of the company's debt and equity transactions.
- Addressing infrequent 409A valuations or accounting for stock-based compensation.
- Validating proper cutoff procedures, including at interim period ends.
- Assessing operating and reportable segments.
- Accounting for taxes.
- Translating foreign currency into reporting currency.
- Performing uplift procedures that meet public company financial statement requirements.
- Managing a control environment that ensures the accuracy and quality of information and documentation submitted to auditors while providing the necessary documentation and comfort to allow those signing off on the control environment to do so confidently.

Solicit PIPE investors

PIPEs often form an important component of the SPAC process. These private investors and groups, which frequently consist of professionally managed funds, can choose to purchase shares prior to the acquisition of the target company. The investors may be privy to information that hasn't been disclosed publicly, including which company the SPAC intends to target.

To procure PIPE investors, SPACs are able to work with bankers to identify who might be interested in the opportunity. As they prepare for a meeting with fund managers, representatives from the SPAC should prepare a polished presentation that includes pertinent information the potential PIPE investor will find useful. Depending on the circumstances, shares may be offered to PIPE investors at a discounted price.

Prepare required financial information for the Form S-4

The Form S-4 is a comprehensive registration statement filled with hundreds of pages of legal and financial information required by the SEC. Some content will be managed by legal counsel, bankers and other stakeholders, but the financial statements, MD&A and Article 11 pro forma financial information is prepared by accounting and finance experts.

While the financial statements, MD&A and Article 11 pro forma financial information only represent a portion of the total Form S-4 content, preparing these sections requires the full attention of the accounting and finance working group (and many times legal counsel) to prevent unnecessary miscommunication of information, errors or inconsistencies in the content, filing delays or SEC comments.

Financial statements, MD&A and Article 11 pro forma financial information require extensive knowledge and expertise to properly prepare, especially as part of a fast-paced timeline. CFGI's finance experts understand exactly what to include and how to ensure they are fully compliant with the disclosure requirements for the SEC and other stakeholders. Consultants shoulder a great deal of this upfront work to get the SPAC merger process started on the right foot.

File Form S-4 and respond to SEC comments

Before filing the Form S-4, stakeholders need to extensively review all required documentation to minimize or avoid SEC comments. A finance consultant should be on hand to check for compliance with U.S. Generally Accepted Accounting Principles (GAAP) and SEC disclosure requirements as well as to ensure the accuracy of all financial information throughout the document.

Stakeholder teams should always expect to receive some comments and questions from the SEC after filing, potentially requiring updates to certain financial items. SEC comments can cover several legal and finance issues, but common problem areas include accounting for SPAC warrants and Article 11 pro forma adjustments (among other complex accounting matters) and inconsistent or unclear disclosures throughout the Form S-4.

It's important to delegate work to the appropriate team members to address SEC comments as quickly as possible. An experienced accounting consultant like CFGI will draft responses related to financial statements, MD&A and Article 11 pro forma information and also help coordinate replies involving other stakeholders. Working with consultants who understand the SPAC merger process and SEC reporting requirements will ensure teams land on an efficient strategy for responding to comments and keeping the SPAC merger timeline on track.

Refresh stale financial information

Timing is key and can vary significantly depending on filing dates and the specific circumstances of the registrant. For instance, interim financial statements "go stale" 135 days after a respective period ends. Therefore, financial statements, MD&A and Article 11 pro forma financial information must be refreshed once they pass these "stale dates."

Companies need to be mindful of these timelines and prevent financial information from becoming stale. Despite stakeholders' best efforts, financial statements, MD&A and Article 11 pro forma financial information may need to be refreshed, amended and refiled as the process proceeds. Without careful planning, the preparation and audit or review of new financial statements, MD&A and Article 11 pro forma financial information can delay the process.

An experienced finance and accounting consultant will be able to anticipate these issues from the outset and stay on top of key filing dates. In this way, companies can give the auditors — and the SEC — the time needed for review while still meeting their strategic timelines.

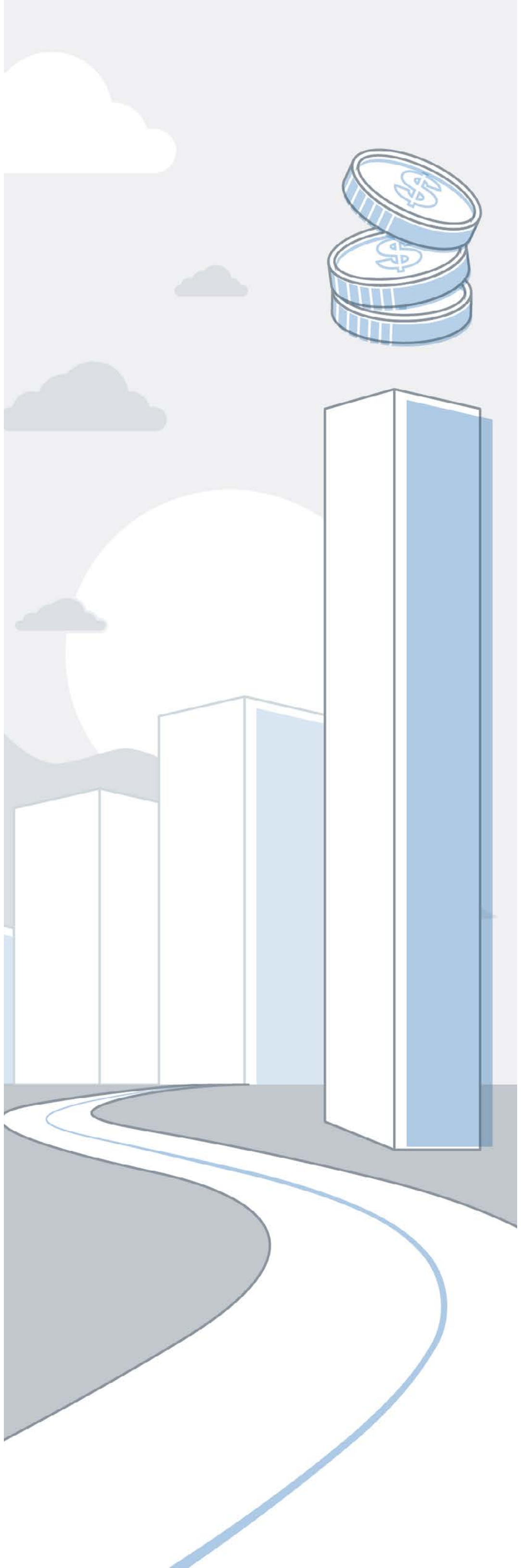
Super 8-K

Just four business days after the consummation of the merger, the newly combined company must file a Current Report on Form 8-K, which is many times referred to as a "Super 8-K."

Among other legal requirements associated with this form, the entity may need to include updated items such as:

- Article 11 pro forma financial information.
- Pre-merger annual or interim financial statements of the target.
- Pre-merger MD&A of the target.

Given the tight timeframes required, compiling the material needed for this filing is not something that should wait until the last minute. Being prepared to complete the Super 8-K should be a priority as the SPAC merger is finalized. Ensure that all associated tasks, including those related to audit and review procedures, are built into the appropriate timelines. There's no need for any last-minute surprises here.



Preparing for public life after De-SPACing

A truly comprehensive strategy extends beyond the completion of a SPAC merger to also encompass how operations will continue once the business becomes a public company.

Following a merger, important activities include:

- Building out the accounting and finance team with the proper expertise.
- Establishing more robust internal control processes and procedures.
- Prioritizing investor relations.
- Updating processes to meet financial reporting requirements that are more frequent.

Given the tighter and more stringent periodic reporting requirements and increased rules and regulations that publicly traded companies face, skillful planning and expert support can make all the difference.

In the effort to address shifting circumstances while meeting new guidelines — like preparing for upcoming public filings and ensuring adherence to Sarbanes-Oxley (SOX) standards — public companies may have to update and thoroughly document their internal control environment policies and procedures. Risk advisory consultants can help businesses complete this process seamlessly and efficiently.

Some organizations may also find that life as a publicly traded company entails the need for a larger accounting and finance department. With the support of an outside consultant, these businesses can manage this transition while securing support as they staff up to meet their new requirements.

Let expert consultants own financial requirements

The SPAC merger process is a long and complicated affair, with numerous stages, stakeholders and requirements to manage. Each member of the stakeholder group has a role to play, and it's critical that companies have expert support to own every aspect of the SPAC merger process. As we've discussed, financial reporting issues are common pain points that can create unforeseen delays and require extensive work to update financial information throughout the registration statement. Although a Form S-4 is, at its heart, a legal document, there are a number of financial sections working groups must prepare to meet SEC requirements.

Working with an experienced finance and accounting consultant can help alleviate those headaches, leading to a smoother SPAC merger process with fewer bumps in the road. CFGI's experts can monitor for potential hurdles from the outset. These professionals understand the nuances and requirements that companies face as they go public in a variety of different industries.

CFGI provides guidance from Day 1, giving companies the support they need to streamline the entire SPAC merger process.

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Contact us today to begin a dialogue. We'll show you how a consulting relationship with CFGI can provide both immediate benefits and lasting effects.

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