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SPAC Transactions: Structure, Financial Requirements, and the De-SPAC Process

The SPAC structure and its financial mechanics, the de-SPAC merger, PIPE financing, the combined company pro forma financial model, and the SEC disclosure requirements for de-SPAC transactions

WHAT YOU WILL LEARN AND WHY IT MATTERS

A Special Purpose Acquisition Company (SPAC) is a publicly traded shell company that raises capital through an IPO for the purpose of acquiring a private operating company — effectively providing the private company with an alternative IPO pathway that is faster, more certain, and in some market environments more favorable than the traditional S-1 filing process. At the peak of the SPAC market in 2020 and 2021, hundreds of companies entered the public markets through de-SPAC mergers; the subsequent market correction demonstrated the risks of the structure, but SPACs remain a viable exit and IPO alternative for the right company in the right market conditions.

The CFO of a company that is evaluating a SPAC transaction as an exit or IPO pathway must understand both the financial mechanics of the transaction and the financial governance obligations that follow from the de-SPAC merger. The SPAC structure creates specific financial challenges — the PIPE financing requirement, the earnout mechanics, and the complex pro forma financial presentation — that are distinct from both the traditional M&A; exit and the traditional IPO process.

THE SPAC STRUCTURE AND FINANCIAL MECHANICS

A SPAC raises capital in its IPO by selling units — each unit consisting of one share of common stock and a fraction of a warrant to purchase common stock — at a standard price of ten dollars per unit. The IPO proceeds (less the underwriting discount) are placed in a trust account that is held in escrow until the SPAC completes an acquisition (the de-SPAC merger) or is liquidated if no acquisition is completed within the specified timeframe (typically eighteen to twenty-four months).

THE TRUST MECHANICS: The SPAC trust account is the primary financial asset of the SPAC — it represents the capital available to fund the de-SPAC acquisition. When the SPAC and the target company agree to merge, the trust proceeds are released to fund the acquisition consideration (the cash paid to the target company's shareholders or used to pay down the target company's debt) and, if a PIPE is included, the combined trust proceeds and PIPE proceeds fund the total acquisition consideration. SPAC shareholders who do not want to participate in the acquisition can redeem their shares at approximately ten dollars per share (plus any interest earned in trust) before the merger closes — a redemption right that means the SPAC cannot guarantee how much of its trust it will have available for the merger until shortly before the closing.

THE DILUTION FROM FOUNDER SHARES AND WARRANTS: The SPAC structure creates significant dilution for the target company's existing shareholders through two mechanisms. First, the SPAC sponsor's founder shares: the SPAC sponsor typically receives twenty percent of the post-IPO shares for a nominal consideration (the "20% promote"), which dilutes both the SPAC's public shareholders and the target company's shareholders in the combined company. Second, the warrants issued to SPAC IPO investors: these warrants give their holders the right to purchase additional shares at a specified strike price, creating additional dilution when exercised. The CFO of a target company evaluating a SPAC transaction must model the full dilution from founder shares and warrants to understand the true

economics of the SPAC transaction relative to the alternatives.

THE PIPE FINANCING

A PIPE (Private Investment in Public Equity) is a private placement of equity to institutional investors that is typically announced simultaneously with the SPAC merger agreement and closes simultaneously with the de-SPAC merger. The PIPE serves two purposes: it provides additional capital to fund the acquisition consideration and post-merger growth plans, and it signals the institutional investment community's confidence in the target company — a PIPE that includes well-known institutional investors provides a credibility signal that helps support the combined company's stock price after the merger closes.

THE PIPE PRICING AND TERMS: The PIPE shares are typically sold at the same ten-dollar-per-share price as the SPAC's trust shares, although PIPE investors sometimes negotiate other economic features such as warrants, registration rights (the right to register their shares for public sale within a specified period), and anti-dilution protections. The CFO must model the dilution from the PIPE — including any warrants or other equity-linked securities included in the PIPE terms — and must ensure that the board understands the full dilutive impact on the target company's existing shareholders.

THE PIPE INVESTOR DUE DILIGENCE: PIPE investors are sophisticated institutional investors who conduct financial due diligence on the target company before committing to the PIPE. The PIPE due diligence is less extensive than the buy-side due diligence in a traditional M&A; transaction, but it covers many of the same financial areas: the quality of earnings, the revenue quality, the financial projections, and the unit economics. The CFO must manage the PIPE investor due diligence with the same rigor applied to the sale process due diligence — providing accurate, complete, and analytically rigorous financial information that allows the PIPE investors to make an informed investment decision.

THE PRO FORMA FINANCIAL MODEL AND SEC DISCLOSURE

The de-SPAC merger requires the preparation of extensive financial disclosure for the SEC, including the combined company pro forma financial statements and the forward-looking financial projections that the target company's management presents to SPAC shareholders and PIPE investors. The financial disclosure in a de-SPAC transaction is subject to SEC review and to the liability provisions of the Securities Act and the Exchange Act, making the accuracy and completeness of the financial information a critical governance obligation.

THE PRO FORMA FINANCIAL STATEMENTS: The combined company pro forma financial statements — required in the Form S-4 or Form F-4 registration statement filed with the SEC for the de-SPAC merger — must show the combined company's financial position and results of operations as if the merger had been completed at the beginning of the relevant period. The pro forma adjustments include: the purchase accounting adjustments for the target company's assets and liabilities, the elimination of the SPAC's historical financial statements (since the SPAC has no operating history), the effects of the trust proceeds

and PIPE proceeds on the combined company's cash position, and the debt repayment or acquisition financing that is funded from the combined proceeds.

THE FORWARD-LOOKING FINANCIAL PROJECTIONS: Unlike traditional IPO prospectuses — where companies typically do not include explicit financial projections — SPAC merger proxy statements and registration statements frequently include detailed five-year financial projections that the target company's management has prepared to support the SPAC investors' decision about whether to approve the merger. These projections are subject to the liability provisions of the securities laws, and the CFO must ensure that the projections represent the management team's genuine, good-faith estimate of the company's expected financial performance — not aspirational targets that are designed to support the highest possible valuation but that management does not believe are achievable. The SEC has increased its scrutiny of forward-looking financial projections in de-SPAC transactions following the post-2021 correction in SPAC performance, and materially optimistic projections that are not achieved post-merger can create significant legal exposure.

POST-MERGER FINANCIAL GOVERNANCE

The financial governance obligations that arise immediately after the de-SPAC merger closes are identical to those of any newly public company: the quarterly and annual SEC reporting obligations, the continuous disclosure requirements, the internal controls assessment, and the investor relations responsibilities. The SPAC pathway does not reduce these obligations — it merely accelerates the timeline on which they must be met.

THE FINANCIAL SYSTEMS READINESS CHALLENGE: One of the most common post-SPAC financial governance challenges is the gap between the target company's pre-merger financial systems and the financial systems infrastructure required for public company reporting. Many companies that pursued the SPAC pathway were not fully prepared for public company reporting at the time of the merger — a preparation gap that was more forgivable in the 2020-2021 SPAC boom but that creates significant financial governance risk in a regulatory environment where the SEC is actively scrutinizing SPAC financial disclosures. The CFO must complete the financial systems upgrade and the financial reporting infrastructure build before the merger closes, not in the months after the company is already public and the quarterly reporting deadlines are running.

THE WARRANT ACCOUNTING COMPLEXITY: One of the most consequential accounting issues that emerged from the 2020-2021 SPAC boom was the SEC staff's determination that many SPAC warrants should be classified as liabilities rather than as equity instruments on the combined company's balance sheet. The liability classification requires the warrants to be remeasured to fair value at each reporting date, with the changes in fair value recognized in the income statement — creating significant earnings volatility and requiring ongoing fair value measurement by a valuation specialist. The CFO must work with the external auditors and valuation specialists to determine the appropriate accounting treatment for the SPAC warrants at the time of the merger and must build the ongoing fair value measurement process into the quarterly close procedure.

ACTIONS TO TAKE BEFORE PART TWENTY-NINE

If a SPAC transaction is under consideration, commission an independent analysis of the SPAC's dilution structure — the founder share promote, the warrants, and the PIPE terms — and compare the net proceeds available to the target company's existing shareholders under the SPAC structure to the net proceeds available under a traditional M&A; sale at a comparable enterprise valuation. In many cases, the dilution from the SPAC structure makes the net economics of the SPAC transaction less favorable than the headline enterprise value suggests, and the CFO's independent financial analysis of this comparison is one of the most important governance contributions available in the SPAC evaluation process.

Review the warrant accounting determination with the external auditors before the SPAC merger closes. The warrant liability classification is a complex accounting question that must be resolved before the first quarterly financial statements are filed as a public company, and the accounting analysis requires the review of the specific warrant agreement terms against the accounting guidance in ASC 815. Having this determination completed before the closing eliminates the risk of a post-merger accounting restatement that would damage the company's credibility with investors.

CLOSING PERSPECTIVE

SPAC transactions represent a distinct pathway to the public markets — faster and more certain than the traditional IPO in the right market conditions, but carrying unique financial governance obligations and structural complexities that the traditional IPO does not. The CFO who understands the SPAC structure's financial mechanics, who models the dilution accurately, who manages the SEC disclosure obligations with the rigor they require, and who builds the public company financial governance infrastructure before the merger closes — is navigating one of the most complex financial transactions available in the private capital universe with the analytical preparation and governance discipline that a successful outcome requires.

COMING NEXT IN THE SERIES

Part 29 — International Considerations: Cross-Border PE/VC, FX, and Multi-Jurisdiction Cap Tables

Part Twenty-Nine covers the financial management complexities of international private capital investments — multi-currency financial reporting, cross-border transfer pricing, the tax structuring of international PE transactions, multi-jurisdiction cap table governance, and the specific financial governance requirements of operating a private capital-backed business across multiple legal jurisdictions.