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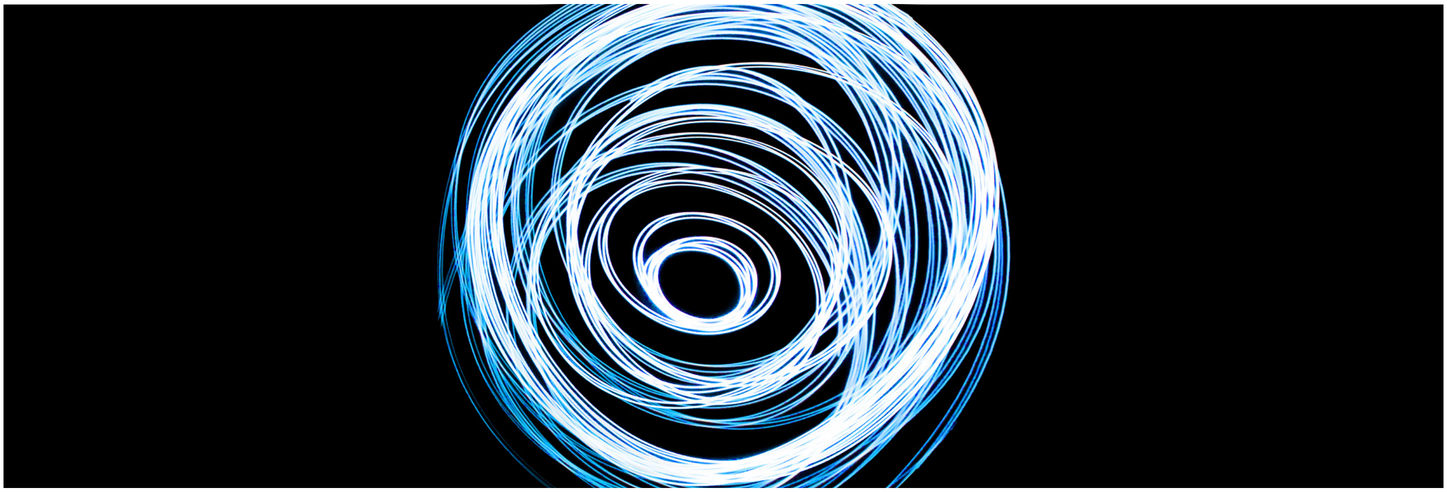

CFO checklist: Accounting and reporting for a SPAC transaction

An accelerated timeline doesn't always mean an easier path

Let's set the stage: Your company is exploring an initial public offering (IPO) to raise capital. Instead of going the traditional route, you want to lock in your price per share earlier in the process using a transaction that's quicker to price. You start thinking about a special-purpose acquisition company (SPAC).

Take a deeper dive
For more detailed discussion on each of the areas discussed in this point of view, please refer to Deloitte's "Financial Reporting Alert 20-6 on Accounting and SEC Reporting Considerations for SPAC Transactions" and "Primer on SPACs."

Targets often find the SPAC transaction option more attractive than the traditional IPO because it can provide de-risked up-front pricing, as well as other advantages. But contrary to what you may have heard, a SPAC is not necessarily "the easy option." In most cases, SPAC transactions carry with them more onerous accounting and reporting requirements than traditional IPOs. The additional complexities arise in part because a SPAC typically involves both a merger transaction and a public offering of shares of the newly combined operating company and SPAC.

If your company is considering a SPAC transaction, you should become familiar with the transaction process and the extensive accounting and reporting effort required. Let's explore three areas you should be focusing on.

Transaction-related filing requirements

There are a myriad of SEC filings, financial statement requirements, and disclosures that are required in connection with a SPAC transaction. It's critical to understand what's needed and when.

SEC financial statement filing requirement

- The target's annual financial statements—audited in accordance with Public Company Accounting Oversight Board (PCAOB) standards—and unaudited interim financial statements reviewed by auditors are often required. However, the number of required years and interim periods for the financial statements may vary based on the SEC-defined filing status of the target. Typically, more periods are required for a SPAC transaction than for a traditional IPO.

- Modifications to historical private company financial statements are often necessary. For example, items like temporary equity classification, segments, earnings per share, disaggregation of revenue, and business combinations occurring in periods prior to the SPAC transaction all may require modified accounting and disclosure to comply with public company requirements. The financials may also need to be modified to include the adoption of new accounting standards on the basis of more accelerated public-company adoption dates.
- Separate audited preacquisition financial statements for the target's significant equity method investees and significant historical and probable acquisitions may be required, depending on the timing and size of such acquisitions or investments.

Speaking of which: *Taking inventory of all the financial statements needed and all periods for which those financial statements must be prepared is critical to avoiding surprises and delays.*

General SEC filing requirements

- Depending on your circumstances, you may be required to file:
  - A proxy statement on schedule 14A, which is generally needed for the SPAC to solicit votes from its shareholders to consummate the transaction; or
  - A combined proxy and registration statement on Form S-4 or even F-4, which is generally needed if the SPAC is registering additional securities as part of the transaction.

  Get familiar with the timeline and expectations of the SEC review process (which may involve multiple rounds of review) once the proxy/registration statement is filed. Familiarize yourself with current comment trends and key areas of focus.

- A special Form 8-K (Super 8-K) announcing the SPAC transaction and containing information on the specifics of the closing of the deal is required four business days after completion of the merger. It is important to know what the filing requires, and when it needs to be amended. If the transaction closes soon after the target's fiscal quarter or year-end, the target's most recently completed period of financial statements must be included as well as updated pro forma information.
- Management's discussion and analysis (MD&A) of your company's financial condition and operations to be included in public filings (both Form S-4 and Super 8-K).
- Pro forma financial information that reflects the anticipated impact of the SPAC transaction to be included in public filings (both Form S-4 and Super 8-K).
- Registration statements that may be due after the merger based on a timeline negotiated in the merger agreement. Generally, companies file a Form S-1 30 days after the merger is completed to register shares issued during the merger..

Speaking of which: *Be aware that forecasts and other financial information generally become public on the merger announcement date, which is prior to financial statements becoming public. Also, pro forma financial statements in a SPAC transaction are complex. Know the as-of date for the pro forma balance sheet, as well as the income statement and effective dates for the adjustments in each. Understand what adjustments should be reflected in the pro forma financial statements and the respective tax impacts based on the nature of the transaction.*

Complex accounting considerations

A traditional IPO is often a simpler transaction than a SPAC in the sense that it involves just one company selling its shares and going from private to public. Since a SPAC transaction involves at least two companies (the target and the SPAC) coming together in a merger transaction, it presents a number of complex accounting issues:

- **Identifying the accounting acquirer:** Even though it may be clear from a legal perspective that the SPAC is the acquirer in a SPAC transaction, the accounting requirements may be different. A determination will need to be made as to whether the SPAC or the target is the acquirer for accounting purposes. Proper documentation of this conclusion is important and includes consideration of whether the target is a variable interest entity (VIE) or voting interest entity (VOE).
- **Accounting for shares, warrants, and other financial instruments issued by a SPAC:** Financial instruments such as warrants may be issued by the SPAC prior to, during, or after the SPAC transaction. Determining the appropriate accounting, classification, and disclosures for these instruments can be extremely complex.
- **Classifying share-settleable earnout arrangements:** It is common for either the owners of the target, management, or the sponsor of the SPAC to enter into earn-out arrangements. Under these agreements, these parties may receive additional consideration in the form of cash, shares, or other financial instruments at a future date depending on the performance of the merged SPAC and target. Determining the appropriate accounting treatment for these arrangements based on their terms is often challenging. It will likely include determining whether shares or equity-linked financial instruments issued pursuant to these earn-outs should be classified in equity or as liabilities.

- **Share-based payment considerations:** SPAC transactions may have an impact on the SPAC's and the target's preexisting share-based payment arrangements. New awards may also be issued at the time of the SPAC transaction. Accounting for these effects and new awards is complex and requires careful consideration.

Ongoing financial statement and other filing requirements of a public company

The accounting and reporting work for your new public company doesn't end with the SPAC transaction. As you prepare, you need to be aware of what comes after the deal.

- **Ongoing reporting requirement:** Understand the ongoing reporting requirements for post-transaction periods. Be aware of your filing deadlines based on your filing status for your go-forward quarterly and annual reporting of your results, your 8-K requirements, and registration statements.
- **Public company sustainment**
  - Sarbanes-Oxley Act (SOX) and internal controls: You'll have public company requirements related to internal control over financial reporting. Understand the procedures and the requirements for certifications and disclosure of material changes, as well as requirements to disclose significant deficiencies, material weaknesses, and fraud.
  - Corporate governance: Address your board of directors and committee requirements in addition to establishing a compliance function.
  - Technology and transformation: Assess your system and infrastructure requirements to meet the reporting requirements as a public company. Develop and implement plans related to disaster recovery, business continuity, threat and vulnerability, and cybersecurity.
  - Operational: Consider the need for a more robust tax function or the establishment of an investor relations function, among other improvements.

Interested in a SPAC transaction?

A SPAC transaction may indeed be the best option for taking your organization from private to public. But you need to be aware of the accounting and reporting work it entails. Benefiting from the upfront pricing and disclosure advantages a SPAC transaction presents depends on your ability to accelerate your preparation in a range of areas. In addition to all of the items covered above, you may also need to manage:

- Deal structuring, tax planning, and tax compliance
- Vendor due diligence
- Application of generally accepted accounting principles (GAAP) applicable to public companies
- Non-GAAP measures
- Internal audit
- Automation technology to increase efficiency

A SPAC is not a shortcut. It can be a high-speed, high-intensity journey, and success depends on having the right people and technology in place to navigate it. Are you ready for the challenge?

How Deloitte can help

You don't have to go it alone. Deloitte has a team of professionals with experience advising and assisting companies on the issues discussed previously throughout the life cycle of a SPAC transaction. We can help with each step, whether through providing advice, drafting documents and filings, or implementing more efficient technology (for example, financial reporting and filing systems).

Let's talk about your SPAC preparation needs:

Will Braeutigam
Partner, National SPAC Execution Leader
Deloitte & Touche LLP
+1.713.982.3436
wbraeutigam@deloitte.com

Steve Barta
Partner, National On-Call Accounting Advisory Leader
Deloitte & Touche LLP
+1.312.486.5350
sbarta@deloitte.com

Derek Gillespie
Partner, M&A Transaction Services
Deloitte & Touche LLP
+1.212.492.4356
dgillespie@deloitte.com

Barrett Daniels
Partner, US IPO Services Co-leader & West Region SPAC Leader
Deloitte & Touche LLP
+1.408.704.4176
badaniels@deloitte.com

Emily Matthews
Accounting & Reporting Advisory Senior Manager
Deloitte & Touche LLP
+1.213.553.1340
ematthews@deloitte.com