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'Blank Checks' May Lose Steam

A Lack of Targets Has Few Investors Willing to Sign Off

By Lynn Cowan

"Blank check" companies achieved a tinge of respectability in 2006, but the oddball IPO structure is unlikely to continue growing at the fast clip seen during the past two years.

IPO OUTLOOK

Once reviled as deals of questionable quality, blank checks are essentially empty shells that promise to buy operating businesses with the proceeds from their initial public offerings.

Also known as special-purpose acquisition companies, or SPACs, the structure took off in 2005, and began to buff its previously uncouth image by attracting bulge-bracket underwriters such as **Citigroup** Inc.

Name-brand executives, including Apple Inc. co-founder Steve Wozniak, have appeared on the management rosters of blank-check firms.

Even more noteworthy, though, has been the track record that blank- check companies have set since 2003, when just one such offering priced.

The structure typically dictates an 18-to-24-month deadline for finding an operating business, and in 2005 and 2006, the majority of companies—82%—signed or completed agreements to acquire real businesses within that time frame.

Among the combinations that resulted: smoothie chain Jamba Juice with **Services Acquisition** Corp. International, and clothing retailer American Apparel with **Endeavor Acquisition** Corp.

"When people see well-managed, well-known companies being acquired by SPACs and going public via SPACs, as opposed to the traditional IPO route, it does open up their eyes. It does tell people who otherwise might be skeptical that this is a viable alternative," says David Miller, an attorney at law firm **Graubard Miller** who helped to create the original SPAC structure 15 years ago.

But despite the relative success these deals have found, the pace of new Securities and Exchange Commission filings for blank-check offerings peaked in 2005 at 72, according to data from Dealogic. The current backlog of new blank-check companies planning IPOs is down 35% from the same point last year, the deal tracker says.

And in recent months, several blank-check companies found their proposed acquisitions were rejected during shareholder votes at **Tac Acquisition** Corp., **Millstream II Acquisition** Corp. and **Coastal Bancshares Acquisition** Corp. The structure requires shareholder approval of any business combination, and if one isn't reached by the deadline, the majority of the IPO money raised must be returned to investors and the shell company dissolved.

The total amount of money raised in any given quarter by all blank check companies hovers somewhere around $800 million; the primary investor base of hedge funds doesn't appear willing to digest more than that, says Brett Goetschius, editor of Reverse Merger Report, which tracks the blank-check IPO industry. One of the biggest challenges is concern about the availability of well-priced acquisition targets, he adds.

"Acquisitions are proving more difficult to come by than both investors and SPAC managements had come to believe. That has certainly put a damper on new filings," says Mr. Goetschius. "There's a very robust private-equity market that competes with SPACs for acquisitions in this private market."