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The SPAC Market Takes a Breather: After nice run, 'blank check' sector stumbles; is the marketalready saturated?

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When HD Partners Acquisition notified the Securities and Exchange Commission, and thus the world, that itwas dissolving after its shareholders voted against its purchase of racing assets from the National Hot RodAssociation, its impending demise raised another question mark about the special purpose acquisitioncompany market.

New research indicates the acquisition company IPO market isn't expected to be overly robust in 2008,according to Palo Alto, Calif.-based SPAC Research Partners. The research firm expects the number ofacquisition companies going public in 2008 will decline 10%, while 25% of all SPAC acquisitions areexpected to be vetoed by shareholders in 2008.

Moreover, 90 blank check companies have registered to go public since the beginning of the year, but only12 have done so, according to SPAC Research.

The market is at a standstill, says Michael Tew, senior analyst at SPAC Research Partners. "There are a lotof deals at risk right now because structured buyers [shareholders] will vote against them or because they'renot good deals," he says.

SPAC Research has concluded that two planned acquisitions could see changes in their terms: AlternativeAsset Management's $974 million purchase of Halcyon Asset Management, which the firm's researchindicates has a 33% chance of closing and Marathon Acquisition's $1 billion acquisition of Global Ship Leasefrom French shipping company CMA CGM, which has a 40% chance of being completed at its current terms.

Tew, who also runs a financial advisory firm named Sand Hill Research Partners, says macroeconomicissues may influence the attractiveness of companies that might otherwise be good acquisition candidates.

SPAC Research found that the average size of SPAC offerings is expected to increase by 45% in 2008 to$265 million with many SPACs raising anywhere from $300 million to $500 million. By comparison, lastyear's average blank check company raised $183 million.

The blank check market is also anticipated to increase 21% annually over the next five years and generate$32 billion in IPO volume, according to SPAC Research.

The ability of SPAC managers to find willing investors, though, has created another dynamic, says oneindustry observer familiar with the industry.

"Right now there are so many SPACs out there looking for deals it's like you're investing in a market that'salready saturated," says James Abbott, a partner in the corporate finance department of **Seward** & Kissel.

Seward & Kissel co-advised Marathon Acquisition, the SPAC established by former Apollo GlobalManagement executive Michael Gross, on its recent $1 billion agreement to acquire Global Lease.

Abbott says blank check companies, as they are also called, are providing both an avenue for private equityfirms to exit portfolio company investments, as well as creating more competition for M&A deals. Theattorney says acquisition companies are increasingly showing up in investment-banking auctions, competingwith corporate and financial buyers.

The once-questionable SPAC model has certainly won clout with the banking community in recent years asinvestor safeguards have been further refined. Now, once an acquisition company goes public at least 90%

of IPO proceeds are placed in a trust where they'll remain until an acquisition is approved or an acquisitioncompany is liquidated. If the blank check company doesn't consummate an acquisition within its allotted timeframe, which now ranges up to 36 months, then that money must be returned to shareholders.

The acquisition companies have proven enticing enough to draw high flying financial executives like BruceWasserstein, Joseph Perella, Thomas Hicks, Nelson Peltz and Ronald Perelman to launch their ownSPACs, attracting large investment banks like Citigroup and Deutsche Bank, two strong SPAC underwriters, and more recently Goldman Sachs, which carried out its first SPAC underwriting on behalf of Hampton,N.H.-based Liberty Lane Acquisition.

One major player outside of the bulge bracket is Morgan Joseph, which has managed 20 SPAC IPOs since2005 and plans to hold its first conference on the asset class later this month in New York.

Both the Nasdaq and New York Stock Exchange have petitioned the SEC to allow the listing of acquisitioncompanies, following in the footsteps of the American Stock Exchange, the exchange that pioneered thelisting of SPACs when it listed Community Bankers Acquisition in 2006. Last year, the AMEX racked up 50such IPO's, which accounted for $10 billion of new issue market volume in 2007.

Despite their apparent comeback SPACs haven't historically generated great returns once an acquisitionhas been made. SPACs that have completed acquisitions since August 2003 posted a 6.9% decline on average.

The SPACs that succeed are the ones, of course, where price erosion doesn't come into the picture.

"If the SPAC does its merger and its stock trades up in the public market then it's worked out well foreveryone," says **Seward** & Kissel's Abbott.

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