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'Blank-Check' IPOs Are Losing Edge --- Primary Buyers Begin to Exhibit Signs of Fatigue
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"Blank-check companies" started off 2008 by outpacing the number of traditional IPOs listed in the U.S. But they have begun to lag behind as investors show signs of buyer's fatigue.

Such companies, which are empty shells that raise money through initial public offerings to eventually buy operating businesses, made up nearly a quarter of all initial public offerings in the U.S. last year, according to Dealogic. Also known as special-purpose acquisition companies, or SPACs, they appeared headed even higher at the start of 2008, as seven priced in January, compared with just five "traditional" IPOs. An additional four went public in February, matching the number of traditional share debuts.

At the time, analysts and bankers said SPACs, which are structured so that they return most of shareholders' money if they don't complete an acquisition within about two years, offered the kind of downside protection that risk-averse investors were seeking.

Since March, however, the tide has turned. While 10 ordinary IPOs have been completed, only two SPACs have gone public.

Observers say hedge funds, the primary buyers of SPAC offerings, have now had their fill of these deals and are stepping back from the market.

"The original thought was that even in a down market, people would invest in SPACs because of the downside protection they offered," says J. West Riggs, a managing director in equity capital markets for Piper Jaffray Cos. "But there's a relatively fixed pie of money able to invest in these. There either has to be a further restructuring of SPACs to make them more attractive to initial buyers, or mergers need to get done by the SPACs that are already public so that money can be freed up to cycle into new deals."

Of the 139 SPACs that have gone public since 2005, 39 have successfully completed acquisitions, and 11 have liquidated, according to SPAC Research Partners, a firm formed this year to provide independent research on this market.

While most companies have time before hitting their deadline for an acquisition, so many SPACs are trying to find operating businesses that they bump up against one another, says Jim Abbott, a partner in the corporate finance department of law firm **Seward & Kissel** LLP.

"There's lots of competition. We've been involved in some auction processes and the bidders include several SPACs bidding against each other to win the deal," he says.

He believes that investors probably are best off sticking with SPACs that are backed by high-end sponsors and that sport "celebrity" management teams.

Analysis by SPAC Research Partners indicates that only 10 of the 69 SPACs now looking for acquisitions will complete them. The research group anticipates that fewer new SPAC IPOs will price this year than in 2007, and sees the most promising deals focused on Asia.

Still, there are some upbeat developments in the general SPAC market that could improve investors' outlook, says the research firm's co-founder, Michael Tew. Liberty Lane Acquisition Corp. is scheduled to price this week, potentially raising $350 million. It is the first SPAC underwritten by Goldman Sachs Group Inc., which tweaked the typical SPAC structure to make it more shareholder-friendly, including giving management a smaller chunk of any acquisitions.

"The quality of sponsors and underwriters has drastically improved, and with the Liberty Lane structure, the interests of the management team and investors are more clearly aligned," Mr. Tew says. "This should actually bode well for the SPAC market moving forward."