

BLANK CHECK COMPANIES - AN EMERGING INVESTMENT VEHICLE

By Maxim Group



The Blank Check Company or Specialized Purpose Acquisition Company is a structured product that has come a long way in the last 4 years. The product, known as a Business Combination Company" (BCC") when structured by Maxim Group, is designed as a creative way for investors to finance highly experienced management teams and board of directors to acquire companies or assets in a vehicle.

The Blank Check Company market had a record year in 2006, with a significant increase in the number of institutional investors participating in deals, bulge bracket investment banks managing new issues, record setting levels of capital raised in the product, and a significant increase in number of companies announcing acquisitions.

BCC"s are structured as a unit, with one common stock and one warrant that is convertible to common stock upon the completion of the acquisition. Along with other provisions that protect investors, this particular feature allows shareholders to participate in any upside potential if and when the BCC" successfully acquires private assets and the warrants are converted into shares.

Maxim Group has emerged as a leader in the BCC" space over the last two years and has the distinction of lead managing 2 of the 4 largest BCC" offerings ever executed. Maxim was created as a spin-off of the US operations of the global financial services company, Investec, over 4 years ago, and has built a reputation as a premier middle market investment bank with a full array of services that include Capital Raising and M&A. They have successfully brought to the market numerous BCC"s in various industry sectors, including Shipping, Energy Infrastructure, Financial Services, Defense, Publishing, Hotel Management & Hospitality, and Healthcare.

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"The blank check market had a fantastic 2006 and we expect 2007 to be just as strong," said Cliff Teller, Head of Investment Banking at Maxim Group LLC. "The quality of management teams coming to the market today



are more sophisticated, and because the structure has shown very strong returns, institutional investors are increasing their appetite for this emerging asset class."

2006 was the year in which the blank check market flourished, with over \$2.9 billion in 37 transactions raised, a 50% increase from 2005 with \$1.9 billion raised in 28 transactions. So far in the first quarter of 2007, over \$1 billion has been raised, exceeding the first quarter of last year.

Once the exclusive domain of boutique

investment banks, a trend emerged over the last year that saw bulge bracket investment banks partner with key established leaders in the field to bring larger, more complex deals to market. In the first two months of this year, Maxim Group teamed up with Merrill Lynch to successfully launch Dekania Corporation, which raised over \$100 Million focusing on specialty insurance, and with Citigroup on Oceanaut Corporation, a \$150 Million BCC" focused on maritime shipping. "With banks such as Merrill Lynch, Citigroup, Deutsche Bank, Bank of America, and Lazard entering the market, it further legitimizes the vehicle in the eyes of institutional investors", added Mr. Teller.

Key elements of the structure have allowed the product to surge in popularity with both investors and sponsorship teams. The first is that, depending upon the specific offering, approximately 95-100% of the gross proceeds are placed in a trust, unavailable to the company and its management until an acquisition is approved by the shareholders. Until then, the proceeds in trust earn interest in low-risk government securities. A BCC" generally must announce a deal within 18 months and the transaction size must be equal to at least 80% of the cash held in the trust. In order for the acquisition to be consummated, it has to be approved by 80% of the company's shareholders. Furthermore, an investor who votes against a deal that wins the required super-majority approval can return their shares to the company in exchange for a proportional slice of the cash held in trust.

Mr. Teller commented further regarding the maturation of the BCCTM marketplace, "This is an emerging product for asset managers looking to get involved in private equity through a publicly traded vehicle, and as a fantastic way for superior management teams to leverage their industry experience and access capital to finance opportunities only they can identify."