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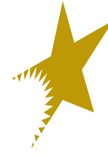

Blind Cash Pools: Expanding Role in Business Financing?

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With the economy showing signs of recovery from large setbacks in recent years, entrepreneurs, business owners and investors are starting to search for new enterprises that will thrive in the coming phases of the business cycle.

In this context, blind cash pools, which are financing vehicles that take growth enterprises public, may well come into broader use.

Blind cash pools have been adopted increasingly by stock exchanges around the globe. Generally, they involve shell companies that are created to raise money publicly and then use the funds to track down and acquire an undetermined business or asset.

The shell companies are formed solely for this purpose; they contain no prior assets or existing operations.

Opportunities exist for financiers, investors, experienced public directors or officers, and entrepreneurs to benefit from blind cash pools: promoters are able to take an equity stake and manage the growth of a junior company; investors are able to participate in speculative private equity-type deals; and private enterprises are able to go public earlier in their life cycle, without the costs and risks associated with conducting their own initial public offering (IPO).

The Toronto Stock Exchange currently offers two forms of blind cash pools – the Capital Pool Company (CPC) program on the TSX Venture Exchange (TSXV) and the Special Purpose Acquisition Corporation (SPAC) program on the TSX itself.

Capital Pool Companies

Originally called "junior capital pools" and listed through the Alberta Stock Exchange beginning in the 1980s, these companies were formed to finance speculative exploration opportunities in the oil and gas industry. Since moving to the TSX Venture Exchange, however, they have been utilized in a variety of sectors, including mining technology and pharmaceuticals.

The TSXV promotes the CPC program as a unique listing vehicle providing an alternative introduction to the capital markets. The CPC program brings together investors who have experience in the financial markets and entrepreneurs who need both capital and public company management expertise for their growing ventures.

The CPC program involves a two-stage process: the creation and listing of the CPC followed by the qualifying transaction (QT) with a target acquisition.

The process begins when a minimum of three individuals incorporate the shell company and contribute seed capital to the company in exchange for shares. The total amount of seed capital raised from the directors and officers of the CPC must be between $100,000 and $500,000. The TSXV requires that these directors and officers collectively possess the appropriate experience, qualifications and history to ensure its success.

The founders of the CPC then prepare a prospectus and file it with the TSX Venture Exchange and the relevant securities commission(s) and also apply for a listing on the TSXV. Once the prospectus is approved and the application for filing is accepted, the CPC closes its initial public offering of shares. Then, trading in those shares begins on Tier 2 of the TSXV (with the designation ".P" beside the stock symbol to indicate that the issuer is a CPC).

The gross proceeds from the initial public offering of the Capital Pool Company's shares must be between $200,000 and $4,750,000. Upon completion of the IPO, the CPC must have a minimum of 200 shareholders with each shareholder owning at least 1,000 shares issued at a minimum price of 10 cents. The CPC may issue additional shares through private placements, where it approaches select investors directly instead of through the open market. Nevertheless, the gross proceeds raised through the seed capital, IPO, and private placement processes, taken together, are not allowed to exceed $5 million.

Once listed, the CPC has 24 months in which to complete a qualifying transaction. During that time, the gross proceeds realized from the sale of all shares issued by the CPC may be used only to identify and evaluate assets or businesses and obtain shareholder approval for a proposed QT. If the TSXV does not accept a QT within the required time period, the TSXV may suspend the CPC from trading or delist its shares.

Once the QT closes and the target business is acquired, the resulting issuer is no longer considered a CPC. The new TSXV company begins trading as a regular Tier 1 or Tier 2 issuer with a new name and new stock symbol without the ".P" designation.

Special Purpose Acquisition Corporations

Following up on the success of the TSXV CPC program, and taking a cue from the abundance of SPACs in the US markets, the TSX introduced its SPAC program in December 2008.

Although similar in design and intention to the Capital Pool Companies program, there are some fundamental differences present in the Special Purpose Acquisition Corporations program.

The most obvious of these is that a SPAC is listed on the TSX itself as opposed to the TSXV, thus enhancing the listing status of the issuer. In addition, SPACs are larger than CPCs, as they are required to raise a minimum of $30 million in the IPO through the sale of at least one million securities to 300 or more shareholders at a minimum cost of $2 per share or unit.

Once listed, the SPAC has 36 months to seek out businesses and assets with which to complete a qualifying acquisition. The SPAC is required to obtain majority shareholder approval prior to completing a qualifying acquisition, and any dissenting shareholders are entitled to convert their securities for the pro-rata portion of their funds.

If it does not succeed in completing a qualifying acquisition within the permitted time, the SPAC is liquidated and the remaining funds (after accounting for the SPAC's administrative expenses as well as any taxes and costs associated with the liquidation) are distributed to its shareholders.

Blind Opportunities

The introduction of the SPAC program to the TSX coincided with the peak of the economic downturn and it has therefore gone unused since its inception. In addition, some critics have held that the smaller size of the Canadian capital markets as well as the lower volume and size of IPOs in Canada make this country unsuitable for launching SPACs. However, the required market capitalization of the Toronto Stock Exchange's SPAC program is much smaller than that of its American and European counterparts and, as such, tangible interest could emerge as the economic recovery takes hold.

An increased interest in blind cash pools could not only result in entrepreneurs and investors taking advantage of the opportunities presented by an economic expansion but it could play a role in creating greater market stability through the development of tomorrow's growth enterprises. ■