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Former Media Executives Give New Life to 'Blank Check' Corporations

By RICHARD SIKLOS

Time was that former media executives were offered consulting contracts, partnerships at private equity firms or book deals. Now, they are being offered a blank check.

Over the past several months, new shell companies led by former senior executives of companies like Time Warner, ABC, RCN, DirecTV and VNU have raised hundreds of millions of dollars on the stock market in low-profile deals using an obscure but growing financing technique called "special purpose acquisition corporations," or SPACs.

SPACs have been gathering steam over the past two years as an alternative to private equity as Wall Street firms like Deutsche Bank, Citigroup, Merrill Lynch and Lazard have begun underwriting them.

The catch in these deals is that investors do not actually know what their money is going to be spent on when they buy shares — hence the "blank check" designation given by the Securities and Exchange Commission.

In return, the founders — who include such media veterans as Herbert A. Granath and Eddy W. Hartenstein — put their own money and reputations on the line. But, they can't spend the millions raised without first getting the approval of a majority of the shareholders.

Last month, a company called Media & Entertainment Holdings led by Mr. Granath, the longtime ABC executive and former chairman of ESPN, raised $100 million by selling shares and warrants. In February, another SPAC called Churchill Ventures raised $108 million. Its chief executive, Christopher Bogart, is a former general counsel of Time Warner and chief executive of Time Warner Cable Ventures.

Last summer, a company led by Mr. Hartenstein, the founder and former chief executive of DirecTV, raised $150 million for a new company called HD Partners. Soon after, a company led by David C. McCourt, the former chief executive of RCN Communications, raised $90 million.

Blank check corporations have been around for decades, some promoting business plans nearly as vague as the venture that sold shares during the South Sea trading bubble of 1720 by billing itself as “carrying on an undertaking of great advantage; but nobody to know what it is.”

Among the most notable recent SPACs have been companies that acquired American Apparel Inc. and Jamba Juice.

The sudden surge in media-related SPACs, people involved in the deals said, reflects the wrenching changes digital technology is having on the media, telecommunications and technology industries.

While many large companies in these industries struggle with falling profits and stagnant share prices, there is a belief among investors that niche opportunities can be found in everything from broadcasting and publishing to European media. So far, most media SPACs are seeking to buy companies for under $500 million, which puts the deals they seek under the radar of most big private equity firms.

According to the market research firm Dealogic, SPACs represented 26 percent of the 73 initial public offerings so far this year, and 15 percent of the money raised on public markets. That is a big jump from 2005, when they represented 13 percent of I.P.O.’s in the United States and 5 percent of dollars raised.

For media firms, the surge in these businesses is a reversal from the conventional thinking that more media companies will go private. Indeed, one way to think of SPACs is as the inverse of private equity — a form of instant public equity.

Shareholder approval for any acquisition is just one of the investor safeguards built into blank check issues. Another is that 80 percent of the money raised must be spent on a single deal. Unlike private equity firms, SPACs draws no fees for holding the money, and none of the founders are paid a salary. If the company does not find a shareholder-approved deal within two years, it will be liquidated and the founders will lose their investment and get no compensation.

Several involved with recent SPAC issues said that what appealed to them was that it is typically much quicker to raise money through a blank check issue than to put together a private equity fund. SPACs have had a checkered past, and many executives were wary at first when they heard about the concept.

Mr. Granath was approached last year to form one by a former leader of Accenture’s media consulting practice, who is now president of the venture. “At this late stage of my career, I didn’t want to get involved in something that had any danger of being viewed as shaky,” he said.

But after studying them, Mr. Granath said he liked the shareholder protections built into SPACs. Mr. Granath said European broadcasting firms, an area of his expertise, would be one focus. The Hearst Corporation is a large investor, and Lazard was an underwriter.

Mr. Bogart is being joined in his SPAC, Churchill Ventures, by Itzhak Fisher, the former chief executive of RSL Communications, the European broadcasting business built by the investor Ronald S. Lauder. Mr. Fisher, who is Churchill's chairman, is also the chairman and founder of Nielsen BuzzMetrics, now a subsidiary of the Nielsen Company; among Churchill's advisers is Thomas G. Baxter, a former president of Time Warner Cable and Comcast.

Mr. Bogart, Mr. Fisher and their partners initially invested $5 million of their own money, which will mean a 23 percent stake in the business after it makes an acquisition.

Mr. Fisher said he has done many private equity deals but has found the SPAC structure to be more entrepreneurial. "The difference here is we had a lot of meetings that we had to educate the investors about the vehicle," he added. "It was challenging in that aspect — to raise money on your track record without having a company to show them."

John C. Coffee, a professor at Columbia Law School, said that even though they are gaining legitimacy, he "would still be suspicious of blank check companies." However, he added, "If these people come out of a particular industry, that gives investors some background to predict future performance on."

The directors of Mr. McCourt's company, Granahan McCourt, include the former C.I.A. chief George J. Tenet and Roger L. Werner Jr., a former chief executive of ESPN.

In January, a company called Information Services Group, led by former senior executives from VNU — which was renamed the Nielsen Company — raised $258 million in an underwriting led by Deutsche Bank Securities, Lazard Capital Markets and Morgan Joseph. It was the third-largest blank check offering so far.

Michael P. Connors, the company's chairman and chief executive, said some sellers are wary of what private equity — which typically owns a business for a few years — will do to their companies. By contrast, Mr. Connors pitches his firm as an "entrance strategy" for starting a multibillion-dollar information company rather than focusing on an "exit strategy" as private equity buyers might.

"It's probably not a fad," said William B. Buchanan Jr., the chief executive of Lazard Capital Markets. "The only question is: how large can the market get?"

One answer to that question lies in how the companies succeed at transforming into operating companies. Only a few SPACs have already identified or consummated deals. One, Courtside Acquisition Corporation, is in the process of obtaining shareholder approval to spend $165 million to buy American Community Newspapers.

The company raised around $80 million in the summer of 2005 before setting out to find something to buy. Its board members include Dennis Liebowitz, a former media analyst and now a hedge fund investor.

According to Mr. Liebowitz, Courtside settled on the newspaper company after looking "at a whole slew of things — anything you could imagine in the whole media, entertainment and telecom business."

Not every blank check company has met with instant success. For instance, Global Technology, led by Michael P. Schulhof, a former chief executive of Sony Corporation of America, went to market last year to raise $80 million to buy industrial companies. But the deal has not yet gone forward. A spokeswoman for Mr. Schulhof said he declined to say whether the offering was still in the works or had been pulled.