

Haynes and Boone's Capital Markets Practice Group Represents Upstream and Midstream Company in SPAC Transaction

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Alta Mesa Holdings, LP (“Holdings”), initially formed in 1987, operated as a privately held limited partnership with publicly held debt and oil and gas assets located primarily in the STACK play in Oklahoma. In 2015, an affiliate of Holdings, as an anchor producer, and certain other investors formed a limited liability company, Kingfisher Midstream, LLC (“Kingfisher”) to gather, process and market production in the STACK play via state-of-the-art infrastructure and systems meant to return higher yields than the older midstream assets in the area.

Counterparty

Silver Run Acquisition Corporation II (“SRII”), which was formed in November 2016 by an affiliate of Riverstone Holdings, a private equity firm, with Jim Hackett, former Anadarko Petroleum Corporation chief executive officer and a partner of Riverstone, as chief executive officer. SRII, a blank check company with no assets, was structured as a SPAC (a special purpose acquisition company) with the purpose of acquiring oil and gas assets through a business combination. In March 2017, SRII raised over \$1.0 billion from its initial public offering and private placement of warrants with its common stock and public warrants traded on the Nasdaq Capital Market.

Transaction Overview

Holdings’ primary sources of capital were investments from private equity partners, bank debt, public debt issuances and cash flows from operations. In 2016, Holdings, in search of substantial capital to finance its expanding operations, initiated a traditional initial public offering and filed a confidential Form S-1 Registration Statement under the JOBS Act with the Securities and Exchange Commission (the “SEC”). However, by the time the SEC completed its review of the Form S-1 Registration Statement, the IPO market was no longer favorable for exploration and production companies.

Seeking other alternatives, Holdings and Kingfisher began discussions regarding a business combination with SRII. In August 2017, Holdings, Kingfisher and SRII entered into definitive agreements to combine the entities using an “Up-C” structure in a business combination valued at approximately \$3.8 billion. In February 2018, the business combination was completed as the first pure-play STACK upstream and midstream public company. SRII was renamed Alta Mesa Resources, Inc. (“Alta Mesa Resources”), with Holdings and Kingfisher becoming operating subsidiaries of SRII Opco, LP (“SRII Opco”), a subsidiary of the publicly traded Alta Mesa Resources.

At the closing, the pre-SPAC owners of Holdings and Kingfisher received units in SRII Opco and shares of non-trading common stock of Alta Mesa Resources that only has voting rights. The SRII

Opco units and voting-only common stock of Alta Mesa Resources can together be exchanged for shares of publicly traded common stock of Alta Mesa Resources. Additionally, for seven years from the closing, the pre-SPAC owners can receive up to \$1 billion in earn-out consideration if certain stock performance criteria are met. The management of Holdings became the management of Alta Mesa Resources at the closing of the business combination with Mr. Hackett remaining on as the Executive Chairman of the board of directors.

What Is a SPAC?

A SPAC is a publicly traded, shell company formed for the purpose of raising capital through an initial public offering to facilitate a future, unidentified business combination with an existing operating company, generally within a two-year window. To facilitate a successful business combination and ensure the post-acquisition success of the SPAC, founders of recent SPACs have included individuals with industry expertise, experience and solid reputations.

When a SPAC goes public, the investor funds are immediately put into escrow until a viable acquisition candidate is identified and approved by the shareholders. If an acquisition is not completed within the specified time period or does not receive the requisite shareholder vote, then the SPAC is dissolved and the money held in escrow is returned to investors.

In addition, when a business combination is presented, the SPAC shareholders may redeem their shares for their pro rata portion of cash in the escrow account regardless of whether they voted for or against the business combination. If a significant portion of the SPAC shares are redeemed, the SPAC may not be left with enough cash to complete the business combination. To ensure that the SPAC has the available capital to close a proposed acquisition, certain SPAC investors may agree to backstop shareholder redemptions. With respect to the Alta Mesa Resources transaction, shareholder redemptions amounted to less than \$100,000.

Once an acquisition candidate is identified, because the SPAC is already public, the business combination can generally be completed faster than an IPO. In addition, the offer price is subject to negotiation rather than being completely dependent on the markets, so the acquisition candidate can effectively set its own "IPO" price.

Energy SPAC Trends

Since the energy downturn in 2014, capital resources have been more expensive and difficult to obtain, especially for companies without a proven track record. Historically, exploration and production companies have looked to the equity and debt markets to access and raise capital to fund development. However, due to market and economic factors, the window of time to access the capital markets can quickly close, as has been the case for exploration and production initial public offerings in recent years. As a result, SPACs have gained popularity as an alternative means for energy companies to access and raise large amounts of capital.

What Is an Up-C Structure?

In addition to the SPAC structure, the Alta Mesa Resources transaction involved utilization of an Up-C structure. In the Up-C structure, a publicly traded company ("Pubco") is set up as a holding company that owns an equity interest in an operating limited liability company or partnership (the "Opco"). The assets and operating business are held at or below the Opco.

The public shareholders are issued Class A common shares of Pubco, while the historic investors in the operating company are issued Class C common shares of Pubco (representing voting interests in Pubco, but not economic interests) and equity interests in the Opco (representing economic interests). The Class C common shares and Opco interests are together exchangeable for Class A common shares of Pubco.

This structure is attractive to historic Opco owners because it provides many of the tax benefits of a pass through entity. The historic owners may also receive payments pursuant to a tax receivable agreement as the public company uses the tax attributes that were transferred to Pubco. In addition, this allows Pubco to pay for the tax attributes when they are used rather than at the time of the IPO or business combination.

Key Takeaways

- Energy SPAC transactions have gained popularity as an alternative means to access and raise capital resources and provide liquidity to private equity investors in a distressed energy market.
- The Alta Mesa Resources transaction represents the growing trend to utilize the benefits of SPACs and Up-C structures to access and raise capital while continuing to provide certain tax benefits to historic investors.
- A company looking to go public can in essence set its own “IPO” price when it utilizes a SPAC structure.