SPAC Overview

Special purpose acquisition companies, or "SPACs," are publicly traded companies created as vehicles to take private companies public. A SPAC offers securities for cash and the offering proceeds are used to acquire one or more private operating companies.

The SPAC generally has a limited amount of time following the IPO—usually two years—to identify acquisition targets. SPACs are referred to as "blank check companies" because their investors give management discretion to identify and acquire the private companies. Typically, investors can redeem their shares for the purchase price once the target company is identified. Alternatively, the investors become owners of the newly merged company.

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VEGA ECONOMICS

LOOKING FORWARD: SPAC LITIGATION

2021

GET IN TOUCH WITH US

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VEGA ECONOMICS

Vega's research team remains on the forefront of litigation trends and proactively strategizes how economic analysis can effectively strengthen our clients' positions.

SPAC shareholder lawsuits are often filed soon after mergers between SPACs and their target companies (often called "de-SPAC transactions") are announced.

These lawsuits, which can take the form of either individual shareholder suits or class actions, typically seek both money damages for actions of the SPAC sponsors as well as injunctive relief to prevent the culmination of the transaction.

The market has tightened as SPACs have grown in popularity. There are currently hundreds of SPACs seeking acquisitions. Even before this tightening, SPACs have been criticized for misaligning sponsor and investor incentives. At Vega, we are closely monitoring market developments as sponsors come under more pressure to locate and secure deals.

SPAC VALUATION IN LITIGATION

SECURITIES

In return for capital, investors can own units comprising a share of common stock and a warrant to purchase more stock at a later date. A warrant may be exercisable for a fraction of a share or a full share of stock. For example, if a price per unit in the IPO is $100, the warrant may be exercisable at $115 per share. Typically, warrants become exercisable either 30 days after the de-SPAC transaction or twelve months after the SPAC IPO. An expert must carefully consider the specific terms of the warrants and can assist in valuation using a combination of traditional and advanced tools.

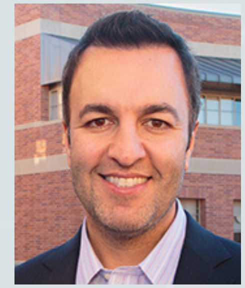
TARGET COMPANIES & COMPLEX ASSETS

After the SPAC has raised the required capital through an IPO, a target company must be identified and the acquisition completed within a specified period, usually 18 to 24 months. The fair market value of the target company must be 80% or more of the SPAC's trust assets. Investors rely on SPAC sponsors to conduct due diligence of the target companies including their valuations. Experts can value the target company as well as its complex assets using sound economics and statistical tools, including DCF models, comparable methodologies, option pricing, and other advanced techniques.

FEATURED EXPERTS

Paul Habibi, Continuing Lecturer of Finance and Real Estate at UCLA Anderson Graduate School of Management and Lecturer in Law at UCLA School of Law.

Professor Habibi has experience in SPACs and warrants/options in both his professional and academic roles. He has also been retained as an expert in litigation related to option pricing.



Thomas Lys, Eric L. Kohler Professor Emeritus at the Kellogg School of Management, Northwestern University.

Dr. Lys has served as the valuation expert in numerous cases including special purpose vehicles and warrants/options. He has extensive M&A experience regarding going public through acquisitions.

Gordon Klein, Lecturer in Accounting at UCLA Anderson School of Management.

Professor Klein has testified on numerous occasions on options valuation, start-up valuation, and related issues. He is currently retained by the SEC on a high-profile matter regarding options elements.