Special Purpose Acquisition Company

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Contents

Introduction

On the heels of a record-breaking year in 2020, special purpose acquisition company (SPAC) initial public offerings (IPOs) set a new record in January 2021 by raising nearly $26 billion in proceeds in a single month. Through the continued success of SPAC transactions, many private operating companies have been merging with SPACs to raise capital rather than using traditional IPO or other financing activities.

A SPAC is a corporation established for the sole purpose of issuing investment capital through an initial public offering (IPO). Such a business structure permits investors to provide money towards a fund, which is then used to acquire one or more uncertain businesses to be recognized after the IPO.

When the SPAC raises the required funds through an IPO, the money is held in a trust until a deliberated period elapses or the desired acquisition is made. If the planned acquisition is not made or legal formalities are still pending, the SPAC must return the funds to the investors after deducting bank and broker fees.

After a SPAC IPO, the SPAC's management looks to acquire a target within the period specified in its regulatory documents (e.g., 24 months). In many cases, the SPAC and target may need to protect additional financing from easing the transaction. For example, they may examine funding through private investment in public equity (PIPE), usually close simultaneously with the transaction's consummation. If an acquisition cannot be finished within the essential time frame, the cash issued by the SPAC in the IPO must be returned to the investors, and the SPAC is diffused (unless the SPAC extends its timeline through a proxy process)

Before completing an acquisition, SPACs hold no material assets other than cash; therefore, they are non-operating public "shell companies," as defined by the SEC's Financial Reporting Manual (FRM)). Since a SPAC does not have large operations before an acquisition has been completed, the target becomes the predecessor of the SPAC upon the close of the transaction, and the functions of the target become those of a public company. As a result, the target must meet all the public-company reporting requirements that apply to the combined company. Many of the conditions discussed in this publication are related to the fact that the target is examined the predecessor to an SEC registrant.

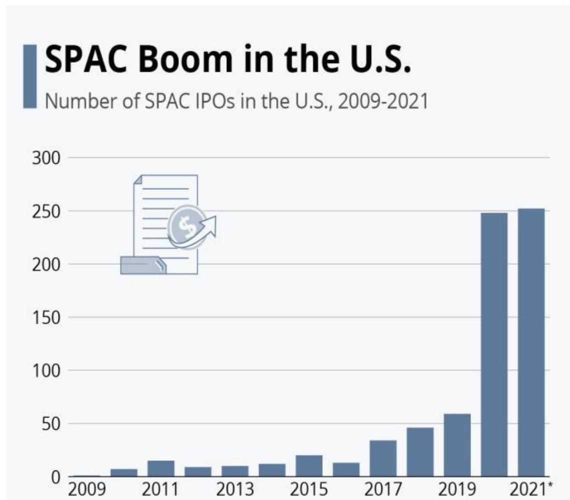
Since a SPAC's shareholders are essential to vote on the transaction, the SPAC may file either (1) a proxy statement on Schedule 14A or (2) a combined proxy and registration statement on Form S-4 (note that (1) and (2) are simultaneously referred to herein as a "proxy/registration statement"). These documents must include the target's financial statements, which are awaited to observe with public-company GAAP disclosure requirements as well as SEC rules and requirements. For annual periods, the financial statements are expected to be audited under PCAOB standards.

Once the SPAC's shareholders accept the transaction, the acquisition will close, and the integrated company has four business days to file a special Form 8-K ("Super 8-K") that comprises all the information that would have been essential if the target were filing an initial registration statement on Form 10. Accordingly, the SPAC and the target should ensure that the acquisition is not closed until all the financial information required for the Super 8-K, including financial statements that observe with the SEC's age requirements, is accessible and audited under the standards of the PCAOB.

The financial statement obligations and related SEC review process for a SPAC transaction are mainly compatible with the requirements for a traditional IPO. At the 2020 AICPA Conference on Current SEC and PCAOB Developments, staff of the SEC's Division of Corporation Finance famed the significant increase in the number of proceeds raised in SPAC IPOs in recent months as well as the increased recognition given to such transactions from various market participants. Craig Olinger, the senior consultant to the Division chief accountant, expressed that the SEC staff's review process for both the IPO registration statement of a SPAC and its subsequent merger proxy and registration statement is compatible with the review process a traditional IPO.

When organizing for SPAC transactions, entities should take care of the following unique requirements:

- The SEC's draft registration review process may be accessible for SPAC transactions in definite conditions and only for the initial accession.
- The SPAC and the target must work through the accounting for the transaction to regulate (1) whether the SPAC or the target is the acquirer for accounting purposes and then (2) whether the essence of the transaction is an acquisition or recapitalization.
- Pro forma financial information must be introduced to consider the accounting for the transaction.
- The SEC review process for a SPAC is as detailed and diligent as that for a traditional IPO after the SEC has finalized its review of a SPAC's a proxy/registration statement, there is usually a period (e.g., 20 days) during which SPAC shareholders decide whether to accept the transaction. Separately, investors must also determine if they wish to participate in the combined company or redeem their shares in the SPAC.
- Moreover to the SEC obligations considered below, the target's management may have other reporting requirements related to its assist of the transaction, such as assisting in the marketing of PIPE financing and obtaining additional funding for the transaction.



History of SPACs

SPACs have existed for years; they have rounded in and out of favour with investors. In the 1980s and '90s, SPACs were criticized by some, occasionally drawing comparisons to fraudulent shell companies. In the early 2000s, SPACs became famous again for a short period, which ended around the financial crisis in 2008.

Today, following an evolution, SPACs are generally viewed as more legitimate from structural and reputational standpoints. Regulations around SPACs transferred over time to become more investor-friendly, and sponsors adjusted the terms to become more aligned with investors instead of getting rich quickly at the expense of investors as before.

SPACs increasing alliance with high-calibre institutions and people is another factor that

that led to a rebranding of the financial vehicle. Companies like Virgin Galactic and DraftKings, which went public through SPACs, have raised the profile of SPACs, earlier associated with small-cap affairs.

Because investors are buying blindly into an operating company that is yet to be determined, they make their investment based on the composition of the sponsor team and whether the sponsor team can source a compelling deal, and then actively manage the future operating company. The better the reputation and track record of the sponsors, the more confidence the investors have in the SPAC offering — and the bigger amount of capital raised to fund more mature companies.

Also, investors view sponsors' experience and knowledge as a selling point to attract hot-ticket companies that are fundraising and looking for strategic partners to help with post-IPO strategy.

Key Changes to SPAC Structure Post Crisis

	Old	New	Effect
Sponsor Promote* ***Profits received in excess of invested capital***	20% at close of business combination	20% at close of business combination (portions of capital are "locked –up" until stock price hurdles are met). Promote in shares and not units; at risk investment in warrant stocks out of the money	Improves alignment of interests with public equity investors, and reduces sponsor dilution.
Warrants	Priced at deep discounts	Priced out of the money (OTM) and expires 5 years after closing of business combination	Reduces speed of warrant dilution and increases option value (convexity) of warrant.
Acquisition timeframe	Up to 30 months + potential for extensions	18-24 months	Provides sponsors with ample time to close a business combination without damaging investor internal rates of return.
Acquisition approval process	70% shareholder vote required	Simple majority	Approval predicted on meeting the minimum cash threshold (agreed upon with the target company). This allows investors to vote "yes" for the deal, but still redeem their shares. Competitors cannot practice greenmail and form voting blocks.
Proceeds held in trust	96% to 100%	100%	Reduces downside risk for investors and expands universe of potential targets.

Rise of SPACs

SPAC issuance in 2020 has burst all previous records. More than $83 billion were increased across 248 SPACs in 2020, in contrast to $13.6 billion raised through 59 deals in 2019 and more than 6.1x increase in dollars and 4.2 x increases in the number of sales. The average SPAC in 2020 was also much more extensive than its 2019 counterpart — $334 million versus $230.5 million. In 2021, the SPAC boom has shown no sign of slowing down; in contrast, new ones are born daily, with 170 blank-check companies having increased $53 billion in the U.S. already in 2021.

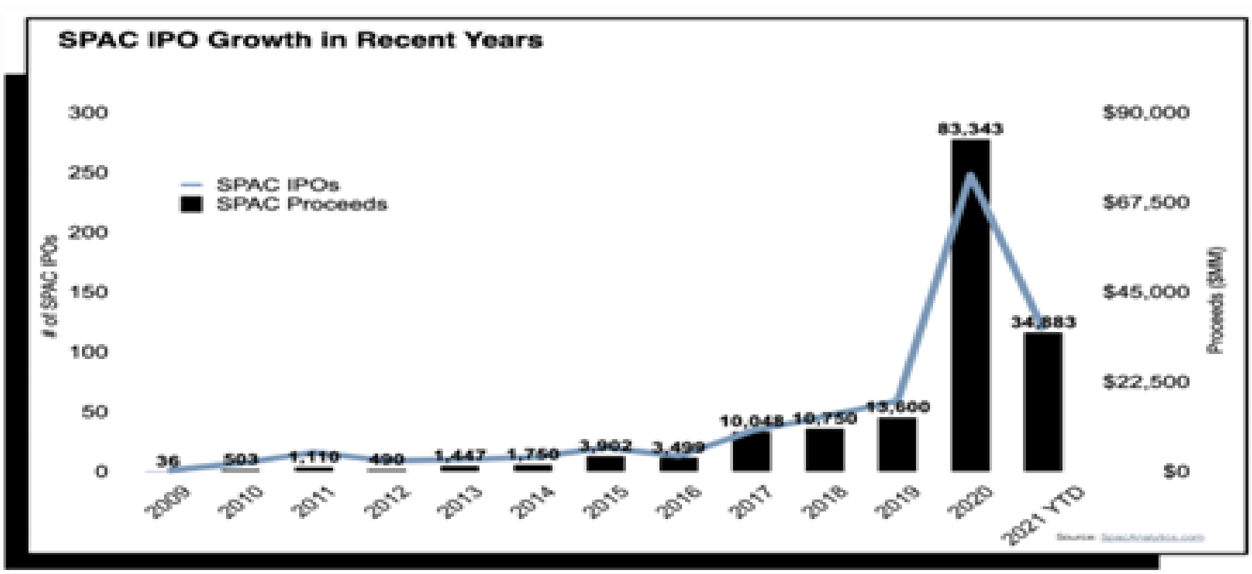
To give an outlook on how big the SPAC market has become, we look at its market shares. Before 2020, SPAC never surpassed traditional IPO and capital increased by SPACs never made up more than 20% of the total IPO proceeds.

The 248 SPAC IPOs in 2020 account for 55% of the total IPOs and 46% of the total IPO proceeds. These records exhibit that SPAC has entered the normal and is anticipated to continue to affect merger and acquisition vigorous, bridge the gap between private and public equity, and enlarge the opportunity for public equity-intended investors.

Macro factors have granted to the surge in the vogue of SPACs in 2020. The last time SPACs constitute such a large percentage of U.S. IPOs was during the other most volatile period in the markets. This relationship might explain the record level of SPAC issuance in 2020 as the global economy has continued to work through the economic impacts of the COVID-19 pandemic, the U.S. presidential election, and other factors.

2020 will constantly be known as the year that conducts us both a global pandemic and a historic presidential election. But through those headlines, it has also been the year of an active initial public offering (IPO) market through investment channels known as "SPACs." The term refers to a "special purpose acquisition company," and it has become a favoured way for a company to go public. Periodically mentioned as a "blank check" company, a SPAC is generated with capital from its initial investors, undertake an IPO to raise additional capital, and obtains a private company target that becomes a public company (or a subsidiary of one).

SPACs offer special and comprehensive arrangements of benefits, which differ depending on the party involved. On the back of the extraordinary inconsistency of the equity markets, those advantages plunged the SPAC into the frame and allowed it to fascinate more private companies, more sponsors, and more investors to join the game, thus releasing a financial product that had otherwise been very much in the background.



Key SPAC Terms

SPACs connect on areas of finance that may be close—including stocks, IPOs, mergers and acquisitions, and venture capitalism. But some aspects (and terminology) are unique to SPACs, including:

- Shell company
  SPACs don't have any active work functioning, making them what's called a shell company.
- Sponsor
  SPACs are usually established by a group of investors known as sponsors. These individuals frequently have a background or strong interest in a particular industry.
- IPO price
  SPACs are usually charged to have an IPO at about $10 a share.

- Warrant
  As a part of the IPO process, a SPAC frequently merges shares of common stock with a warrant, permitting the holder to buy more stock at a fixed price later.

- Escrow
  A majority of the money elevated during the IPO is held in escrow, meaning a third party has it for safekeeping and typically invests it in government bonds.

- Acquisition target
  This is the company that SPAC's sponsors seek to acquire and bring public.

- Deadline
  SPACs typically must complete an acquisition within an 18 to 24-month timeframe or dissolve and return the assets in escrow to investors.

- Announcement date
  When the SPAC sponsors recognize an acquisition target, they make a formal statement to the public.

- Proxy vote
  Once an acquisition is determined, a proxy vote is held for SPAC shareholders to vote in favour or against the acquisition. More than 70% must vote in favour to accept the deal. They can also decide to terminate their shares at this time.

- PIPE
  After the target is determined, the SPAC may bring in additional equity investors known as Private Investment in Public Equity (PIPE), especially if it requires more money to close a deal.

Benefits of rising SPAC companies

- Variance in timelines
  While going public in the domestic market, the timeline can span between 4 months to a year. SPAC companies are said to put the control to these timelines varying from 4-6 months. Further, in traditional IPOS and mergers, there are certain covenants in the contract and venture of unions restricting anything not in line with the usual course of business. This range is not yet seen in SPAC companies and allows a level of added freedom.

- Wider Access to Markets
  In the event of a traditional IPO, the company would have been recorded on the local exchange market; however, in terms of SPAC, it is listed on the U.S. exchange market, thus giving it a stronger footing to invite investments.

- Documentation
  The critical factors to consider, especially for early-stage start-ups as documents and disclosure, are additional costs. This cost is minimised or not decreased entirely in SPAC companies as the disclosure requirements are limited compared to the challenging vetting process in general IPOS.

- Reduced market risk
  The valuation of the business to be obtained is decided and debated with the sponsor/main investor and not with the financing institutions. It leads to validity in pricing instead of recurring variations in the market value.

- Tax
  Certain tax liabilities are deemed pearly areas in domestic settings and increase the load of the stakeholders. To reduce such liabilities and acquire international capital and take upon the sake of special tax-related analysis for their business. For example, for Flipkart, to assist benefits of such a tax ecosystem is registered in Singapore. Further expanding tech-based companies like Cure fit also availed this by writing in overseas jurisdictions.

Detrimental side of rising SPAC companies

- Blind investment
  Significant shareholders of such a type of transaction are walking in a blind investment outline, as the risk is decreased but not nil. The sponsor who deliberated to start the SPAC Company may recognize that they cannot convey and the funds will still stay put for the period of two years, whereas these funds could be used elsewhere.

- Liquidation limitation
  The SPAC may have finite trading liquidity for some period while it attempts to find companies to obtain.

- The shell notion grey area
  SPAC companies presently are tagged as the substitute for shell companies. This contrast is not very well taken in many international markets. There is always a sense of intuition involved in this type of companies. Companies in the tech industry may not want to deal with this because there are multiple regulatory matters like GDPR, sharing of data, data protection, and adding onto this will increase the companies' liability.

SPACs Lifecycle

SPACs are a means for companies to make the vault from privately held to publicly traded in a less complicated way than an initial public offering (IPO), according to Peter McNally, global sector lead at Third Bridge, a research firm.

The traditional procedure of going public could take years, in some cases, and finding the right timing can be tricky; SPACs are giving management and boards of companies more options for quicker and more efficient ways to go public.

Going public by complying to be purchased by a SPAC reduces the red tape and costs associated with a traditional IPO. The latter involves banks that approve the deal, roadshows for potential investors, and high financial statements. Everyday investors are often left out of an IPO since share allocations are usually reserved for high-net-worth, and high-earning investors called authorization investors.

Average investors are doubtful to have access to the hottest IPO, at least until the company goes public and stock prices blast off. "But they do have to retrieve to a 'blank check' [SPAC] company as soon as it goes public," before its acquired private company. The buying shares of a SPAC before it makes any accession can provide systematic investors with a way to share in the excessive growth many associates with IPOs. You need to understand that you won't exactly know what the SPAC intend to buy until it announces an acquisition target.

SPACs' general orders of operations are:

- Founders
  A special purpose acquisition company is formed by experienced business executives who are confident that their reputation and experience will help them identify a profitable company to acquire. Since the SPAC is only a shell company, the founders become the selling point when sourcing funds from investors.

  The founders provide the company's starting capital and benefit from a sizeable stake in the provided company. The founders often hold an interest in a specified industry when starting a unique purpose acquisition company.

- SPAC Formation
  A group of sponsors forms a SPAC, often well-known investors, private equity firms or venture capitalists.

- SPAC IPO
  SPACs go through the typical IPO process. The sponsors don't publicly recognize companies they observe for an acquisition to avoid a more complex process with the Securities and Exchange Commission (SEC). The SPAC is allocated a ticker symbol, and most of the money infused by shareholders is a clasp in escrow.

  When raising the IPO, the management teams of the SPAC agreement and investment bank to operate the IPO. The investment bank and the management team of the company concur on a fee to be charged for the service, typically about 10% of the IPO proceeds. The securities sold during an IPO are offered at a unit price, which constitute one or more shares of common stock.

  The prospectus of the SPAC mainly distinct on the sponsors and more minor on company history and revenues since the SPAC lacks execution history or revenue reports. All progress from the IPO is held in a trust account until a private company is recognized as an acquisition target.

- Acquisition search
  SPACs usually have two years to search for a private company to merge or acquire, conducting it public in the process as it becomes part of the publicly traded SPAC. This timeline may be straightforward to meet as sponsors may previously have a particular company or industry in mind at the outset. However, if a SPAC hasn't merged with a company within two years, money is reinstated to shareholders. It imaginarily makes SPACs less risky than traditional IPOs—if an acquisition doesn't materialize, you get your money back. Traditional IPOs, on the other hand, allow you publicly traded stock that offers no guarantee of a return of investment.

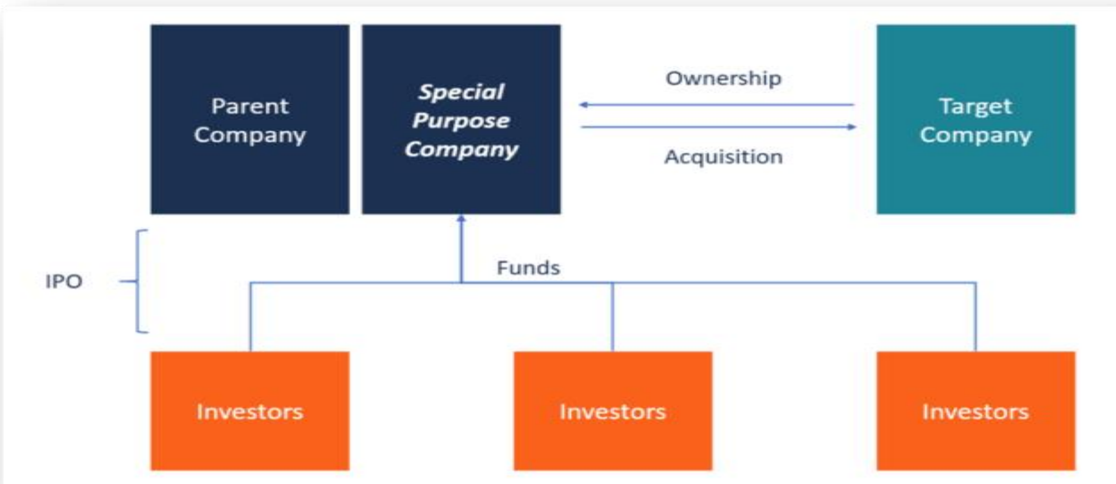
- Finalizing the acquisition
  When a SPAC's sponsors identify an acquisition company, they formally declare it, and a majority of shareholders must accept the deal. The SPAC may need to upraise additional money (often by providing more shares) to acquire the company. Once that's all finalized, the target company is listed on the stock exchange.

- Acquiring a target company
  After the SPAC has issued the essential capital through an IPO, the management team has 18 to 24 months to recognize a target and complete the acquisition. The period may vary turn on the company and

industry. The fair market value of the target company must be 80% or more of the SPAC's trust assets.

Once obtained, the founders will profit from their stick in the new company, usually 20% of the common stock, while the investors accept an equity interest according to their capital contribution.

If the predetermined period lapses before an acquisition are completed, the SPAC is terminated, and the IPO proceeds held in the trust account are reinstate to the investors. When managing the SPAC, the management team cannot collect salaries until the deal is completed.



SPACs Capital structure

- Public units

A SPAC stream an IPO to raise the required capital to finish an acquisition of a private company. The capital is sourced from retail and institutional investors, and 100% of the money raised in the IPO is held in a trust account. In return for the capital, investors get to own units, with each team embracing a share of common stock and a warrant to purchase more stock later.

The purchase price per unit of the securities is usually $10.00. After the IPO, the teams become separable into shares of common stock and warrants, which can be traded in the public market. The purpose of the warranty is to provide investors with additional compensation for investing in the SPAC.

- Founder shares

The founders of the SPAC will acquire founder shares at the arrival of the SPAC registration and pay nominal consideration for the number of shares those results in a 20% ownership stake in the outstanding shares after the execution of the IPO. The claims are intended to compensate the management team, which cannot receive any salary or commission from the company until an acquisition transaction is completed.

- Warrants

The units sold to the public contain a fraction of a warrant, which permits the investors to purchase a whole share of common stock. Depending on the bank providing the IPO and the size of the SPAC, one warrant may be a duty for a fraction of a claim (either half, one-third or two-thirds) or a total share of stock.

For example, if a price per unit in the IPO is $10, the warrant may be applied at $11.50 per share. The contracts become exercisable either 30 days after the De-SPAC transaction or twelve months after the SPAC IPO.

The public warrants are cash payments, meaning that the investor must pay the total cost of the contract in cash to receive a full share of stock. On the other hand, Founder warrants may be net settled, meaning that they are not required to deliver some money to receive a total share of stock. Instead, they are issued shares of stock with a fair market value equal to the contrast between the stock trading price and the permit strike price.

Provisions of SPAC transactions

When managing a SPAC transaction, the target should access the following:

- Creation of the SPAC

A sponsor creates a holding company and acquires founder shares and founder warrants for a nominal consideration. This promotion is usually subject to a one-year lock-up agreement. The founder assembles a team and funds operating expenses leading up to the IPO.

- Assembling for the SPAC IPO (T-8 weeks – T)

As a shell company, SPAC IPOs have no historical financial results to revelation or assets to describe; the IPO process can therefore be completed much more quickly than for traditional operating companies (as quickly as eight weeks).

- SPAC IPO (time T)

SPAC investors buy units in the SPAC, each consisting of a common share and a fraction of a warrant—at $10.00 a team. SPACs increasingly employ Forward Purchase Agreements (FPAs) at the time of the IPO to obligate the SPAC sponsor or a third party investor to make the necessary PIPE investment the De-SPAC (T2). At the IPO time, the underwriters also typically receive 2%of gross IPO proceeds (in contrast to the typical 5%-7% of gross IPO proceeds for traditional IPOs).

- Separating of units (T+45 days)

Forty-five days after the IPO, investors in the SPAC obtaining the option to separate their units and to trade their common shares and permit independently.

- Target search, selection and conciliation (T – T+24 months)

The SPAC has24 months to find and merge with a suitable target, though this may be extended by a general shareholder vote. Once an appropriate target has been selected, the SPAC board enters into negotiations with the target for a merger deal: key points of negotiation include estimated of the target and minimum cash conditions (including whether a PIPE will be executed in the event of a high redemption rate). The SPAC's operating costs during this time is financed by the sponsor's pre-IPO and IPO investments.

- Target statement (T – T+24 months)

Once an agreement has been extended with the selected target, SPAC shareholders vote on the advanced target: a simple majority of shareholders is essential for the target to be accepted. Once approved, SPAC shareholders have the option to justify their shares for a pro-rata share of the cash in the trust account

($10.00 plus interest acquired from treasury bonds). Usually, well over half of SPAC shares are redeemed.

- De-SPAC (time T2)

The SPAC merges with the target. Prevailing SPAC shareholders (i.e. those shareholders who did not rescue their shares) acquire shares in the target. PIPE investors (frequently including the initial sponsor) provide the necessary cash injection to meet the minimum cash requirement in the merger agreement; this funding is provided at the merger's closing, even if the deal is concluded earlier. At this point, another 3.5% of gross IPO earnings are deposited in the trust account for the underwriters. Those SPACs which assure investors additional warrants for not redeeming their shares before the merger also concern these warrants at the time of De-SPAC.

- Super 8-K filing (T2 +4 days)

Throughout 4 days of the De-SPAC, the SPAC is compelled to file a special 8-K form (known as a "Super 8-K") since the SPAC wind up to be a shell company. The Super 8-K essential the SPAC file information including, but not limited to: the identity of the persons obtaining control; the date and description of merger; the percentage of voting securities now owned by persons receiving control; and amount of consideration paid by those gaining control.

- Warrant exertion (T2+30 days, T+12 months)

30 days after the merger (T2) and12 months after the SPAC IPO (T) (increasing requirements), warrant-holders have the option to exercise their warrants to purchase common shares in the SPAC at a strike price of $11.50.

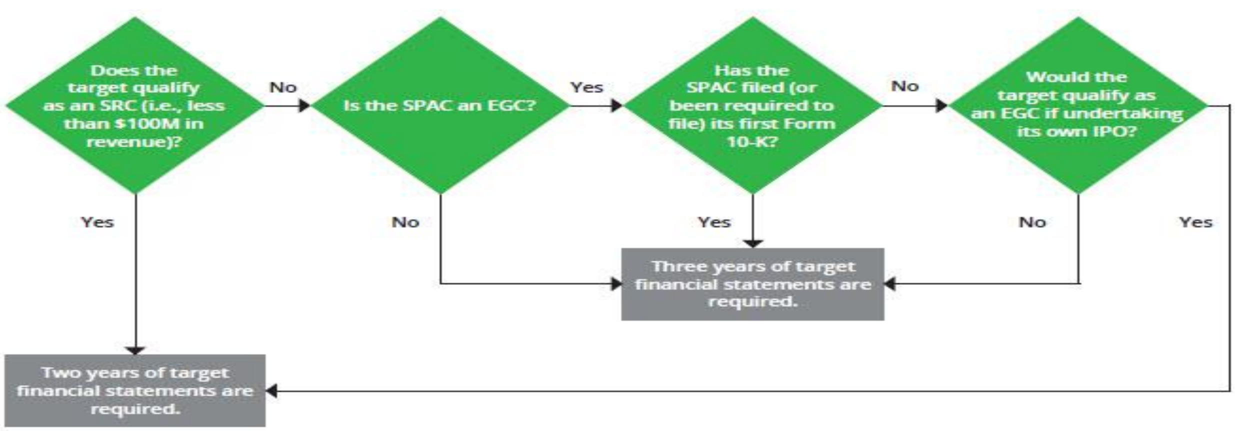
- Warrant expiration (T2+5 years)

Warrants expire five years after the De-SPAC are provided worthless; the original warranties can no longer dilute the target company stock.

The below figure of the SPAC capital structure and the timeline of a typical public offering via a SPAC have provided a helpful perception into this murky territory. In the upcoming second installment of 'SPAC to basics', the arbitrage moment hinted at in the present installment will be disburdened in more detail. This will involve an in-depth look at the shareholder redemption rights at the time of the merger announcement, as well as an examination of who support the costs for the risk-free returns offered to initial investors.

SEC filing requirements

An entity can normally await the SEC staff to complete its primary review of a proxy/registration statement and enhance the first set of comments within 30 calendar days. The system would then respond to each of the SEC's remarks, reflect requested edits, and include any other important updates in an amended proxy/registration statement that the SEC would also review. After the initial filing,



the SEC's review time can vary notably but typically is within two weeks. An entity can encounter several rounds of comment letters with follow-up questions on responses to original comments and additional comments on new information included in the amended registration statement.

Some of the SEC observations may focus on:

- Additional financing (e.g., PIPE financing) is required to complete the transaction, whether the price and terms of the financing differ from those of the SPAC's IPO and the smash of any conversion features.
- Material factors the SPAC considered in chasing the transaction and the alternative options it evaluated.
- Any dispute of interest that the SPAC's sponsors, directors, or officers may have, including detailed information about how they will benefit from the transaction and returns they may realize on their direct investments.
- The percentage ownership that the SPAC's sponsors, directors, or officers will hold in the merged company, including warrants and changeable instruments.
- The amount of compensation that underwriters will collect as a result of the transaction and whether such remuneration constitutes a payment from the SPAC IPO or compensation for other services provided.

- Accessibility of non-public review

In a traditional IPO, companies may propose draft registration statements to the SEC for non-public review. The ability to file non publicly is a significant benefit because it allows companies to respond to SEC comments and update their draft registration statements while evaluating market conditions throughout the IPO process. As a result, companies can delay or withdraw the IPO, if desired, without public scrutiny. As described below, a non-public review of an initial draft registration statement may be available for SPAC transactions in limited circumstances.

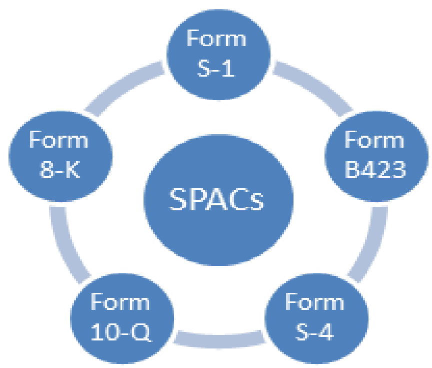
The SEC staff may concur to review an initial draft Form S-4 for a SPAC transaction if it is accepted within 12 months of the SPAC's IPO. Non-public reviews are generally not available for proxy statements that are not combined with a Form S-4. The draft registration statement in a non-public review must contain the following:

- A signed audit report from the company's independent indicated public accounting firm.
- Must meet all line item requirements applicable to the registration statement unless the company is using specific permitted accommodations for omitting.

- Super 8-K requirements

The Super 8-K must be classified no later than four business days after the close of a transaction. The 71-day extension usually available for an acquired business does not apply to SPAC transactions. The Super 8-K must report the execution of the transaction, the change in the control of the SPAC, if applicable, the difference in the SPAC's shell company status, and a change in the fiscal year-end, if applicable. Because the target's auditor usually becomes the auditor of the combined entity after the transaction, the Super 8-K may narrate a change in the certifying accountant. Besides, the Super 8-K must include all the information that would be essential if the target was filing an opening registration statement on Form 10.

The form and content of the financial information essential in a Super 8-K are mainly consistent with the information provided in a proxy/registration statement. However, certain revelation must be modernized to reflect information as of the Super 8-K filing date. For example, if material, the pro forma financial information normally needs to be updated to reflect the actual results of the transaction and any related financing, rather than the minimum and maximum outline that may have been presented. Further, entities should estimate the number of annual periods and the age of the financial statements included in the Super 8-K because more present financial information may be required.



In addition, to avoid a lapse in the target's financial statement periods after a transaction, the merged company may need to amend its Super 8-K to provide modernized financial statements of the target. For example, suppose the transaction closes soon after the target's fiscal quarter or year-end. In that case, the Super 8-K generally will not include the target's financial statements for the most recently completed period. In such a case, the integrated company will need to amend its Super 8-K to provide the recently concluded interim period.

The due date of the alteration depends on the reporting requirements of the SPAC. For example, if the SPAC is a non-accelerated filer, the Form 8-K alteration would be due within 45 days of the end of a quarter and 90 days of the end of a fiscal year.

- Ongoing reporting requirements

After a transaction, the recorded financial statements of the target become those of the registrant. Therefore, the target's historical financial statements will return those of the SPAC, beginning with filing the financial information that first includes the transaction. For example, if the transaction closed on March 15, 2020, the financial statements for the interim period ended March 31, 2020, will first include the transaction. Therefore, the financial opinions on March 31, 2020, Form 10-Q and all future filings illustrate those of the target and no longer the SPAC. Suppose the SPAC is determined to be the accounting acquirer.

The combined company is essential to file Forms 10-K and 10-Q under specific deadlines that depend on the combined company's filing status:

Filer	SEC Form 10-K	SEC Form 10-Q
Large accelerated filer	60 days after end of fiscal year	40 days after the end of fiscal quarter
Accelerated filer	75 days after end of fiscal year	40 days after the end of fiscal quarter
Nonaccelerated filer	90 days after end of fiscal year	45 days after the end of fiscal quarter

The combined company may file a new or modified registration statement after the transaction closes. For a reverse recapitalization, if the combined company files a new or amended registration statement after the filing of the first regular report that considers the transaction but before the filing of the first annual report considering the transaction, it must consider whether the historical annual financial statements need to be sequently revised to reflect the recapitalization. Also, suppose a combined company that is not an SRC file a new or revised registration statement after the close of the transaction and reports a material recollective change. In that case, it may need to reveal selected quarterly financial data for the affected quarters within (1) the two most recent fiscal years and (2) any upcoming interim periods for which financial statements are presented. The combined company will usually be required to use long-form registration statements (i.e., Form S-1) rather than short-form statements (i.e., Form S-3) for a year after the agreement.

In addition, as a public company, the merged company is also required to file current reports on Form 8-K that reveals various material events that may occur. Unless conversely specified in the Form 8-K instructions, such events must generally be announced within four business days after they occur.

Management should consider the controls and procedures to identify these events and report them promptly. It is recommended that an entity consults with legal advisers regarding the Form 8-K reporting requirements.

Economics of SPACs deals

SPAC deals are enticing to companies because of faster time to market, minor revelation and regulation, and less “money left on the table”. Per JPMorgan Research (“Eye on the Market”, Michael Cembalest, 2/1/21), which analyzed 85 completed SPAC deals and 5 SPAC liquidations, these deals are also desirable to SPAC Sponsors, with extremely high returns. Other investors have had, on average, positive returns, but less than the IPO index or the Russell 2000. In all cases, there was a wide dispersion between the most and least successful deals.

- Sponsors

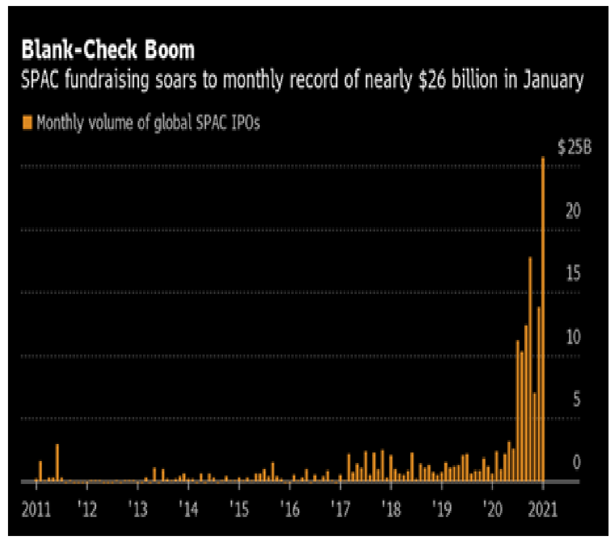
Sponsors usually receive 20% of the IPO shares for a proper amount, against which they have the expenses of the IPO, including underwriting fees of circa 2.5%. They may have to pay “concessions” to PIPE investors to sanction the deal to close. The estimated median return was 418%, assuming 25% concessions.

- IPO investors

IPO typically receive shares plus warrants. The estimated median return was 45% if shares redeemed pre-merger closing and 8% if held more than 180 days post-merger (deals “seasoning period” after which merger insiders and IPO Sponsors are permitted to sell their shares).

- Pipe investors

Pipe investors receive shares plus “concessions” from the sponsor. The estimated median return, including concessions, was 41% if shares redeemed pre-merger closing and 13% if held more than 180 days post-merger.



Implications: Will the SPAC Boom turn to Bust?

To some observer, the flood of SPAC issues is a sign of speculative market excess, related to the dot com boom (and bust) of the late 1990s, where uncertain companies were brought to market at maximum estimation.

To others, SPAC allocation is now a major permanent factor in the IPO market, providing issuers with faster completion of deals, greater extensibility in financing structures, and greater certainty of issue proceeds. Initial and PIPE investors get access to Private Equity and

Venture Capital deal flow, with principal protection and an equity upside. What is clear is that there is a significant deviation of incentives between deal sponsors and end investors. Sponsors stand to make money in almost all deal consequences, with massive upside in the most successful deals. People used to say that hedge funds are a compensation scheme impersonate as an asset class. One could say the same about SPACs." Post-acquisition SPAC returns have trailed far behind both traditional IPOs and the broader market.

Likewise, PIPE investors can earn a positive return in almost all deal outcomes, plus substantial upside in the most successful deals, with the option to redeem their shares plus interest.

Some market participants see the potential for significant market disruption, as happened in the dot com saga. Others point to the variance between funds pursue merger deals and the supply of quality merger candidates. With the large and increasing number of SPACS yet declared or closed mergers, and as deals get closer to the two-year deadline, there will be pressure to do a coalition at any price rather than return money to investors.

Companies going public through SPACs

A company might select to go public through a SPAC versus an IPO because the process can be accomplished more quickly, with fewer related costs and substantial financial disclosure requirements than an outright IPO.

The two-year timeframe for SPACs, for instance, gives sponsors an incentive to find an acquisition target and finalize a deal. IPOs, on the other hand, may keep smaller companies private longer as they sift through the describing requirements and courtship process.

A company may also opt for a SPAC over an IPO to democratize the stock purchasing process. Since SPACs themselves are public companies primarily from the beginning, anyone can, by extension, invest in the private companies they'll acquire at a relatively low price of about $10 a share.

In a traditional IPO, though, "your ability to get an allocation on IPO shares is just really hard," McNally notes. Legendary investor Warren Buffett, for example, may get special allocations of IPOs coming to market, says Jablonski, but that leaves the average investor at a disadvantage as they contend with the masses when companies first start trading on exchanges.

The share prices of new IPO companies often jump substantially above the initial listed price, even in the first few minutes or hours of public trading. By the time the average investor can snag a share, the price may be excessively higher than was advertised. But prices don't tend to stay that high—at least in the short term—and everyday investors might end up buying high at a price that won't be complement again for a long time, if ever.

Even if prices pursue to rise, everyday investors end up notice their investment grow less percentage-wise than investors who got a head start through special allocations.

SPACs permit all investors to invest in them from the get-go, this helps level the playing field and help everyone interest from stock growth similarly, even if you aren't sure quite what you're buying when you start.

Traditional IPO vs SPAC

Believe it or not, but the IPO technically dates to 1602. Considering then, companies have been trying to find more accessible, faster ways to do it.

The tried-and-true path. If a company chooses the traditional IPO process, it will begin a 6-12 month path of working with investment banks and underwriters, the risk scrutiniser, to pitch future investors. There will be many meetings, late-night S-1 Registration Statement drafting parties, and something called an "IPO Roadshow" where the management team travels to meet with capable investors and market the company.

A SPAC is launched before it even realizes what it wants to do with its life. It's a shell company that pools money until it sees the next big thing it wants to spend it on. SPACs made up ~28% of U.S. deal making in the first quarter of 2021. They have become increasingly desired because they help companies go public a lot quicker (a few weeks to months). A SPAC typically has a time limit of about two years to acquire a target company before dissolving and giving back all the cash to investors.

SPACs might feel like a hot new vogue, but they aren't new. A SPAC is always a reverse merger, but a reverse merger isn't always a SPAC. A reverse merger is when a private company merges with any public company; it doesn't have to be a shell company and goes public in the process. Reverse mergers were widespread in the '80s for pretty much the same reason SPACs are popular right now. Still, the SEC broken down in 2011 when it provided a fraud warning about reverse mergers and suspended trading for more than 800 companies.

There are different ways to take your company public:

- Direct listings

  In a direct listing, the company bypasses investment banks that buy up many initial shares and decide its opening price. Without that steadiness guarantee, direct listings can lead to a more explosive opening, but for some companies, like Slack, it's worth it to keep their hard-earned money out of bankers' hands.

  Coinbase, the crypto exchange, used a direct listing to go public Wednesday. "It's exactly in the spirit of ethos and crypto," Coinbase President and COO Emile Choi told Axios Wednesday morning, meaning it bound over an approach traditionally used in finance.

- Dutch auctions

  The whimsically named process gained a lot of recognition when Google used it to go public in 2004. In a Dutch auction, the company decides the number of shares, but not how much they will cost. Instead, the prospect decides. Dutch auctions never really took off after Google, but their hybrids come back every once in a while.

Upcoming SPACs

Here are 10 of the most headline-seizing SPACs that either recently announced acquisition targets or may soon:

SPAC Name	Ticker Symbol	Market Capitalisation (as of 5/15/2021)	Target Acquisition
Churchill Capital Corp IV	CCIV	$4.6 billion	Lucid Motors
Pershing Square Tontine Holdings	PSTH	$4.9 billion	Not yet announced
Foley Trasimene Acquisition Corp II	BFT	$23.7 billion	Paysafe
Social capital Hedosophia holdings V	IPOE	$1.4 billion	SoFi
Star Peak Energy Transition Corp	STPK	$1.2 billion	Stem
CC Neurberger Principal Holdings II	PRPB	$1.0 billion	Not yet announced
G.S. Acquisition Holdings Corp II	GSAH	$954 billion	Not yet announced
AJAX I	AJAX	$886 billion	Not yet announced
Social Capital Hedosophia Holdings IV	IPOD	$583 million	Not yet announced
V.G. Acquisition Corp	VGAC	$631 million	23andme

SPACs companies in India and U.S.

India

Shell companies have a negative concept attached to them. They are often termed as uncertain cover companies for undesirable activities. Provisions of the Company Act under Section 248 are formed to restrict any company that does undertake business operations in one year and provides the registrar authority to strike off any such company. The MCA also has

a charge force on shell companies from 2017 onwards. It specifies that such SPAC companies cannot find the approval of the MCA and the business industry in the current settings. Any individuals and companies interested in undertaking and emerging a SPAC company may cooperate with companies based in an ecosystem where such companies are acceptable.

Further, any merger or acquisition in India is bounce by important sections (232-240) of the Companies Act, 2013. If a foreign party is involved, then the pertinent sections of the (FEMA) Foreign Exchange Management Act, 1999, Foreign Exchange Management (Cross Border Merger) Regulations, 2018 (“Merger Regulations”), may claim here. The final approval for a merger regime depends on the support of the National Company Law Tribunal.

USA

Rules are designed so that SPACs can escape falling under the ambit of blank cheque companies, a concept similar to shell companies in India.

This is visible under Rule 419 under the Securities Act of 1933, which states that a blank-check company is to deposit all receipts and securities issued in the company's IPO into an escrow account, and there is an interdicting from transferring or trading the securities until after completion of the said business combination.

As SPACS handle in a mode where they keep in the money in the trust account, they fall under this clause partly; however, the next section lays down that to be examined as a blank cheque company, the issuer is impelled to issue a "penny stock," as defined in Rule 3a 51-1 under the Securities Exchange Act of 1934.

As per the prohibitions of this definition, any security of an issuer in operation for less than three years and has at least $5 million in net tangible assets is to be rejected from being a penny stock. Since SPAC companies usually have a time limit of 2 years, they fall well under this prohibited and to claim this exclusion; they have to file a Form 8-K with an audited balance sheet with the SEC which shall also exhibit relevant IPO compliance.

The USA has an ecosystem that welcomes SPAC companies and has provided for permitting them to thrive in the domain of their choice.

This ecosystem is vigorously considered while entrepreneurs are choosing structures and markets for their business. A vital example of this is that the famous Yatra.com, a famous travel website, was known to be obtained by Terrapin 3 Acquisition Corp (TRTL), a NASDAQ-listed SPAC. This company was listed on the NASDAQ in 2014, and Deutsche Bank was the underwriter in this specific transaction and more lately, Grofers, a household name today, is considering a similar type of arrangement.

The examples of such deals and presentations are slowly increasing as they provide a range of chances otherwise not possible when companies are restricted to domestic markets only. Let's look at some potential benefits, deterrents and opportunities for Indian technology industry-based companies in the SPAC market.

Investing in SPACs

Investors can invest in SPACs either by determining individual securities or by investing in a SPAC ETF.

Determining individual SPACs allows investors to focus on the opportunities that seem most encouraging while also having some downside security due to the structure of SPACs.

Because SPAC IPO receipts are invested in government bonds until a merger is closed, shareholders have the chance to exit the SPAC either through rejection or by selling shares in the secondary market.

Consequently, SPACs are unlikely to fall below the IPO price until after a merger is closed.

Investors that engaged in the SPAC IPO receive both common stock and a warrant. A strategy often chased by hedge funds is to sell the SPAC after the IPO and keep the warranty that could increase in value if the SPAC stock approaches or outstrip the strike price at which the warrant could be exercised for common stock shares of the SPAC.

Example- A person initiated a SPAC investing experiment on December 31, 2020, based on Jenkinson and Sousa's work, opened an account at Robinhood and purchased 60 SPACs trading near their IPO price of $10 per share. Then sell each SPAC holding after the acquisition is announced and roll the receipts into a new SPAC.

From December 31, 2020, through February 10, 2021, the SPAC experiment account has taken back close to 9%. During that period, six SPACs declared acquisitions and were sold from my portfolio. The standard holding period gains for those SPACs was 36%.

Regulatory amendments and future of SPACs

As discussed, some of the present laws and regulation are harmful to the development of SPACs in India. Some of these are obsolete and need to be redesigned with a fresh look at the Indian economy. Shell companies need to be defined, and observations about these being primarily money-laundering vehicle need to be altered. A special committee needs to be initiated to study the impact of SPACs in other countries, especially towards invigorating their start-up industry. SPACs are different from companies that undergo average IPOs; we need specifically targeted laws for them. The Companies Act should have a separate chapter covering the incorporation of a SPAC and concession and governance exposure related to its management, board and shareholders. Once it finishes acquisition, a SPAC can govern under the standard provisions. Similarly, separate conditions are required under all the relevant laws and listing requirements. Income Tax law can also include SPACs under the exemptions and deductions currently accessible only for Start-Ups, V.C.s and angel investors.

India Inc. is at a cusp of a change. McKinsey has sized India's capital market at roughly $140bn. As per its research paper, it has found that deeper capital markets can help liberate $100 billion of fresh funding every year that would rapidly assist the industry growth. It is time for transformers to take a new look at SPACs and help unlock the potential for immense value from these structures.

Conclusion

In 2020, several prominent investors and media personalities launched SPACs or were considering doing so. For instance, former NBA basketball legend Shaquille O'Neal, along with three former Disney executives and one of Martin Luther King Jr.'s sons, plan to initiate a SPAC that targets technology and media companies.

Other prominent figures who have plans to conduct SPACs or are already doing so are former U.S. House of Representatives Speaker Paul Ryan and Oakland Athletics executive Billy Beane featured in the film and book Moneyball.

A successful SPAC acquisition can lead to a windfall for the SPAC sponsors because, as part of the IPO, they get to purchase up to 20% of the outstanding shares for a proper amount of money. Since the target businesses are almost always private companies, their historical financial statements generally comply with US GAAP requirements for non-public entities. But post-SPAC IPO, those historical financials must now comply with Regulation S-X and the US GAAP requirements for a public company. It must include the historical financial statements audited by an independent auditor under PCAOB auditing standards as per SEC rules.

248 SPACs raised $82B in 2020, contrasting to 225 SPACs and $47B in earnings in the 10-year period between 2010 – 2019. In 2021, in just 10 weeks, SPACs have nearly extinguished the stimulating amount raised in all of 2020. Even the SEC emerge concerned, as it seems to have escalated survey and sent letters to banks for further information on this SPAC boom.

SPAC investing has been less profitable for individual investors. Most SPACs underperform the stock market and finally fall below the IPO price. Given SPAC's poor track record, most investors should be cautious of investing in them unless they focus on pre-acquisition SPACs.

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