The SPAC Hack:
How SPACs Tilt the Playing Field and Enrich Wall Street Insiders

UNITED STATES SENATE

Prepared by the Office of Sen. Elizabeth Warren

May 2022

Contents

I. Executive Summary

Special Purpose Acquisition Companies, or "SPACs," are publicly traded blank-check companies "that raise money with the sole purpose of buying a company to take it public."[1] SPAC sponsors, including high-profile Wall Street bankers, raise capital by completing an Initial Public Offering (IPO) for a shell company, fundraising primarily from institutional investors, and discounting these purchases to raise large sums quickly. SPACs then have a set period, typically two years, to announce an acquisition target and complete a merger with a private company. This time pressure, combined with the almost-guaranteed profits for SPAC sponsors and leadership, has created a proliferation of low-quality deals and poor due diligence, often resulting in huge losses for retail investors.

One key problem with SPACs is that the investors who bankroll them do not necessarily have a stake in the long-term success of the companies they bring public. The misaligned incentives for SPAC sponsors, who are given a "promote," or 20% stake, in the public company following the merger with a private company, gives them an all-but-guaranteed profit, putting retail investors at increased risk and allowing companies with significant weaknesses to bypass the disclosures required of a traditional IPO.

The SPAC process has resulted in poor outcomes for companies taken public and their retail investors, but it has been a boon for Wall Street insiders. In 2021, nearly half of all companies with less than $10 million of annual revenue that went public through a SPAC "have failed or are expected to fail to meet the 2021 revenue or earnings targets they provided to investors."[2] These companies fell short on revenue projections by an average of 53%.[3] A study of 47 SPACs that went public between January 2019 and June 2020 found that median returns were a *negative* 14.5% three months after the SPAC's merger, with six- and twelve-month returns continuing to decline.[4]

Following reports of rampant self-dealing and fraud in the SPAC industry, Senator Warren opened an investigation into the structure of these companies and their impact on retail investors. In September 2021, Senators Warren, Brown, Van Hollen, and Smith wrote to six high-profile SPAC creators requesting information about their financial and personal involvement in SPACs,[5] consulted with outside experts, and wrote to the Securities and Exchange Commission (SEC) regarding a well-publicized allegation of securities law violations by Digital World Acquisition Corp., the SPAC planning to take ex-President Trump's digital media firm public.[6] This report presents the results of Senator Warren's SPAC investigation. It finds that:

- **SPAC Sponsors' Incentives and Outcomes Do Not Align with Retail Investors, Leading to Low-Quality Deals that Harm Investors.** The sponsor's "promote," a 20% share in the public company that sponsors pay a fraction of market value for, almost always guarantees a profit for sponsors, who frequently pay tens of thousands of dollars for nearly hundreds of million in stock. Since SPACs face time pressure to complete a merger – typically, money must be returned to investors and the SPAC must dissolve if a merger is not completed within two years – SPAC sponsors are incentivized to push low-quality deals to ensure they receive their promote. From 2019 to 2021, SPAC sponsors received average returns of 958 percent, even as companies taken public by SPACs consistently underperformed the market and retail investors took losses.

  In one example discussed in this report, the SPAC Churchill Capital III brought MultiPlan, Inc. public on October 9, 2020.[7] Michael Klein, the SPAC sponsor, received a promote consisting of 27.5 million shares in the new company, worth over $275 million at IPO, for just $25,000. Just one year later, on October 9, 2021, shares were worth $5.05,[8] resulting in a loss for retail investors who bought in at the IPO of almost 50%. However, the shares Mr. Klein purchased for $25,000 were worth over $138 million, a return of over 5,550 times what he paid.

- **SPAC Shortcuts Give Institutional Investors and Wall Street Insiders Profitmaking Opportunities that Dilute Shares for Retail Investors and Put Underlying Companies at Risk.** The so-called "SPAC mafia" of hedge funds, Wall Street insiders, and large financial institutions are provided with various "shortcuts" throughout the SPAC process that are inaccessible to retail investors. Institutional investors are given early access to information and discounted stock before retail investors can participate on the open market. In addition, these insiders are invited to participate in PIPEs, or private investment in public equity, that widen the information and access gap. PIPEs also provide a discounted rate after the stock has already been on the market, diluting existing stock and practically guaranteeing profits of up to 300% for the financial institutions that participate. Institutional investors are also given redemption rights that act as a "money-back guarantee" and further insulate them from any risk or long-term investment in the public company. These special favors for big investors dilute the value of retail investors' purchases while reducing the capital available to the companies after they are taken public.

- **Financial Institutions Profit Off SPACs Through Hidden Fees that Outstrip Those of a Traditional IPO.** Financial institutions have benefited from the SPAC boom by charging various hidden fees that outstrip those of a traditional IPO, including an underwriter fee, a PIPE placement agent fee, and a financial advisor fee. According to information provided by major SPAC backer Cantor Fitzgerald, in their role as underwriters, they received fees equal to 5.5-6.0% of the amount raised in the IPO, with a 2.0% underwriting fee at the closing of the IPO. In some cases, the company also received a capital markets advisory fee equal to 3.5% of the amount raised in the IPO and 5.5% of the over-allotment option. And in its role as a SPAC sponsor, Cantor Fitzgerald paid their financial backers a 3.0% PIPE placement fee and M&A advisory fees consisting of several million in dollars or shares.

- **SPACs Incentivize Inadequate and Even Fraudulent Disclosures.** Regulatory loopholes, lax requirements, and the misaligned incentives of the decision makers, have created an environment where SPACs are rife with disclosures that border on or cross into outright fraud. In effect, SPACs have created a shortcut for private businesses to go public without the disclosure requirements of a traditional IPO. And because the SPAC sector is oversaturated and sponsors are incentivized to make a deal regardless of quality, there have been multiple cases where companies used inflated information about their financials, their future business, or even their underlying technology.

- **SPACs Allow for Rampant Self-Dealing at the Expense of Retail Investors and the Health of the Market.** SPAC sponsors take advantage of the flaws in SPAC rules to benefit themselves in multiples steps of the process: paying advisory fees to companies they are associated with, participating in PIPEs and private investment rounds despite their clear insider knowledge, and even choosing their own companies as acquisition targets. For example, Michael Klein, the CEO of SPAC sponsor The Churchill Company, funneled more than $50 million from Churchill SPACs into consulting and advisory fees for his own company, The Klein Group – and then appointed his own family members and employees as board members of companies his SPACs were taking public.

- **Further Regulation and Federal Legislation is Needed to Protect Retail Investors and the Market from the Impact of SPACs.** The number of SPACs has drastically increased in the past three years, due in large part to bad actors taking advantage of the regulatory and legislative loopholes. In March 2022, the

Securities and Exchange Commission (SEC) proposed several new rules for SPACs that would increase disclosures and increase liability for SPAC sponsors and target acquisition companies.[9] These proposed regulations would, among other fixes, amend the definition of "blank check" companies to prevent SPACs from abusing the safe harbor provision of the Private Securities Litigation Reform Act of 1995, and expand the definition of an underwriter to any party that takes steps to "facilitate a SPAC target IPO or any related financing transaction."[10] These steps would bring SPACs closer to the requirements of a traditional IPO, and Congress can act to strengthen the SEC's actions by codifying increased disclosures and the proposed amended definitions into law.

Senator Warren's forthcoming SPAC Accountability Act of 2022 would build on the SEC's proposal by codifying these expanded definitions into law, amending the definition of "blank check" companies in the Private Securities Litigation Reform Act of 1995 and the Securities Act of 1933 and eliminating the reference to "penny stock" in the Securities Act of 1933. Senator Warren's legislation would also expand the definition of underwriter to include any party that facilitates, directly or indirectly, a de-SPAC transaction, increasing Section 11 liabilities for financial institutions, SPAC sponsors and boards, and the target company. The SPAC Accountability Act of 2022 would additionally require the lock-up period for SPAC sponsors to last until the company has projected bringing in revenue in forward-looking statements, preventing SPAC sponsors from cashing out on their promote before the merged company can produce any of the projected profits. Finally, this legislation would vastly increase the disclosures required for a de-SPAC transaction, giving investors more information about the financing, target companies, and potential conflicts of interest, evening the playing field for retail investors.

II. Introduction

Special Purpose Acquisition Companies, or "SPACs," are publicly traded blank-check companies "that raise money with the sole purpose of buying a company to take it public."[11] SPAC sponsors – which include Wall Street bankers, hedge funds, and other financial institutions – raise capital by completing an Initial Public Offering (IPO) for a shell company, fundraising primarily from institutional investors and discounting these purchases to raise large sums quickly. SPACs then have a set period, typically two years, to announce an acquisition target and complete a merger with a private company. This time pressure, combined with the inherent benefits for SPAC sponsors and SPAC leadership, has led to a proliferation of low-quality deals and poor due diligence, often resulting in huge losses for retail investors.

SPACs have drawn many comparisons to the blank-check companies of the 1980s, the "blind pools" that were best known as vehicles for "pump-and-dump" schemes.[12] However, modern-day SPACs are significantly larger and, by using loopholes in securities law, are able to avoid the strict regulations of both penny stocks and traditional IPOs.[13] The SPAC market has grown exponentially in its current form, creating what some observers have called a SPAC "frenzy."[14] In 2019, 59 SPACs raised more than $13 billion. By 2020, 248 SPACs raised more than $83 billion.[15] In 2021, there were 613 SPAC listings raising a total of $145 billion, an increase of 91% over 2020.[16]

As SPACs rose in popularity, they were touted as a way for retail investors, typically shut out of high-profile deals and IPOs, to invest in companies in "buzzy sectors" that "almost always go up."[17] In 2021, Bank of America reported that retail investors accounted for 40% of SPAC trading on its platform, compared with 21% of S&P 500 stocks and Russell 2000 stocks.[18]

SPACs also gave retail investors opportunities to invest in high-profile names, including celebrities in both the financial sector and pop culture. One retail investor described the "frenzy" to join a SPAC led by prominent Wall Street backer Bill Ackman, with another claiming there was a "mob mentality" to invest in it.[19] But these high-profile names can obscure the risks of investing in their companies. In 2021, the SEC issued a warning to retail investors on the dangers of "Celebrity Involvement with SPACs."[20]

The dangers for retail investors – and the profitmaking opportunities for SPAC sponsors – are built into the SPAC structure. Retail investors are routinely shut out of the most profitable opportunities during the SPAC process, including participation in PIPEs (private investment in a public equity), and face dilution of their stock from the sponsor's "promote."

Multiple studies found that institutional investors and SPAC sponsors received a disproportionate share of the profit from a SPAC merger while retail investors suffered. A 2020 study found that from 2019 to 2021, SPAC sponsors saw average returns of 958%, even as companies taken public by SPACs consistently underperformed the market.[21] A Renaissance Capital study found a median loss of 29% between 2015 and September 2020 for companies that went public through a SPAC's shares post-merger, while an analysis from the Financial Times found that the majority of SPAC companies traded below their initial IPO price of $10 a share.[22]

In September 2021, Senators Warren, Brown, Smith, and Van Hollen sent letters to six high-profile SPAC creators: Michael Klein of M. Klein Associates Inc., David Hamamoto of DiamondHead Holdings Corp., Stephen Girsky of VectoIQ, LLC., Tilman Fertitta of Fertitta Entertainment, Inc., Chamath Palihapitiya of Social+Capital Partnership, LLC., and Howard Lutnick of Cantor Fitzgerald.[23] These letters highlighted reports of rampant self-dealing and fraud in many of these SPACs. In response, six high-profile SPAC creators provided financial and logistical information on SPAC creation, bolstering Senator Warren's research into SPAC structures and incentives.

In November 2021, in response to a report that Digital World Acquisition Corp., the SPAC partnering with former President Donald Trump's new media venture had violated securities law,[24] Senator Warren sent a letter to Securities & Exchange Commission (SEC) Chair Gary Gensler.[25] Chair Gensler acknowledged many of the structural issues of SPACs in his response, writing that he shared the concern "about the potential for wrongdoing by bad actors in connection with SPAC transactions," and was taking steps to protect investors from misaligned incentives in the industry.

Using the information provided by SPAC creators, the SEC, and public disclosures, this investigation finds that the structure of SPACs routinely rewards serial SPAC creators and Wall Street backers while leaving retail investors at risk from SPACs' convoluted structure and incentives for dilution, fraud, and abuse.

III. Findings

1. Misaligned Incentives in the SPAC Structure

SPAC business models include myriad ways for SPAC sponsors and institutional investors to profit even when the initial SPAC investment goes bad. These misaligned incentives are a feature rather than a bug of SPACs, rewarding serial SPAC creators and the giant financial institutions that bankroll them even if the companies they take public flail.[26]

a. The SPAC Promote: SPAC Creators Are Guaranteed Profits Even When Mergers Are Not Profitable for Investors

When a SPAC sponsor consummates a public offering, they receive a reward, known as the "promote," which is "often around 20% of the shares [in the company] that the SPAC bought." [27] This promote is essentially a guaranteed profit for the SPAC creator, regardless of whether retail investors make money or lose money and regardless of how the new public company fares in the long run.

Sponsors pay a fraction of market value for these promotes, which are often made up of millions of Class A or B shares or warrants that can later be redeemed on the open market when the value of the SPAC has increased. The promote enriches SPAC sponsors but harms retail investors by flooding the SPAC's market value with stocks and warrants, diluting the remaining stock.[28]

These promotes can constitute millions of dollars in profits for the SPAC sponsor, regardless of the ultimate outcome of the investment. In response to the September 2021 letter, SPAC creator Chamath Palihapitiya disclosed pre-merger acquisitions of up to 17 million Class B shares for ten of the SPACs created by his company, Social Capital (Table 1). These acquisitions would have cost institutional investors between $34 million and $150 million, but they cost him between $13,678 and $20,836. Mr. Palihapitiya paid fractions of a penny for shares in the companies that were worth $10 at their IPO – meaning that even if these companies soon lost 99% of their value, he still would have earned an extraordinary return.

For example, one of Mr. Palihapitiya's SPACs, Social Capital Hedosophia Holdings Corp. III., brought Clover Health Investments Corp. public on January 8, 2021.[29] As a reward, Mr. Palihapitiya received a promote of 16.9 million Class B shares, at a cost of $20,386. When Clover Health went public, the IPO price was $10 per share[30] – meaning that Mr. Palihapitiya's investment was worth $169 million. A year later, stock in the company was just worth $3.16[31] – meaning that retail investors who bought in at the IPO lost over 65% of their value while Mr. Palihapitiya's $20,386 investment was still worth over $53 million, a return of over 2,600 times what he paid.

Table 1: Value of "Promote" for Chamath Palihapitiya in Various SPACs					
SPAC	**Acquisition Target**	**Ownership**	**Dollar Amount**	**Number/type of securities**	**Value of Equivalent Shares for Retail Investors at I.P.O.**
Social Capital Hedosophia Holdings Corp.	Virgin Galactic Holdings, Inc.	SC Funds	$16,667	10,500,000 Class B ordinary shares	$105,000,000[32]
Social Capital Hedosophia Holdings Corp. II	Opendoor Technologies, Inc.	Chamath Palihapitiya	$15,110	6,280,313 Class B ordinary shares	$62,803,130[33]
Social Capital Hedosophia Holdings Corp. III	Clover Health Investments, Corp.	Chamath Palihapitiya	$20,386	16,912,500 Class B ordinary shares	$169,125,000[34]
Social Capital Hedosophia Holdings Corp. IV	N/A	Chamath Palihapitiya	$18,429	8,550,000 Class B ordinary shares	$85,500,000[35]
Social Capital Hedosophia Holdings Corp. V	SoFi Technologies, Inc.	Chamath Palihapitiya	$18,650	14,943,750 Class B ordinary shares	$149,437,500[36]
Social Capital Hedosophia Holdings Corp. VI	N/A	Chamath Palihapitiya	$14,831	17,055,703 Class B ordinary Shares	$170,557,030[37]
Social Capital Suvretta Holdings Corp. I	N/A	Chamath Palihapitiya	$13,678	3,437,500 Class B ordinary shares	$34,375,000[38]
Social Capital Suvretta Holdings Corp. II	N/A	Chamath Palihapitiya	$13,678	3,437,500 Class B ordinary shares	$34,375,000[39]
Social Capital Suvretta Holdings Corp. III	N/A	Chamath Palihapitiya	$13,678	3,437,500 Class B ordinary shares	$34,375,000[40]
Social Capital Suvretta Holdings Corp. IV	N/A	Chamath Palihapitiya	$13,678	3,437,500 Class B ordinary shares	$34,375,000[41]

Similarly, Howard Lutnick's Cantor Fitzgerald disclosed promotes of over 5 million Class B shares in each of the seven SPACs it sponsored for just $25,000 each (Table 2), and serial SPAC creator Michael Klein's Churchill Capital disclosed promotes ranging from 17 million to 51 million shares for $25,000 (Table 3). Equivalent shares bought by retail investors at the SPAC's I.P.O. would range from $57 million to $517 million.

For example, Mr. Klein's SPAC Churchill Capital III brought MultiPlan, Inc. public on October 9, 2020.[42] Mr. Klein's promote consisted of 27,500,000 shares for just $25,000. When MultiPlan went public, shares at the IPO cost $10[43] – meaning Mr. Klein's investment was worth $275,500,000. Just one year later, on October 9, 2021, shares were worth $5.05, resulting in a nearly 50% loss for retail investors who bought in at the IPO. However, the promote Mr. Klein purchased for $25,000 were worth over $138 million, a return of over 5,550 times what he paid.

Table 2: Value of "Promote" for Howard Lutnick's Cantor Fitzgerald in Various SPACs					
SPAC	**Acquisition Target**	**Ownership**	**Dollar Amount**	**Number/type of securities**	**Value of Equivalent Shares for Retail Investors at I.P.O.**
CF Finance Acquisition Corp.	GCM Grosvenor, Inc.	CF Finance Holdings, LLC	$25,000	7,054,603 Class B shares	$70,546,030[44]
CF Finance Acquisition Corp. II	View, Inc.	CF Finance Holdings II, LLC	$25,000	12,470,000 Class B shares	$124,700,000[45]
CF Finance Acquisition Corp. III	AEye, Inc.	CF Finance Holdings III, LLC	$25,000	5,710,000 Class B shares	$57,100,000[46]
CF Finance Acquisition Corp. IV	N/A	CFAC Holdings IV, LLC	$25,000	12,466,250 Class B shares	$124,662,500[47]
CF Finance Acquisition Corp. V	Satellogic Inc.	CFAC Holdings V, LLC	$25,000	6,230,000 Class B shares	$62,300,000[48]
CF Finance Acquisition Corp VI	N/A	CFAC Holdings VI, LLC	$25,000	7,480,000 Class B shares	$74,800,000[49]
CF Finance Acquisition Corp VIII	N/A	CFAC Holdings VIII, LLC	$25,000	6,228,000 Class B shares	$62,280,000[50]

Table 3: Value of "Promote" for Michael Klein in Various SPACs					
SPAC	**Acquisition Target**	**Ownership**	**Dollar Amount**	**Number/type of securities**	**Value of Equivalent Shares for Retail Investors at I.P.O.**
Churchill Capital Corp	Clarivate plc	Michael Klein	$25,000	17,250,000	$172,500,000[51]
Churchill Capital Corp II	Skillsoft Corp.	Michael Klein	$25,000	17,250,000	$172,500,000[52]
Churchill Capital Corp III	MultiPlan Corporation	Michael Klein	$25,000	27,500,000	$275,000,000[53]
Churchill Capital Corp IV	Lucid Group, Inc.	Michael Klein	$25,000	51,750,000	$517,500,000[54]

These promotes mean that the sponsors "have no unique interest in a SPAC, because they have the option to redeem their investments, plus interest, for a modest but predictable return almost no matter what happens with the acquisition."[55] As long as SPACs find an acquisition target within the time specified, typically two years, the SPACs' success or failure is marginal to the sponsors' profit. This skewed system incentivizes sponsors to push merger agreements with weak or even fraudulent companies, regardless of their long-term viability.

In a widely-publicized failed SPAC merger, Tilman Fertitta entered into a merger agreement with FAST Acquisition Corp. to take his casino and restaurant company, Fertitta Entertainment Inc., public for a $6.6 billion valuation in February 2021.[56] In December, Fertitta's business agreed to pay $33 million to terminate the SPAC agreement,[57] and by January 2022, Fertitta was in talks to receive $250 million from his company.[58] Mr. Fertitta has sponsored four SPACs himself, raking in benefits even as mergers and companies fail. In one instance, Mr. Fertitta's SPAC Landcadia Holdings merged with the food delivery platform Waitr, which lost 96% of its market value in just one year after going public.[59]

However, despite the legal troubles of Waitr and the decline of the company following the SPAC, Landcadia Holdings Inc.'s sponsors stood to profit enormously. According to information provided by Mr. Fertitta, his compensation included the purchase of 3,125,000 shares of Class F common stock in the company for just $10,000, as well as a purchase of 7,000,000 warrants for an aggregate purchase price of $3,500,000 at the closing of the SPAC's IPO. Even with the extreme decline of Waitr's stock prices, Mr. Fertitta was practically guaranteed a profit given the low price paid for the sponsor's promote. Even as Waitr faces delisting from the Nasdaq due to its low stock price below $1, the promote Mr. Fertitta paid $10,000 for would still be worth over $1.5 million as of March 1, 2022.[60]

b. **Warrants, PIPEs, and Early Investments Sweeten the Deal for Insiders, While Leaving Retail Investors in the Cold**

The structure of SPACs gives hedge funds, Wall Street insiders, and large financial institutions opportunities to take a cut of the company at various points along the SPACs "circuitous route" to taking the company public.[61] Law Professor Michael Klausner described SPACs as "a pile of money that the banks can't resist" due to the low risk involved in investing in SPACs and the fees incurred at nearly every step of the SPAC process.[62] Banks and other institutional investors, including the SPAC founders themselves, participate in "private investment in public equity," or PIPEs, which further widens the information and access divide.

i. Redemption Rights

The process of bringing a SPAC to market inherently favors institutional investors and financial institutions – the so-called "SPAC mafia" [63] – over retail investors by providing them an opportunity to buy into the SPAC at its IPO, prior to its announcement of its acquisition target. Initial investors purchase units of a SPAC, a combination of a share typically priced at $10 and a warrant that entitles the holder to buy additional shares at a slightly higher price, often $11.50 a share.[64] In order to entice shareholders to buy into what is essentially a blank-check company, units sold at the SPAC's IPO include redemption rights that allow investors to redeem their shares for the original listing price, typically $10 per share, ahead of the business combination or after the merger has been consummated.[65] These units therefore come with a "money-back guarantee;" even if the SPAC loses value when the acquisition target is announced or once the merged company is trading on the open market, early investors are guaranteed to get their initial investment back, and if the merged company *is* doing well, initial investors can redeem their warrants for a bigger slice of the pie.[66]

Although redemption rights benefit institutional investors as a "money-back guarantee,"[67] the structure threatens the value of stocks held by retail investors and the company being acquired. In addition, since early investors including SPAC founders maintain the option to exercise their redemption rights, many institutional investors and even founders will invest in SPACs without any vested interest in the companies they acquire.[68]

If a large percentage of shareholders exercise their redemption rights, it can "drastically reduce the cash proceeds that the combined company will have available for its future operations," leading the SPAC to fail to meet its minimum cash condition and threatening the entire deal.[69] There have been several high-profile examples of high SPAC redemption rates in the past year. In February 2022, the merger between M3-Brigade Acquisition II Corp. and Syniverse was canceled after a high rate of redemption requests drove the SPAC below the minimum cash requirement for the merger.[70] The institutional investors redeeming their shares were guaranteed a profit, even as the company and the retail investors saw their deal fail.

Even SPACs that can obtain additional funding from other sources may be hit by high redemption rates. Buzzfeed News, one of the highest-profile companies to go public through a SPAC, saw "significant" redemption rates of 94.4%, leading the company to raise only $16 million instead of the $250 million it aimed to raise.[71] Virgin Orbit, which merged with NextGen Acquisition Corp. II, expected to raise $483 million during the SPAC process, but an 82.3% redemption rate led to the company losing $315 million of its original funds and ending the fundraising period with less than half of the originally anticipated total.[72]

The risks from redemptions are increasing as the overly saturated SPAC market continues to bring in capital and investment even as the number of solid acquisition targets dwindles.[73] From January to July 2021, the average monthly SPAC redemption rate ranged from 7% to 43%, jumping to 43% to 67% for the period between July and November.[74] Additionally, in more than a third of SPACs, over 90% of investors exercised their redemption rights.[75]

ii. Shortcuts for Institutional Investors: PIPEs

In addition to early access to the SPAC market, institutional investors are given a major opportunity to profit that retail investors are shut out from: the "PIPE," or "private investment in a public equity." SPACs offer PIPEs for several reasons, including filling any gaps in funding that the initial fundraising round did not achieve, and "validat[ing] the valuation" of the acquisition due to the additional information PIPE investors are privy to.[76] PIPEs give private investors an additional opportunity to buy stock and warrants directly from the SPAC after an acquisition target is announced, going around the public market to buy at a steeply discounted price. This final 'shortcut' gives insiders yet another inside track to buying into SPAC at a discounted rate, although they "often have no interest in actually owning the company being taken public," instead looking to quickly flip the shares.[77]

Retail investors, however, are shut out of this process. Although retail investors can purchase shares and warrants in a SPAC after its IPO, they would not be able to purchase shares at the same low costs as PIPE investors. The discounted shares offered to institutional investors prior to the IPO dilute the value of the shares retail investors can purchase and open up additional liabilities for the deal if too many early investors exercise their redemption rights by preventing the public company from having the funding it needs to operate successfully.

Insiders are given access to the PIPE after the public SPAC has announced an acquisition target, but prior to the close of the business combination. PIPE investors are provided with "material, non-public information" from the SPAC about the announced acquisition target, giving these institutions yet another advantage over retail investors.[78] Cantor Fitzgerald, which has underwritten over 100 SPACs and served as a sponsor for at least 7, disclosed in response to a September 2021 letter that the company "only accepts institutional investors in the PIPE process." The informational asymmetry Cantor Fitzgerald offers institutional investors was also shocking; a June 2021 report showed that Cantor Fitzgerald CEO Howard Lutnick told potential institutional investors that he would "slip information to stock analysts, let whispers spread through the market — and watch the money grow," all to the benefit of the institutional investors who had already received classified reports.[79] Former SEC chairman Harvey Pitt argued that the information asymmetry that allowed institutional investors in PIPEs to view material information before retail investors made existing shareholders "losers," and threatened the "perception about fairness of our capital markets."[80]

In addition, PIPE investors are guaranteed a discounted price that still allows them to sell their shares for full value on the open market, often without the lock-up period that sponsors and company leadership agree to. Digital World Acquisition Corp. (DWAC), which announced in October 2021 that it would merge with former President Donald Trump's social media organization Trump Media and Technology Group, recently announced a $1 billion PIPE that seemingly benefits all major institutional players while diluting the stock.[81] DWAC has been labeled a "meme stock" due to the lack of public information about the company or its business plan, and its PIPE plans to attract investors by selling shares at a 20% discount to the volume-weighted average closing price.[82] *Bloomberg*'s Matt Levine called the DWAC PIPE "free money" because investors could easily flip the shares on the open market, noting that "PIPE investors only have to put up their money if they can immediately turn around and resell their shares."[83]

PIPEs are widespread within the SPAC industry as a "critical" part of the SPAC structure.[84] In 2020, PIPEs generated $12.4 billion to help fund 46 SPAC mergers, including several PIPEs that surpassed $1 billion in size.[85] Information provided by Chamath Palihapitiya, a venture investor described as being "synonymous with SPACs," shows that PIPE investors can earn returns of more than 300%. Palihapitiya disclosed a $25 million investment in the PIPE for Fortress Value Acquisition Corp., netting 2.5 million shares in the company, only to sell 2.1 million of those shares for approximately $76 million. Palihapitiya also disclosed a $100,000,000 investment in the PIPE for Virgin Galactic, which merged with a SPAC sponsored by Palihapitiya and his company Social Capital,that he later sold for $310,000,000. Virgin Galactic stock has since lost 84% of value from its peak, underlining how retail investors can lose the majority of their investments even after players like Palihapitiya rake in returns of 300%. [86]

3. High SPAC Fees Increase Costs for Retail Investors

SPAC fees are frequently touted as a benefit of the SPAC model, because SPAC underwriters typically charge a 5.5-6.0% fee, rather than the 7.0% model used in most IPOs. [87] However, banks and other financial institutions backing SPACs charge fees that can quickly add up. Many SPAC backers receive not just the traditional underwriter fee, but a capital markets advisory fee, a PIPE placement agent fee, and a financial advisor fee. These "hidden costs,"[88] which include the sponsors' promote, bank fees, and PIPEs, give hedge funds and Wall Street insiders a "much sweeter deal" than retail investors.[89]

Investment banks earned as much as $15 billion from underwriting and advisory work with SPACs from January 2020 to May 2021, with major banks like Citigroup Inc., Goldman Sachs Group, and Credit Suisse Group AG taking the lion shares of the SPAC business.[90] Due to the hidden costs that benefit big banks and Wall Street insiders, retail investors face significant dilution of their shares post-merger. The costs, which are paid in large part by the companies following the business combination, are considerably higher than a traditional IPO; researchers found that for each SPAC share "purportedly worth $10, there is $6.67 in cash and $3.33 in dilution overhanging the merger."[91]

The potential benefits for investment banks also constitute another risk inherent in the SPAC structure: banks and other "gatekeepers" are incentivized to support SPACs and encourage mergers, even if it means downplaying risks or cutting corners on due diligence that would be conducted in a traditional IPO.[92] These risks are particularly high because, as discussed earlier, misaligned SPAC incentives increase the risk of weak or even fraudulent companies avoiding scrutiny during the IPO process.

Additionally, some SPACs use the financial institutions that sponsor them as underwriters or financial advisors, giving these companies an extra share of the profits and further incentivizing their interest in mergers independent of their value as good investments for retail investors. According to information provided by major SPAC backer Cantor Fitzgerald, in their role as underwriters, they received a fee equal to 5.5-6.0% of the amount raised in the IPO, with a 2.0% underwriting fee at the closing of the IPO. For Cantor-sponsored SPACs, the company also received a capital markets advisory fee equal to 3.5% of the amount raised in the IPO and 5.5%

of the over-allotment option. Several of their SPACs, including two whose value slid over the past year, paid their financial backers a 3.0% PIPE placement fee and M&A advisory fees consisting of several million in dollars or shares.

The result was millions in dollars of fees from each SPAC Cantor Fitzgerald sponsored in addition to their 20% sponsor's promotes, further diluting the value of the companies being taken public (Table 4).

Table 4: Examples of SPAC Fees Collected by Cantor Fitzgerald

Issuer Name	Role	Initial Underwriting Fee	Capital Markets Advisory Fee	PIPE Placement Agent Fee	M&A Advisory Fee
CF Finance Acquisition Corp.	Underwriter PIPE Placement Agent Financial Advisor Capital Markets Advisor	$5,000,000 paid at closing of IPO (2% of base offering)	$9,890,445 paid at closing of business combination (3.5% of base offering and over-allotment option)	$2,775,000 paid at closing of PIPE (1.5% of PIPE from third party investors - total fee of 3.0% split with co-placement agent JP Morgan Securities, LLC)	$5,000,000 paid at closing of business combination
CF Finance Acquisition Corp. II	Underwriter PIPE Placement Agent Financial Advisor Capital Markets Advisor	$10,000,000 paid at closing of IPO (2% of base offering)	$17,500,000 paid at closing of business combination (3.5% of base offering)	$4,200,000 paid at closing of PIPE (1.5% of PIPE from third party investors - total fee of 3.0% split with co-placement agent Goldman Sachs & Co.)	$7,500,000 paid by issuance of 750,000 Class A shares of View, Inc. at closing of business combination
CF Finance Acquisition Corp. III	Underwriter PIPE Placement Agent Financial Advisor Capital Markets Advisor	$4,000,000 paid at closing of IPO (2% of base offering)	$8,650,000 paid at closing of business combination (3.5% of base offering and 5.5% of overallotment option)	$6,750,000 paid at closing of PIPE (3.0% of PIPE)	$10,000,000 paid at closing of business combination
CF Acquisition Corp. IV	Underwriter Capital Markets Advisor	$9,000,000 paid at closing of IPO (2% of base offering)	$18,500,000 payable at closing of business combination (3.5% of base offering and 5.5% of over-allotment option)	N/A	N/A
CF Acquisition Corp. V	Underwriter PIPE Placement Agent Financial Advisor Capital Markets Advisor	$5,000,000 paid at closing of IPO (2% of base offering)	$8,750,000 payable at closing of business combination (3.5% of base offering)	$2,186,708 payable at closing of PIPE (4.0% of PIPE excluding certain investors)	$5,000,000 ($8,000,000 if minimum cash is at least $295 million) payable at closing of business combination
CF Acquisition Corp. VI	Underwriter Capital Markets Advisor	$6,000,000 paid at closing of IPO (2% of base offering)	$10,500,000 payable at closing of business combination (3.5% of base offering)	N/A	N/A
CF Acquisition Corp. VIII	Underwriter Capital Markets Advisor	$4,400,000 paid at closing of IPO (2% of base offering)	$9,350,000 payable at closing of business combination (3.5% of base offering and 5.5% of over-allotment option)	N/A	N/A

Cantor Fitzgerald's fees are even more egregious when contrasted with the success or failures of the companies after the IPO.

Cantor Fitzgerald took View, a company that creates "next-generation smart windows." public in March 2021 through its CF Finance Acquisition Corp. II[93] in an estimated $1.6 billion merger.[94] According to information provided by Cantor Fitzgerald, the company earned $31.7 million in fees and received 750,000 shares in the company for their roles as underwriter, PIPE placement agent, financial advisor, and capital markets advisor for the CF Finance Acquisition Corp. II IPO and merger with View. These fees far outpaced View's $23.4 million total revenue in 2019, and most of these fees were paid upon completion of the business combination, prior to any success or failure of the merged company.[95]

In March 2021, View's stock prices decreased 3% on its IPO debut to $8.92 a share,[96] and by January 2022, the stock had not risen above $10 a share for retail investors.[97] In an investor suit filed against the company, investors argued that the deal was "disastrous" for public investors, pointing to the benefits given to Cantor Fitzgerald insiders while retail investors saw their shares drop to below $2.50 per share.[98] The suit argued that the Cantor Fitzgerald board, characterized as "independent" in the approval process, was actually strongly incentivized to approve deals because they were "compensated with founder shares" that would profit "even in the event of value destruction."[99]

Similarly, Cantor Fitzgerald brought AEye, a company that provides LiDAR (Light Detection and Ranging) for transportation systems through a merger with CF Finance Acquisition Corp. in February 2021 with Aeye initially valued at $2 billion,[100] The company's stock value decreased by 64 percent in 2021 and was trading below $3.00 per share in February 2022,[101] a loss for retail investors of over 70%. But Cantor Fitzgerald did just fine: the company earned over $17.6 million in fees.

4. SPACs and Fraud: The SPAC Structure Incentivizes Inflated, Inadequate, and Even Fraudulent Disclosures

SPAC sponsors have had pervasive problems with inflated, inadequate, and even fraudulent disclosures, to the detriment of retail investors. When companies go public through a traditional IPO process, there are extensive public disclosure requirements. But SPACs appear, in whole or in part, to be contrivances designed to evade these requirements. One analyst argued that the SPAC "structure itself seems engineered to attract fraud" due to the lack of oversight in the SPAC industry, lax disclosure requirements, and the misaligned incentives of the decision makers.[102]

SPACs have long claimed to be protected under the safe harbor provision of the *1995 Private Securities Litigation Reform Act (PSLRA)*, which exempts them from the traditional IPO disclosure requirements, instead allowing them to make forward-looking statements without liability as long as the projections are "made in good faith."[103]

The time pressure on SPACs to find a company for a merger exacerbates the concerns, increasing the likelihood that SPACs will go after a company that can make strong projections without looking for any proof that it can live up to them. SPACs typically have just two years to identify an acquisition target and complete a merger, putting pressure on SPAC sponsors and boards to agree to a merger even if they lack reliable information on the target. SPAC boards are typically compensated in stock and made up of shareholders, making them little more than a "rubber stamp" for proposed mergers,[104] even if financial projections were "outside the realm of feasible outcomes." [105] The end result is that SPACs frequently conduct "faulty due diligence" due to their misaligned incentives, allowing companies' weaknesses that would be revealed in a traditional IPO to fly under the radar of the board and SPAC sponsor who are compensated regardless.[106]

This dynamic – SPAC sponsors and shareholders prioritizing completing a deal over finding strong and promising companies to take public, combined with weak disclosure requirements – has allowed SPACs to drastically overstate target companies' prospects. Many companies that go public through SPACs "attract investors with bullish financial projections, despite having little or no revenue in their history."[107] Retail investors again bear the brunt of these flaws in the SPAC model: a *Wall Street Journal* analysis found that companies with high-growth revenue projections that went public through SPACs were likely to be "overly optimistic and misleading to uninformed investors."[108]

One of the early high-profile SPAC "flops," Landcadia Holdings Inc., was backed by big names including billionaire restaurateur Tilman Fertitta and Jefferies Financial Group Inc. CEO Richard Handler.[109] Just two weeks before the SPACs deadline to announce a merger in 2018, Landcadia Holdings Inc. announced that food delivery service Waitr was its acquisition target, with unanimous approval from the boards of directors of both Landcadia and Waitr.[110] However, the Waitr model had significant weaknesses, and in 2019, the company lost 96% of its market value.[111] By 2021, Waitr had gone through multiple CEOs, layoffs of over 2,300 employees, and a lawsuit about their misclassification of delivery drivers.[112] The SPAC faced a class-action lawsuit from investors claiming that the SPAC sponsors, Fertitta and Handler, had misled shareholders about the risks inherent in Waitr's business plan.[113] Before going public the company claimed it could compete with food delivery giants Grubhub and DoorDash, statements it now calls "corporate optimism and puffery."[114]

Following "horrific returns tied to the real world," many SPAC sponsors are looking into highly speculative industries, including the "metaverse," space travel, and electric vehicles.[115] These industries are a natural fit for SPACs, which rely on the ability to make "bullish" projections – bordering on or fully falling into falsities – through the PSLRA safe harbor provision. SPACs in speculative industries include the 2019 merger between Chamath Palihapitiya's Social Capital Hedosophia SPAC and the billionaire Richard Branson's space travel company Virgin Galactic, which lost 84% in stock value from its peak after it couldn't live up to its "bullish long-term financial forecasts."[116] Virgin Galactic forecast $210 million in revenue by 2021 but ended up bringing in just $3 million and is not yet conducting flights.[117]

Another industry that is particularly illustrative of SPACs' misaligned incentives and potential for fraud is the electric vehicle industry. In 2020, nine electric vehicle companies with a combined annual revenue of $139 million went public through a SPAC. Combined, these companies projected annual revenue of $26 billion by 2024.[118] But by 2022, the stocks of four of these SPACs lost more than 90% from their peak, with at least five companies facing investigations by the SEC and three facing investigations from the Department of Justice.[119]

VectoIQ Holdings I, a SPAC run by former GM chairman Steve Girsky, was formed in 2018 and announced in 2020, close to the merger deadline, that its acquisition target was the electric car company Nikola.[120] Just months later, short-seller Hindenburg Research published a scathing review of the "intricate fraud" at the basis of this $20 billion public company – accusing Nikola founder and Executive Chairman Trevor Milton of "dozens of false statements," including whether its proprietary technology could even work.[121]

In 2020, Nikola lost $384.3 million, and by February 2022, Nikola's share price was down 90.3% from its June 2020 peak.[122] The company's founder, Trevor Milton, was indicted on federal charges in July 2021 after the U.S. Attorney's Office in Manhattan accused Milton of lying about "nearly all aspects of the business," and the company agreed to pay $125 million to settle allegations that it defrauded investors.[123]

Another company that used the safe harbor provision to defraud investors and the market was electric truck maker Lordstown Motors. In August 2020, the SPAC DiamondPeak Holdings Corp. took Lordstown Motors public in a highly anticipated public offering, with the company valued at $1.6 billion. [124] The merger included a $500 million PIPE with a $75 million investment by General Motors, giving the company a veneer of respectability and success.[125] When Lordstown Motors became public, the company had yet to deliver a single vehicle, but touted 100,000 pre-orders for their vehicles as a guarantee that it would soon become profitable.[126]

However, a March 2021 investigation revealed that the pre-orders were non-binding expressions of interest, a far cry from Lordstown CEO Steve Burns' claim that they were "very serious orders," and blurring the line between "forward-looking statements" and outright fraud.[127] In addition, employees revealed that the vehicles needed "drastic" design modifications and were 3-4 years away from production, undermining the company's claims that it could be producing vehicles within the calendar year.[128]

By July 2021, an internal investigation found that the company had "issues regarding the accuracy of certain statements" regarding the pre-orders, and Lordstown Motors' CEO and CFO stepped down.[129] The company disclosed in a June 2021 SEC filing that there was "substantial doubt" about its ability to continue operating due to problems in the vehicle and its low level of cash as investors fled.[130] In response to a September 2021 letter, DiamondPeak Holdings Corp. sponsor and Lordstown Motors Board of Directors member David Hamomoto disclosed that the company was facing six putative securities class action lawsuits asserting violations of the Securities Act of 1934, four related stockholder lawsuits, two subpoenas from the SEC, and a notification of an investigation by the U.S. Attorney's Office for the Southern District of New York.

5. Rampant Self-Dealing by SPAC Creators and Sponsors Hurts Retail Investors and The Market

Given the misaligned incentives and lack of oversight in the SPAC industry, it is unsurprising that SPAC creators and sponsors have found myriad ways to benefit themselves throughout the process. Using information provided by serial SPAC creators including Tilman Fertitta, Michael Klein, and Chamath Palihapitiya, this report has identified several ways in which the SPAC structures uses lax disclosure and conflict of interest laws to encourage self-dealing and insider trading.

a. SPAC Sponsors Rake In "Consultant" And Advisory Fees While Skewing Due Diligence To Their Own Benefit

Many serial SPAC sponsors use the blank-shell companies as ways to pad their own company's revenue. In one instance, Michael Klein, the CEO of SPAC sponsor The Churchill Company, funneled more than $50 million from Churchill SPACs into consulting and advisory fees for his company, The Klein Group (Table 5).[131]

Table 5: SPAC Self-Dealing by the Churchill Company/The Klein Group			
SPAC	**The Klein Group Fee Type**	**The Klein Group Fee Dollar Amount**	**Notes**
Churchill Capital Corp	Consultants / Financial Advisors	$12,000,000	
Churchill Capital Corp II	Consultants / Financial Advisors	$14,400,000	
Churchill Capital Corp III	Consultants / Financial Advisors, Placement Fee	$30,500,000	The Klein Group directed Churchill III to pay $8 million in its fees to the nonprofit Project Isaiah, which Churchill and The Klein Group CEO Michael Klein sits on the board of.

In addition, Mr. Klein appointed his own family members and employees as board members of companies his SPACs were taking public. MultiPlan, which merged with Mr. Klein's Churchill Capital III, included on its board Mr. Klein and three other members of the SPAC's leadership, as well as members of Mr. Klein's family. In a class action suit against MultiPlan, investors alleged that the board of directors of Churchill Capital III and MultiPlan failed to conduct a rigorous review of the company, in part because Mr. Klein and his associates, including family members, were already guaranteed a profit through fees given to Churchill Capital and The Klein Group.[132]

In other cases, SPAC sponsors have simply used the process to acquire their own companies. Billionaire Tilman Fertitta's SPAC, Landcadia II, merged with Golden Nugget Online Gaming, Inc., where Mr. Fertitta was already the CEO and Chairman of the Board.[133] As part of the deal, the SPAC agreed to pay half of Tilman Fertitta's parent company Golden Nugget's debt.[134]

Another Fertitta SPAC, Landcadia I, merged with Waitr, Inc., a restaurant platform that included several restaurants affiliated with Mr. Fertitta. According to his disclosures, Waitr generated $0.6 million of its revenue from restaurants affiliated with Mr. Fertitta in 2019, a number that jumped to $1.5 million in 2020 – the same year the merged business closed. Waitr was a high-profile SPAC flop, and Mr. Fertitta and Waitr were sued by shareholders who argued that the business model was flawed and that management should have prevented a merger.[135]

b. SPAC Sponsors Double As Investors Despite Inherent Insider Advantages

Despite their clear insider knowledge, SPAC sponsors can invest in SPACs as part of the PIPE – giving themselves a shortcut to discounted stocks. Sponsors are given access to more information about the health and potential growth of the company than any other investors or even regulators, blurring the lines between investing and insider trading. According to information provided by M. Klein & Associates, two entities associated with SPAC directors purchased 1 million shares in a PIPE and 8.5 million shares respectively. Chamath Palihapitiya, in his role as the CEO of Social Capital, disclosed involvement in the PIPE funding and ownership of PIPE shares in several of the SPACs he and his company sponsored, as shown in the Table 6.

Table 6: SPAC Sponsors' Ownership of PIPE Shares			
SPAC	**Ownership**	**Dollar Amount**	**Number of PIPE shares**
Social Capital Hedosophia Holdings Corp.	Chamath Palihapitiya	$100,000,000	10,000,000 shares of Common Stock
Social Capital Hedosophia Holdings Corp. II	Chamath Palihapitiya	$100,000,000	10,000,000 shares of Common Stock
Social Capital Hedosophia Holdings Corp. III	Chamath Palihapitiya	$100,000,000	10,000,000 shares of Class A Common Stock
Social Capital Hedosophia Holdings Corp. V	Chamath Palihapitiya	$131,000,000	13,100,000 shares of Common Stock

Palihapitiya disclosed selling his 10 million PIPE shares in Virgin Galactic, a company he sponsored, for $310.3 million – a more than 300% profit. Despite sponsoring the SPAC that merged with Virgin Galactic, Social Capital Hedosophia Holdings Corp., Palihapitiya has repeatedly sold his shares in Virgin before the company could make a significant profit. After taking the company public in 2019, Palihapitiya sold 3.8 million shares in December 2020 while promising to "remain committed and excited for the future" of the company.[136] Just four months later, in March 2021, Palihapitiya sold the remainder of his personal stake in the company, 6.2 million shares, for approximately $213 million, causing the stock to drop nearly 10% in less than one week.[137] By February 2022, Palihapitiya had stepped down from Virgin Galactic's board, and the company had lost $1 billion in just two years.[138]

Palihapitiya's position as both a sponsor of the SPAC and as chairman of the public company casts doubt on whether his investments could be neutral. In March 2022, shareholders sued Palihapitiya for insider trading, arguing that Palihapitiya made approximately $315 million selling his shares while the stock price was "artificially inflated."[139] The suit claims that even as Palihapitiya and other leaders of the company made millions of dollars in profits, they were aware of "defects in its spacecraft three years before they were publicly disclosed last year."[140]

IV. Recommendations

The findings in this report reveal that SPACs and SPAC sponsors are abusing loopholes and gaps in current securities law, and are using them to take advantage of retail investors and enrich themselves. Regulators and Congress should act quickly to close loopholes and protect investors and the market.

The SEC has already indicated an increased willingness to aggressively pursue wrongdoing in the SPAC sector.[141] In July 2021, the SEC charged the SPAC Stable Road Acquisition Corp., their sponsor, and their proposed merger target Momentus Inc. with making misleading claims about the target company's technology and the national security risk associated with the SPAC's sponsor.[142] The agency, in its announcement of the charges, broadcast the action to the market as shedding light on "risks inherent to SPAC transactions, as those who stand to earn significant profits from a SPAC merger may conduct inadequate due diligence and mislead investors."[143] In March 2022, the SEC announced wide-ranging proposal for new regulations governing SPACs.[144]

a. The SEC's March 2022 Proposal for SPAC Regulation

In March 2022, the SEC introduced a set of rules for SPACs that would strengthen transparency and disclosure in the de-SPAC transaction, bringing the requirements for SPACs and target companies closer to that of a traditional

IPO.[145] These rules would address several of the issues highlighted in this report, including dilution of SPAC shares, inadequate disclosures, and the use of forward-looking statements to make overblown or even fraudulent projections. The SEC has proposed additional disclosures that include a fairness report on the de-SPAC transaction, enhanced disclosures on SPAC sponsors, conflicts of interest, and dilution.[146] Importantly, the SEC's proposed rules would remove SPACs' liability safe harbor in the *Private Securities Litigation Reform Act of 1995* regarding forward-looking statements.[147] In addition, the SEC's proposed regulation on SPACs would increase Section 11 liabilities on involved parties in the de-SPAC transaction by expanding the definition of underwriters to anyone who acted as an underwriter for the initial SPAC IPO.[148]

Finally, the SEC's proposed regulations provide a clearer definition of a SPAC by carving out a safe harbor for SPACs meeting certain conditions in the Investment Company Act of 1940. These conditions, which include maintaining only government securities and cash items as assets and seeking to complete a de-SPAC transaction within 18 months after an initial public offering and completing a de-SPAC transaction within 24 months of the offering, address concerns raised by several of the innovative SPACs that act as investment companies that have popped up recently to take advantage of the regulatory loopholes.[149]

The SEC's proposed regulations would increase transparency and disclosures in the SPAC space, providing retail investors with more tools to evaluate whether SPAC sponsors are offering a fair deal. However, in order for the SEC to have the full authority needed to crack down on wrongdoing, congressional action is required.

b. Congress Should Close Regulatory Loopholes and Require Greater Disclosures

In addition to the proposed regulations from the SEC, Congress can act to codify the amended definitions into law and require SPAC sponsors and underwriters to have a greater stake in their merged companies' futures and greater liability during the SPAC IPO and de-SPAC process. These reforms include amending the definitions of underwriters and "blank check" companies to cover SPACs and their financial backers, requiring additional disclosures from SPACs at the IPO and when filing a Form 8-K, and requiring the lock-up period for SPAC sponsors to extend until the company has projected bringing in revenue in its forward-looking statements. Senator Warren's forthcoming legislation, The SPAC Accountability Act of 2022, would address these loopholes and build on the SEC's proposed rules to level the playing field for retail investors.

Amending the Definition of "Blank Check" Companies in the Securities Act of 1933 and the Private Securities Litigation Reform Act of 1995

SPACs have taken advantage of a number of regulatory loopholes, including the safe harbor provision of the Private Securities Litigation Reform Act of 1995, which give them broad protection from liability for "forward-looking statements," and the size limitation of the Penny Stock Reform Act, which regulated blank-check companies that traded below $5 per share and had fewer than $5 million in assets, but allowed larger SPACs to evade regulations. A legislative solution to the danger SPACs pose to the open market would address both of these loopholes.

SPACs match many of the characteristics of penny-stock blank check companies: misleading information, "pump and dump" schemes, conflicts of interest, and fraud.[150] The Penny Stock Reform Act in 1990 increased the transparency and disclosure required by these companies, but it excluded companies with more than $5 million in assets, a loophole SPACs used decades later to evade disclosure laws and enrich their sponsors.[151] Amending The Securities Act of 1933 to eliminate the reference to "penny stock" when defining blank check companies would prevent SPAC's wild stock swings and abuse of disclosure and other requirements.

In addition, amending the definition of a "blank check" company in The Private Securities Litigation Reform Act of 1995 would prevent SPACs from exploiting the safe harbor provision to make overblown and fraudulent projections. Researchers at American for Financial Reform argued that tamping down the ability of SPACs to put forward bullish and overblown projections "will help to ensure that blank check company sponsors and advisors will not inject overly optimistic or unrealistic projections in SPAC-related documents," or mislead retail investors about the market valuation of the acquisition targets.[152]

Increasing Disclosure Laws Governing SPAC Sponsors and Affiliated Companies

In addition, many SPAC sponsors have used the unique SPAC structure to benefit themselves through kickbacks, consulting fees, and even choosing companies they have a pre-existing financial relationship with to take public. Increasing conflict of interest disclosure laws for SPAC sponsors and financial advisors would protect retail investors from blatant self-dealing. Senator Warren's SPAC Accountability Act proposes increasing disclosures at the SPAC's IPO regarding dilution due to the sponsor's promote, redemption rights, and free warrants for IPO investors, and proposed and completed private investments in a public entity. It would also increase disclosures after the SPAC has identified an acquisition target, requiring the SPAC's Form 8-K to disclosure the valuation of the target, any financial ties board members of the SPAC and the target companies, including stock, future positions at the target company, or financial ties between board members' companies and the target company, a fairness report or opinion issued by a third party, and any dissenting votes against the merger by board members and their reasoning for the vote.

Giving SPAC Sponsors a Larger Stake in the Company: Expanding the Definition of Underwriter and Extending the SPAC Sponsor's Lock-Up Period

This investigation found that many SPAC sponsors, including high-profile financiers, have little to no interest in the merged company, incentivizing low-quality mergers and allowing sponsors to profit handsomely while retail investors struggle. The forthcoming SPAC Accountability Act would address this imbalance in two major ways: expanding the definition of underwriter to increase the Section 11 liability of SPAC sponsors and financial institutions, and requiring SPAC sponsors' shares to remain locked-up until the company has projected bringing in revenue in forward-looking statements.

The SEC's proposed rules on SPACs include a provision that would expand the definition of "underwriter" in the de-SPAC transaction to include any parties that served as an underwriter for the SPAC's IPO.[153] The SPAC Accountability Act would codify this definition, and further expand it to include any party that facilitates, directly or indirectly, a de-SPAC transaction. Clarifying the role of financial institutions and SPAC sponsors will increase their liability for the de-SPAC transaction, giving these parties an increased stake in the future of the merged company and opening them up to liability from shareholders if the de-SPAC transaction include un-disclosed dilution or fraudulent statements.

SPAC sponsors typically point to the lock-up period as evidence that they are invested in the success of failure of the merged company, but as this investigation found, SPAC sponsors frequently cash out well before the merged company turns a profit. In many cases, companies project profit years out from the de-SPAC transaction, allowing serial SPAC creators to profit before the business begins operating fully. *The SPAC Accountability Act* would require the lock-up period for SPAC sponsors to last until the company's forward-looking statements project bringing in revenue, preventing SPAC sponsors from leaving cashing out prior to their company's success or failure.

Endnotes

1 The Wall Street Journal, "Led by 'Mr. SPAC,' Credit Suisse Cashes In on Blank-Check Spree," Margot Patrick and Amrith Ramkumar, February 5, 2021, https://ww.wsj.com/articles/led-by-mr-spac-credit-suisse-cashes-in-on-blank-check-spree-11612527389.

2 Wall Street Journal, "SPAC Startups Made Lofty Promises. They Aren't Working Out." Heather Somerville and Eliot Brown, February 25, 2022, https://www.wsj.com/articles/spac-startups-made-lofty-promises-they-arent-working-out-11645785031.

3 Id.

4 Harvard Law School Forum on Corporate Governance, "A Sober Look at SPACs," Emily Ruan, Michael Klausner, Michael Ohlrogge, November 19, 2020, https://corpgov.law.harvard.edu/2020/11/19/a-sober-look-at-spacs/.

5 Senator Elizabeth Warren, "Warren, Brown, Smith, and Van Hollen Request Information from SPAC Creators Amid 'Astonishing" Reports of Abuse and Market Dysfunction,'" press release, September 22, 2021, https://www.warren.senate.gov/oversight/letters/warren-brown-smith-and-van-hollen-request-information-from-spac-creators-amid-astonishing-reports-of-abuse-and-market-dysfunction.

6 Senator Elizabeth Warren, "Warren Urges SEC to Investigate Potential Violations of Securities Laws During SPAC Merger with Trump Company," press release, November 18, 2021, https://www.warren.senate.gov/oversight/letters/warren-urges-sec-to-investigate-potential-violations-of-securities-laws-during-spac-merger-with-trump-company.

7 Churchill Capital Corp III, "MultiPlan and Churchill Capital Corp III Announce Closing of Business Combination," press release, October 8, 2020, https://www.prnewswire.com/news-releases/multiplan-and-churchill-capital-corp-iii-announce-closing-of-business-combination-301148617.html.

8 Yahoo Finance, MultiPlan Corporation, May 18, 2022, https://finance.yahoo.com/quote/MPLN/history/.

9 Wall Street Journal, "SEC Proposes New Disclosure Requirements for SPACs," Paul Kiernan, March 30, 2022, https://www.wsj.com/articles/sec-considers-new-disclosure-rules-for-spacs-11648654298.

10 Securities and Exchange Commission, "Statement on Proposal on Special Purpose Acquisition Companies (SPACs), Shell Companies, and Projections," Chair Gary Gensler, March 30, 2022, https://www.sec.gov/news/statement/gensler-spac-20220330.

11 The Wall Street Journal, "Led by 'Mr. SPAC,' Credit Suisse Cashes In on Blank-Check Spree," Margot Patrick and Amrith Ramkumar, February 5, 2021, https://www.wsj.com/articles/led-by-mr-spac-credit-suisse-cashes-in-on-blank-check-spree-11612527389.

12 Forbes, "How hedge fund traders known as the SPAC Mafia are driving an $80 billion investment boom with a no-lose trade.," Antoine Gara, Eliza Haverstock and Sergei Klebnikov, November 19, 2020, https://www.forbes.com/sites/antoinegara/2020/11/19/the-looming-spac-meltdown/?sh=1163ce7b70d7.

13 New York Magazine, "The Big SPAC Crackdown," Michelle Celarier, September 2, 2021, https://nymag.com/intelligencer/2021/09/the-big-spac-crackdown.html.

14 Id.

15 CNBC, "A SPAC frenzy earlier this year could lead to riskier deals. Here's why," Carmen Reinicke, June 2, 2021, https://www.cnbc.com/2021/06/02/a-spac-frenzy-this-year-could-lead-to-riskier-deals-heres-why.html.

16 Nasdaq, "A Record Pace for SPACs in 2021," Phil Mackintosh, January 6, 2022, https://www.nasdaq.com/articles/a-record-pace-for-spacs-in-2021.

17 Wall Street Journal, "GameStop Day Traders Are Moving Into SPACs," Amrith Ramkumar, February 1, 2021, https://www.wsj.com/articles/gamestop-day-traders-are-moving-into-spacs-11612175401?mod=article_inline.

18 MarketWatch, "These are the hidden dangers lurking inside SPACs that can hurt you," Michael Brush, February 25, 2021, https://www.marketwatch.com/story/these-are-the-hidden-dangers-lurking-inside-spacs-that-can-hurt-you-11614267559.

19 Institutional Investor, "How Millennial Investors Lost Millions on Bill Ackman's SPAC," Michelle Celarier, August 11, 2021, https://www.institutionalinvestor.com/article/b1t353k8yyfr5w/How-Millennial-Investors-Lost-Millions-on-Bill-Ackman-s-SPAC.

20 Securities and Exchange Commission, "Celebrity Involvement with SPACs – Investor Alert," press release, March 10, 2021, https://www.sec.gov/oiea/investor-alerts-and-bulletins/celebrity-involvement-spacs-investor-alert.

21 New York Magazine, "The Big SPAC Crackdown," Michelle Celarier, September 2, 2021, https://nymag.com/intelligencer/2021/09/the-big-spac-crackdown.html.

22 Institutional Investor, "How Millennial Investors Lost Millions on Bill Ackman's SPAC," Michelle Celarier, August 11, 2021, https://www.institutionalinvestor.com/article/b1t353k8yyfr5w/How-Millennial-Investors-Lost-Millions-on-Bill-Ackman-s-SPAC; Hindenberg Research, "Nikola: How to Parlay An Ocean of Lies Into a Partnership With the Largest Auto OEM in America," press release, September 10, 2020, https://hindenburgresearch.com/nikola/.

23 Senator Elizabeth Warren, "Warren, Brown, Smith, and Van Hollen Request Information from SPAC Creators Amid 'Astonishing" Reports of Abuse and Market Dysfunction,'" September 22, 2021, https://www.warren.senate.gov/oversight/letters/warren-brown-smith-and-van-hollen-request-information-from-spac-creators-amid-astonishing-reports-of-abuse-and-market-dysfunction.

24 New York Times, "Trump's $300 Million SPAC Deal May Have Skirted Securities Laws," Matthew Goldstein, Lauren Hirsch, and David Enrich, October 29, 2021, https://www.nytimes.com/2021/10/29/business/trump-spac-digital-world.html.

25 Senator Elizabeth Warren, "Warren Urges SEC to Investigate Potential Violations of Securities Laws During SPAC Merger with Trump Company," press release, November 18, 2021, https://www.warren.senate.gov/oversight/letters/warren-urges-sec-to-investigate-potential-violations-of-securities-laws-during-spac-merger-with-trump-company.

26 New York Times, "Wall Street's New Favorite Deal Trend Has Issues," Andrew Ross Sorkin, February 10, 2021, https://www.nytimes.com/2021/02/10/business/dealbook/spac-wall-street-deals.html.

27 Seeking Alpha, "Beware The SPAC: How They Work And Why They Are Bad," January 5, 2021, https://seekingalpha.com/article/4397498-beware-spac-how-work-and-why-are-bad.

28 Harvard Law School Forum on Corporate Governance, "A Sober Look at SPACs," Emily Ruan, Michael Klausner, Michael Ohlrogge, November 19, 2020,

https://corpgov.law.harvard.edu/2020/11/19/a-sober-look-at-spacs/.

29 Silicon Valley Business Journal, "Clover Health goes public after merger with SPAC led by Chamath Palihapitiya," Cromwell Schubarth, January 8, 2021, https://www.bizjournals.com/sanjose/news/2021/01/08/clover-health-ready-to-start-trading-on-nasdaq.html.

30 Social Capital Hedosophia Holdings Corp. III, "Social Capital Hedosophia Holdings Corp. III Announces Pricing of Upsized $720 Million Initial Public Offering," press release, April 21, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-iii-announces-pricing-of-upsized-720-million-initial-public-offering-301044875.html.

31 Clover Health, "Historic Price Lookup," website accessed March 15, 2022, https://investors.cloverhealth.com/stock-information/historic-price-lookup?8c7bdd83-a726-4a84-b969-494be2477e47%5BCLOV_O%5D%5Bdate_month%5D=01&8c7bdd83-a726-4a84-b969-494be2477e47%5BCLOV_O%5D%5Bdate_day%5D=8&8c7bdd83-a726-4a84-b969-494be2477e47%5BCLOV_O%5D%5Bdate_year%5D=2022&url.

32 Social Capital Hedosophia Holdings Corp., "Social Capital Hedosophia Holdings Corp. Announces Pricing of $600,000,000 Initial Public Offering," press release, September 14, 2017, https://www.businesswire.com/news/home/20170914005780/en/Social-Capital-Hedosophia-Holdings-Corp.-Announces-Pricing-of-600000000-Initial-Public-Offering.

33 Social Capital Hedosophia Holdings Corp. II, "Social Capital Hedosophia Holdings Corp. II Announces Pricing of Upsized $360 Million Initial Public Offering," press release, April 27, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-ii-announces-pricing-of-upsized-360-million-initial-public-offering-301047951.html.

34 Social Capital Hedosophia Holdings Corp. III, "Social Capital Hedosophia Holdings Corp. III Announces Pricing of Upsized $720 Million Initial Public Offering," press release, April 21, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-iii-announces-pricing-of-upsized-720-million-initial-public-offering-301044875.html.

35 Social Capital Hedosophia Holdings Corp. IV, "Social Capital Hedosophia Holdings Corp. IV Announces Pricing of Upsized $400,000,000 Initial Public Offering," press release, October 8, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-iv-announces-pricing-of-upsized-400-000-000-initial-public-offering-301149144.html.

36 Social Capital Hedosophia Holdings Corp., "Social Capital Hedosophia Holdings Corp. V Announces Pricing of Upsized $700,000,000 Initial Public Offering," press release, October 8, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-v-announces-pricing-of-upsized-700-000-000-initial-public-offering-301149143.html.

37 Social Capital Hedosophia Holdings Corp., "Social Capital Hedosophia Holdings Corp. VI Announces Pricing of $1,000,000,000 Initial Public Offering," press release, October 8, 2020, https://www.prnewswire.com/news-releases/social-capital-hedosophia-holdings-corp-vi-announces-pricing-of-1-000-000-000-initial-public-offering-301149145.html.

38 Social Capital Suvetta Holdings Corp. I, "Social Capital Suvretta Holdings Corp. I Announces Pricing of Upsized $220,000,000 Initial Public Offering," press release, June 30, 2021, https://www.businesswire.com/news/home/20210630005602/en/Social-Capital-Suvretta-Holdings-Corp.-I-Announces-Pricing-of-Upsized-220000000-Initial-Public-Offering.

39 Social Capital Suvretta Holdings Corp. II, "Social Capital Suvretta Holdings Corp. II Announces Pricing of Upsized $220,000,000 Initial Public Offering," press release, June 30, 2021, https://www.businesswire.com/news/home/20210630005604/en/Social-Capital-Suvretta-Holdings-Corp.-II-Announces-Pricing-of-Upsized-220000000-Initial-Public-Offering.

40 Social Capital Suvretta Holdings Corp. III, "Social Capital Suvretta Holdings Corp. III Announces Pricing of Upsized $220,000,000 Initial Public Offering," press release, June 30, 2021, https://www.businesswire.com/news/home/20210630005606/en/Social-Capital-Suvretta-Holdings-Corp.-III-Announces-Pricing-of-Upsized-220000000-Initial-Public-Offering.

41 Social Capital Suvretta Holdings Corp. IV, "Social Capital Suvretta Holdings Corp. IV Announces Pricing of Upsized $220,000,000 Initial Public Offering," press release, June 30, 2021, https://www.businesswire.com/news/home/20210630005605/en/Social-Capital-Suvretta-Holdings-Corp.-IV-Announces-Pricing-of-Upsized-220000000-Initial-Public-Offering.

42 Churchill Capital Corp III, "MultiPlan and Churchill Capital Corp III Announce Closing of Business Combination," press release, October 8, 2020, https://www.prnewswire.com/news-releases/multiplan-and-churchill-capital-corp-iii-announce-closing-of-business-combination-301148617.html.

43 Churchill Capital Corp III, "Churchill Capital Corp III Announces Pricing of $1 Billion Initial Public Offering," press release, February 15, 2020, https://www.prnewswire.com/news-releases/churchill-capital-corp-iii-announces-pricing-of-1-billion-initial-public-offering-301005256.html.

44 CF Finance Acquisition Corp., "CF Finance Acquisition Corp. Announces Pricing of $250 Million Initial Public Offering," press release, December 12, 2018, https://www.prnewswire.com/news-releases/cf-finance-acquisition-corp-announces-pricing-of-250-million-initial-public-offering-300764638.html.

45 CF Finance Acquisition Corp. II, "CF Finance Acquisition Corp. II Announces Closing of $500 Million Initial Public Offering," press release, August 31, 2020, https://www.prnewswire.com/news-releases/cf-finance-acquisition-corp-ii-announces-closing-of-500-million-initial-public-offering-301121311.html.

46 CF Finance Acquisition Corp. III, "CF Finance Acquisition Corp. III Announces Pricing of $200 Million Initial Public Offering," press release, November 12, 2020, https://www.globenewswire.com/news-release/2020/11/12/2126150/0/en/CF-Finance-Acquisition-Corp-III-Announces-Pricing-of-200-Million-Initial-Public-Offering.html.

47 CF Acquisition Corp. IV, "CF Acquisition Corp. IV Announces Pricing of Upsized $450 Million Initial Public Offering," press release, December 22, 2020, https://www.prnewswire.com/news-releases/cf-acquisition-corp-iv-announces-pricing-of-upsized-450-million-initial-public-offering-301197858.html.

48 CF Acquisition Corp. V, "CF Acquisition Corp. V Announces Pricing of $250 Million Initial Public Offering," press release, January 28, 2021, https://www.prnewswire.com/news-releases/cf-acquisition-corp-v-announces-pricing-of-250-million-initial-public-offering-301217760.html.

49 CF Acquisition Corp. VI, "CF Acquisition Corp. VI Announces Closing of $300 Million Initial Public Offering," press release, February 23, 2021, https://www.prnewswire.com/news-releases/cf-acquisition-corp-vi-announces-closing-of-300-million-initial-public-offering-301233872.html.

50 CF Acquisition Corp. VIII, "CF Acquisition Corp. VIII Announces Pricing of Upsized $220 Million Initial Public Offering," press release, March 11, 2021, https://www.prnewswire.com/news-releases/cf-acquisition-corp-viii-announces-pricing-of-upsized-220-million-initial-public-offering-301246108.html.

51 Churchill Capital Corp., "Churchill Capital Corp Announces Pricing of $600 Million Initial Public Offering," press release, September 6, 2018, https://www.prnewswire.com/news-releases/churchill-capital-corp-announces-pricing-of-600-million-initial-public-offering-300708658.html.

52 Churchill Capital Corp II, "Churchill Capital Corp II Announces Pricing of $600 Million Initial Public Offering," press release, June 26, 2019, https://www.prnewswire.com/news-releases/churchill-capital-corp-ii-announces-pricing-of-600-million-initial-public-offering-300875814.html.

53 Churchill Capital Corp III, "Churchill Capital Corp III Announces Pricing of $1 Billion Initial Public Offering," press release, February 15, 2020, https://www.prnewswire.com/news-releases/churchill-capital-corp-iii-announces-pricing-of-1-billion-initial-public-offering-301005256.html.

54 Churchill Capital Corp. IV, "Churchill Capital Corp IV Announces Pricing of $1.80 Billion Initial Public Offering," press release, July 30, 2020, https://www.prnewswire.com/news-releases/churchill-capital-corp-iv-announces-pricing-of-1-80-billion-initial-public-offering-301102827.html.

55 New York Times, "Wall Street's New Favorite Deal Trend Has Issues," Andrew Ross Sorkin, February 10, 2021, https://www.nytimes.com/2021/02/10/business/dealbook/spac-wall-street-deals.html.

56 Law 360, "Inside The Top De-SPACs That Didn't Survive 2021's 2nd Half," Benjamin Horney, January 5, 2022, https://www.law360.com/articles/1452294/inside-the-top-de-spacs-that-didn-t-survive-2021-s-2nd-half.

57 Restaurant Dive, "Fertitta Entertainment may pay $33M to kill merger with Fast Acquisition Corp," Julie Littman, December 13, 2021, https://www.restaurantdive.com/news/fertitta-entertainment-may-pay-33m-to-kill-merger-with-fast-acquisition-co/611397/.

58 Bloomberg, "Tilman Fertitta Seeks a $250 Million Payday After Ditching SPAC Deal," Davide Scigliuzzo, January 6, 2022, https://www.bloomberg.com/news/articles/2022-01-06/fertitta-seeks-a-250-million-payday-after-ditching-spac-deal.

59 Bloomberg, "SPAC Flop Is Test Case for Disgruntled Investor Lawsuits," Edvard Pettersson and Crystal Tse, February 16, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

60 The Advocate, "Waitr once again faces Nasdaq delisting due to low stock price," Robert Stewart, February 21, 2022, https://www.theadvocate.com/acadiana/news/business/article_9b2f6244-9358-11ec-98dd-efde29516736.html.

61 Harvard Law School Forum on Corporate Governance, "A Sober Look at SPACs," Emily Ruan, Michael Klausner, Michael Ohlrogge, November 19, 2020, https://corpgov.law.harvard.edu/2020/11/19/a-sober-look-at-spacs/.

62 Bloomberg, "Wall Street Is Churning Out SPACs at Investors' Peril," Noah Buhayar, Tom Maloney, and Zijia Song, November 16, 2021, https://www.bloomberg.com/graphics/2021-what-is-a-spac-wall-street-investor-risk/.

63 MarketWatch, "These are the hidden dangers lurking inside SPACs that can hurt you," Michael Brush, February 25, 2021, https://www.marketwatch.com/story/these-are-the-hidden-dangers-lurking-inside-spacs-that-can-hurt-you-11614267559.

64 Written testimony of Andrew Park to the U.S. House Financial Services Committee, May 24, 2021, p.1, https://ourfinancialsecurity.org/wp-content/uploads/2021/05/Andrew-Park-HFSC-SPAC-Testimony-5.24.21.pdf.

65 Reuters, "High redemption rates see SPACs relying on alternative financing," Roger E. Barton, January 14, 2021, https://www.reuters.com/legal/transactional/high-redemption-rates-see-spacs-relying-alternative-financing-2022-01-14/.

66 Id.

67 Id.

68 New York Times, "SPACs Went Up, Then Down, but They're Not Out," Kate Kelly, August 21, 2021, https://www.nytimes.com/2021/08/21/business/dealbook/spac-market-future.html.

69 Reuters, "High redemption rates see SPACs relying on alternative financing," Roger E. Barton, January 14, 2022, https://www.reuters.com/legal/transactional/high-redemption-rates-see-spacs-relying-alternative-financing-2022-01-14/.

70 The Street, "SPAC Mergers are Facing Uphill Battles," David Drapkin, February 9, 2022, https://www.thestreet.com/boardroomalpha/spac/spac-mergers-battle-mbac-pulled.

71 The New York Times, "A Tale of Redemptions," Andrew Ross Sorkin, Jason Karaian, Sarah Kessler, Stephen Gandel, Michael J. de la Merced, Lauren Hirsch and Ephrat Livni, December 3, 2021, https://www.nytimes.com/2021/12/03/business/dealbook/buzzfeed-grab-spac.html; Reuters, "High redemption rates see SPACs relying on alternative financing," Roger E. Barton, January 14, 2022, https://www.reuters.com/legal/transactional/high-redemption-rates-see-spacs-relying-alternative-financing-2022-01-14/#:~:text=SPACs%20can%20also%20set%20a,total%20outstanding%20Class%20A%20Stock.

72 Reuters, "High redemption rates see SPACs relying on alternative financing," Roger E. Barton, January 14, 2022, https://www.reuters.com/legal/transactional/high-redemption-rates-see-spacs-relying-alternative-financing-2022-01-14/#:~:text=SPACs%20can%20also%20set%20a,total%20outstanding%20Class%20A%20Stock.

73 Bloomberg, "SPACs with $160 Billion Scrounge for Targets as Clock Ticks," Bailey Lipschultz, February 9, 2022, https://www.bloomberg.com/news/articles/2022-02-09/spacs-with-160-billion-scrounge-for-targets-as-clock-ticks-down.

74 Reuters, "High redemption rates see SPACs relying on alternative financing," Roger E. Barton, January 14, 2022, https://www.reuters.com/legal/transactional/high-redemption-rates-see-spacs-relying-alternative-financing-2022-01-14/.

75 Harvard Business Review, "SPACs: What You Need to Know," Max H. Bazerman and Paresh Patel, August 2021, https://hbr.org/2021/07/spacs-what-you-need-to-know.

76 Protocol, "Inside a SPAC: How it feels to go public with 2020's hottest financial tool," Shakeel Hashim, November 2, 2020, https://www.protocol.com/how-a-spac-works.

77 *Id*.

78 CNBC, "How financing SPAC takeovers became Wall Street's new favorite trade," Leslie Picker and Ritika Shah, January 25, 2021, https://www.cnbc.com/2021/01/25/how-financing-spac-takeovers-became-wall-streets-new-favorite-trade.html.

79 Bloomberg, "The SPAC Man Method: Inside the Billionaire Rush for Riches," Heather Perlberg, June 23, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

80 CNBC, "How financing SPAC takeovers became Wall Street's new favorite trade," Leslie Picker and Ritika Shah, January 25, 2021, https://www.cnbc.com/2021/01/25/how-financing-spac-takeovers-became-wall-streets-new-favorite-trade.html.

81 Trump Media & Technology Group, "Trump Media & Technology Group Corp. and Digital World Acquisition Corp. Announce $1 Billion 'PIPE' Investment in Committed Capital to Fund Business," press release, December 4, 2021, https://www.globenewswire.com/news-release/2021/12/04/2346139/0/en/Trump-Media-Technology-Group-Corp-and-Digital-World-Acquisition-Corp-Announce-1-Billion-PIPE-Investment-in-Committed-Capital-to-Fund-Business.html.

82 Bloomberg, "The Trump SPAC Did a PIPE," Matt Levine, December 6, 2021, https://www.bloomberg.com/opinion/articles/2021-12-06/the-trump-spac-did-a-pipe.

83 Bloomberg, "the Trump SPAC PIPE Is Free Money," Matt Levine, December 13, 2021, https://www.bloomberg.com/opinion/articles/2021-12-13/the-trump-spac-pipe-is-free-money.

84 Protocol, "Inside a SPAC: How it feels to go public with 2020's hottest financial tool," Shakeel Hashim, November 2, 2020, https://www.protocol.com/how-a-spac-works.

85 CNBC, "How financing SPAC takeovers became Wall Street's new favorite trade," Leslie Picker and Ritika Shah, January 25, 2021, https://www.cnbc.com/2021/01/25/how-financing-spac-takeovers-became-wall-streets-new-favorite-trade.html.

86 Washington Post, "SPACs, the 'Poor Man's Private Equity,' Made Investors Poorer," Chris Bryant, February 28, 2022, https://www.washingtonpost.com/business/spacs-the-poor-mans-private-equitymade-investors-poorer/2022/02/25/251410c4-9613-11ec-bb31-74fc06c0a3a5_story.html.

87 Reuters, "EXCLUSIVE U.S. SEC focuses on bank fee conflicts as it steps-up SPAC inquiry – sources," Anirban Sen and Chris Prentice, July 13, 2021, https://www.reuters.com/business/exclusive-us-sec-focuses-bank-fee-conflicts-it-steps-up-spac-inquiry-sources-2021-07-13/.

88 Bloomberg, "Wall Street Is Churning Out SPACs at Investors' Peril," Noah Buhayar, Tom Maloney and Zijia Song, November 16, 2021, https://www.bloomberg.com/graphics/2021-what-is-a-spac-wall-street-investor-risk/.

89 MarketWatch, "These are the hidden dangers lurking inside SPACs that can hurt you," Michael Brush, February 25, 2021, https://www.marketwatch.com/story/these-are-the-hidden-dangers-lurking-inside-spacs-that-can-hurt-you-11614267559.

90 Bloomberg, "Wall Street Will Keep Gorging on SPAC Fees Long After Boom Fades," Crystal Kim and Crystal Tse, May 12, 2021, https://www.bloomberg.com/news/articles/2021-05-12/wall-street-will-keep-gorging-on-spac-fees-long-after-boom-fades.

91 Harvard Law School Forum on Corporate Governance, "A Sober Look at SPACs," Emily Ruan, Michael Klausner, Michael Ohlrogge, November 19, 2020, https://corpgov.law.harvard.edu/2020/11/19/a-sober-look-at-spacs/.

92 CNBC, "SEC chair Gensler seeks tougher SPAC disclosure, liability rules," Thomas Franck, December 9, 2021, https://www.cnbc.com/2021/12/09/sec-chair-gensler-seeks-tougher-spac-disclosure-liability-rules.html.

93 View, Inc., "View, Inc. and CF Acqusition Corp. II Announce Closing of Business Combination," press release, March 8, 2021, https://www.globenewswire.com/news-release/2021/03/08/2189036/0/en/View-Inc-and-CF-Acquisition-Corp-II-Announce-Closing-of-Business-Combination.html.

94 Reuters, "Smart-glass maker View to go public via $1.6 billion SPAC merger," November 30, 2020, https://www.reuters.com/article/us-view-m-a-cf-finance-acquisition/smart-glass-maker-view-to-go-public-via-1-6-billion-spac-merger-idUSKBN28A304.

95 Law360, "View Inc. Investors Seek Records On 'Disastrous' SPAC Deal," Jeff Montgomery, January 28, 2022, https://www.law360.com/articles/1459560/view-inc-investors-seek-records-on-disastrous-spac-deal.

96 MarketWatch, "View IPO debuts to lukewarm reception," Jon Swartz, March 9, 2021, https://www.marketwatch.com/story/view-ipo-debuts-to-lukewarm-reception-11615325233.

97 Law360, "View Inc. Investors Seek Records On 'Disastrous' SPAC Deal," Jeff Montgomery, January 28, 2022, https://www.law360.com/california/articles/1459560/view-inc-investors-seek-records-on-disastrous-spac-deal.

98 *Id*.

99 *Id*.

100 Reuters, "Lidar maker AEye valuation slips to $1.5 bln on new SPAC merger terms," May 3, 2021, https://www.reuters.com/technology/lidar-maker-aeye-valuation-slips-15-bln-new-spac-merger-terms-2021-05-03/.

101 MarketWatch, "AEye Inc.," February 2, 2022, https://www.marketwatch.com/investing/stock/lidr.

102 Financial Times, "Can Spacs shake off their bad reputation?," Ortenca Aliaj, Sujeet Indap, and Miles Kruppa, August 13, 2020, https://www.ft.com/content/6eb655a2-21f5-4313-b287-964a63dd88b3.

103 Reuters, "SPACs and speculation: the changing legal liability of forward-looking statements," Roger E. Barton and Michael C. Ward, July 7, 2021, https://www.reuters.com/legal/legalindustry/spacs-speculation-changing-legal-liability-forward-looking-statements-2021-07-07/.

104 Bloomberg, "Wall Street Is Churning Out SPACs at Investors' Peril," Noah Buhayar, Tom Maloney, and Zijia Song, November 16, 2021, https://www.bloomberg.com/graphics/2021-what-is-a-spac-wall-street-investor-risk/.

105 Wall Street Journal, "SPAC Startups Made Lofty Promises. They Aren't Working Out.," Heather Somerville and Eliot Brown, February 25, 2022, https://www.wsj.com/articles/spac-startups-made-lofty-promises-they-arent-working-out-11645785031.

106 National Law Review, "2021's Continued SPAC Boom Invites Heightened SEC Scrutiny of SPAC Transactions," Thomas R. Burton, III, John F. Sylvia, Sahir Surmeli and Patrick E. McDonough, March 26, 2021, https://www.natlawreview.com/article/2021-s-continued-spac-boom-invites-heightened-sec-scrutiny-spac-transactions.

107 Wall Street Journal, "SPAC Startups Made Lofty Promises. They Aren't Working Out.," Heather Somerville and Eliot Brown, February 25, 2022, https://www.wsj.com/articles/spac-startups-made-lofty-promises-they-arent-working-out-11645785031.

108 *Id*.

109 Bloomberg, "SPAC Flop Is Test Case for Disgruntled Investor Lawsuits," Edvard Pettersson and Crystal Tse, February 16, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

110 Landcadia Holdings Inc., "Landcadia Holdings, Inc. and Waitr, Incorporated Announce Merger Agreement," press release, May 16, 2018, https://www.businesswire.com/news/home/20180516006536/en/Landcadia-Holdings-Inc.-and-Waitr-Incorporated-Announce-Merger-Agreement.

111 Bloomberg, "SPAC Flop Is Test Case for Disgruntled Investor Lawsuits," Edvard Pettersson and Crystal Tse, February 16, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

112 Fordham, "Waiting on Waitr: How a Louisiana Federal Court Decision May Shape the Oncoming Billion Dollar Wave of SPAC Securities Litigation," AJ Harris, April 2, 2021, http://www.fordhamiplj.org/2021/04/02/waiting-on-waitr-how-a-louisiana-federal-court-decision-may-shape-the-oncoming-billion-dollar-wave-of-spac-securities-litigation/.

113 Bloomberg, "SPAC Flop Is Test Case for Disgruntled Investor Lawsuits," Edvard Pettersson and Crystal Tse, February 16, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

114 Forbes, "How Clever Deals Made Houston Rockets Owner Tilman Fertitta Billions Richer During The Pandemic," Christopher Helman, October 11, 2021, https://www.forbes.com/sites/christopherhelman/2021/10/11/how-clever-deals-made-houston-rockets-owner-tilman-fertitta-billions-richer-during-the-pandemic/?sh=5d55d96b3f29.

115 Bloomberg, "SPACs Head for Metaverse After Results in Real World Flop," Bailey Lipschultz, February 4, 2022, https://www.bloomberg.com/news/articles/2022-02-04/spacs-head-for-metaverse-after-results-from-the-real-world-flop.

116 Washington Post, "SPACs, the 'Poor Man's Private Equity,' Made Investors Poorer," Chris Bryant, February 28, 2022, https://www.washingtonpost.com/business/spacs-the-poor-mans-private-equitymade-investors-poorer/2022/02/25/251410c4-9613-11ec-bb31-74fc06c0a3a5_story.html.

117 *Id*.

118 New York Magazine, "The Big SPAC Crackdown," Michelle Celarier, September 2, 2021, https://nymag.com/intelligencer/2021/09/the-big-spac-crackdown.html.

119 Wolf Street, "The Collapse of the EV SPACs: Retail Investors Got Fleeced Swiftly and Spectacularly," Wolf Richter, February 12, 2022, https://wolfstreet.com/2022/02/12/the-collapse-of-the-ev-spacs-retail-investors-got-fleeced-swiftly-and-spectacularly/.

120 The Verge, "SPACs, Explained," Elizabeth Lopatto, October 7, 2020, https://www.theverge.com/21502700/spac-explained-meaning-special-purpose-acquisition-company.

121 Hindenburg Research, "Nikola: How to Parlay An Ocean of Lies Into a Partnership With the Largest Auto OEM in America," September 10, 2020, https://hindenburgresearch.com/nikola/.

122 CNBC, "Nikola admits ousted chairman misled investors as legal costs mount," Michael Wayland, February 25, 2021, https://www.cnbc.com/2021/02/25/nikola-is-paying-8point1-million-in-legal-fees-for-ousted-chairman-milton.html; Wolf Street, "The Collapse of the EV SPACs: Retail Investors Got Fleeced Swiftly and Spectacularly," Wolf Richter, February 12, 2022, https://wolfstreet.com/2022/02/12/the-collapse-of-the-ev-spacs-retail-investors-got-fleeced-swiftly-and-spectacularly/.

123 CNBC, "SEC cracks down on SPAC claims as electric truck maker Nikola agrees to pay $125 million to settle fraud charges," Thomas Franck and Michael Wayland, December 21, 2021, https://www.cnbc.com/2021/12/21/nikola-to-pay-125-million-to-settle-fraud-charges-as-sec-cracks-down-on-spac-claims.html; CNBC, "Grand jury indicts Trevor Milton, founder of electric carmaker Nikola, on three counts of fraud," Michael Wayland, July 29, 2021, https://www.cnbc.com/2021/07/29/us-prosecutors-charge-trevor-milton-founder-of-electric-carmaker-nikola-with-three-counts-of-fraud.html.

124 Chicago Tribune, "Lordstown Motors, an electric truck rival to Rivian and Tesla, gets GM investment and becomes publicly traded," Jamie L. Lareau, August 3, 2020, https://www.chicagotribune.com/business/ct-biz-lordstown-motors-ev-gm-20200803-ew27mn33orfe5pdbpot6faszcy-story.html.

125 *Id*.

126 Green Car Reports, "Lordstown Motors becomes publicly traded, before delivering its electric trucks," Stephen Edelstein, October 27, 2020, https://www.greencarreports.com/news/1130087_lordstown-motors-becomes-publicly-traded-before-delivering-its-electric-trucks; CNBC, "Short-seller Hindenburg takes aim at Lordstown Motors," March 12, 2021, https://www.cnbc.com/2021/03/12/short-seller-hindenburg-takes-aim-at-lordstown-motors.html.

127 Hindenburg Research, "The Lordstown Motors Mirage: Fake Orders, Undisclosed Production Hurdles, And A Prototype Inferno," March 12, 2021, https://hindenburgresearch.com/lordstown/.

128 *Id*.

129 CNBC, "Lordstown Motors confirms DOJ probe into SPAC deal and preorders," Michael Wayland, July 16, 2021, https://www.cnbc.com/2021/07/16/lordstown-motors-confirms-doj-probe-into-spac-deal-and-pre-orders.html.

130 United States Securities and Exchange Commission, "U.S. Securities and Exchange Commission, Lordstown Motors Corp., Form 10-K/A," p. 19, June 4, 2021, https://www.sec.gov/ix?doc=/Archives/edgar/data/0001759546/000155837021008107/ride-20201231x10ka.htm.

131 Finews.asia, "Credit Suisse Overseer Wins Big in Niche," Samuel Gerber, July 22, 2020, https://www.finews.asia/finance/32312-michael-klein-credit-suisse-spacs-multiplan-saudi-arabia; Bloomberg, "The SPAC Man Method: Inside the Billionaire Rush for Riches," Heather Perlberg, June 23, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

132 Bloomberg Law, "M. Klein Loses Bid to Exit MultiPlan SPAC Case With Novel Ruling," Mike Leonard, January 4, 2022, https://news.bloomberglaw.com/esg/m-klein-loses-bid-to-exit-multiplan-spac-case-with-novel-ruling.

133 Landcadia Holdings II, Inc., "Landcadia Holdings II, Inc. Completes Acquisition of Golden Nugget Online Gaming," press release, December 29, 2020, https://www.prnewswire.com/news-releases/landcadia-holdings-ii-inc-completes-acquisition-of-golden-nugget-online-gaming-301199064.html.

134 Bloomberg, "The SPAC Man Method: Inside the Billionaire Rush for Riches," Heather Perlberg, June 23, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

135 Bloomberg, "SPAC Flop Is Test Case for Disgruntled Investor Lawsuits," Edvard Pettersson and Crystal Tse, February 16, 2021, https://www.bloomberg.com/news/features/2021-06-23/spac-stocks-wall-street-billionaires-make-millions-while-investors-lose-money.

136 CNBC, "Virgin Galactic drops 10% after chairman Chamath Palihapitiya dumps his $213 million personal stake," Michael Sheetz, March 5, 2021, https://www.cnbc.com/2021/03/05/chamath-palihapitiya-sells-virgin-galactic-spce-stake.html.

137 *Id*.

138 ARSTechnica, "Virgin Galactic has lost $1 billion during the last two years," Eric Berger, February 23, 2022, https://arstechnica.com/science/2022/02/virgin-galactic-has-lost-1-billion-during-the-last-two-years/; Fox News, "Chamath Palihapitiya stepping down from Virgin Galactic's board," Lucas Manfredi, February 20, 2022, https://www.foxbusiness.com/markets/virgin-galactic-chamath-palihapitiya.

139 Bloomberg, "Chamath Palihapitiya Sued Over Insider Sale of Virgin Galactic Shares," Joel Rosenblatt, March 2, 2022, https://www.bloomberg.com/news/articles/2022-03-02/palihapitiya-sued-over-insider-sale-of-virgin-galactic-shares.

140 *Id*.

141 New York Magazine, "The Big SPAC Crackdown," Michelle Celarier, September 2, 2021, https://nymag.com/intelligencer/2021/09/the-big-spac-crackdown.html.

142 U.S. Securities and Exchange Commission, "SEC Charges SPAC, Sponsor, Merger Target, and CEOs for Misleading Disclosures Ahead of Proposed Business Combination," press release, July 13, 2021, https://www.sec.gov/news/press-release/2021-124.

143 U.S. Securities and Exchange Commission, "SEC Charges SPAC, Sponsor, Merger Target, and CEOs for Misleading Disclosures Ahead of Proposed Business Combination," press release, July 13, 2021, https://www.sec.gov/news/press-release/2021-124; Observer, "SPAC Bubble Pops: Deals Drop 90% in April After SEC Warns of Crackdown," Sissi Cao, April 22, 2021, https://observer.com/2021/04/spac-deal-ipo-slowdown-april-sec-crackdown/.

144 Securities and Exchange Commission, "Statement on Proposal on Special Purpose Acquisition Companies (SPACs), Shell Companies, and Projections," Chair Gary Gensler, March 30, 2022, https://www.sec.gov/news/statement/gensler-spac-20220330.

145 Wall Street Journal, "SEC Proposes New Disclosure Requirements for SPACs," Paul Kiernan, March 30, 2022, https://www.wsj.com/articles/sec-considers-new-disclosure-rules-for-spacs-11648654298.

146 Securities and Exchange Commission, "SPACs, Shell Companies, and Projections: Proposed Rules," Fact Sheet, March 30, 2022, https://www.sec.gov/files/33-11048-fact-sheet.pdf.

147 *Id*.

148 *Id*.

149 *Id*.

150 Institutional Investor, "Here's How to Fix the Broken SPAC Market, Reformers Claim," Michelle Celarier, March 10, 2021, https://www.institutionalinvestor.com/article/b1qx3k8k7xdmw1/Here-s-How-to-Fix-the-Broken-SPAC-Market-Reformers-Claim.

151 Finra, "SEC Amends and Clarifies Penny Stock Rules," https://www.finra.org/rules-guidance/notices/93-55.

152 Institutional Investor, "Here's How to Fix the Broken SPAC Market, Reformers Claim," Michelle Celarier, March 10, 2021, https://www.institutionalinvestor.com/article/b1qx3k8k7xdmw1/Here-s-How-to-Fix-the-Broken-SPAC-Market-Reformers-Claim.

153 Securities and Exchange Commission, "SPACs, Shell Companies, and Projections: Proposed Rules," Fact Sheet, March 30, 2022, https://www.sec.gov/files/33-11048-fact-sheet.pdf.