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SPAC Procedural Issues & Risks

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Viewed as involving fewer regulatory hurdles than an IPO, SPACs became the most popular way to take a company public in 2020, and deal volume continued to rise in 2021. This increase in popularity brings increased attention from lawmakers and an attendant increase in litigation risk—for sponsors, officers, and directors of the SPAC, sellers in the de-SPAC transaction, and officers and directors of the post-combination entity.

Some of these risks are the same for any company making public disclosures. But others are particular to SPACs, with their unique structure and sometimes-divergent incentives they present for different stakeholders. Treatment of projections and warrants, inducements for deal-making, and deadlines to complete those deals all distinguish SPACs from other public and soon-to-be public companies.

This article discusses the issues and risks that are common to the SPAC process, as well as the specific inflection points where those risks might arise.

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