Important Information about Special Purpose Acquisition Companies (SPACs)

Baird has prepared this document to help you understand the characteristics and risks associated with an investment in securities of a “special purpose acquisition company” (“SPAC”), so that you can make an informed decision when buying or selling these securities. A SPAC is a form of newly organized blank check, blind pool or shell company with no revenue or operating history that is created specifically to raise capital through an IPO for the purpose of merging or combining with or acquiring an unidentified operating company within a set timeframe. SPACs are regarded as speculative, “private equity”-like investments because of their unique structure and associated risks. As a result, SPAC investments may not be suitable for all clients. Your Baird Financial Advisor can further explain the features, characteristics and risks of any particular security under consideration for your account.

Characteristics of SPACs

A SPAC is organized and initially funded by its founders and sponsors, forms a management team and establishes a board of directors for the purpose of raising capital in an IPO that will be used to acquire or merge with one or more existing operating companies. SPACs are a means for privately held operating companies to become or go “public” through a sale to or combination with a SPAC. SPACs are also an efficient way for private equity firms to raise capital to finance an acquisition, as opposed to the traditional private placement/subscription process. Following the acquisition or business combination, the company is managed as a publicly traded business enterprise. A SPAC has no revenue or operating history, although its management team typically has private equity experience in acquiring and operating companies. When it launches its IPO, the SPAC does not disclose any specific company or companies that it will be targeting for a potential merger or acquisition. In some cases, the SPAC will disclose in the prospectus the specific business sector, industry, geographic region or target company characteristics on which the SPAC will focus, while in other cases the SPAC may only identify a number of industries and provide general investment or acquisition criteria. A SPAC cannot know the specific target company that it will acquire or combine with at the time of the IPO; otherwise, many more details about the target company would have to be disclosed. As a result, investors in the IPO will have no basis on which to evaluate the merits or risks of any potential acquisition or business combination. In other words, investors in a SPAC IPO will not know the company or companies (or types of companies) that the SPAC intends to pursue (which is why SPACs are known as blank check companies or blind pools), but investors are hoping that the SPAC can successfully complete an acquisition or other business combination within a specified period and thereafter own, operate, manage and grow the acquired business effectively.

Typical SPAC Investor Terms

Units. A SPAC typically issues units in its IPO, which consist of shares of common stock and warrants to purchase common stock. A unit generally consists of one share of stock plus a warrant to purchase a fraction
of a share of stock (often 0.33 or 0.5 share). A unit is often sold in the IPO at $10 per unit. The shares of common stock and the warrants are separately listed on an exchange and can be traded separately once the SPAC files a current report on Form 8-K containing an audited balance sheet reflecting the SPAC’s receipt of the IPO proceeds, which usually occurs about 50 days after the IPO and possibly sooner. There is no assurance that there will be an active secondary market for the shares or warrants. The warrants are designed to compensate the IPO investors for the risks of investing in the blind pool. The warrants are exercisable at a price that is a premium above the $10 IPO price, which premium is typically 15% translating to an exercise or strike price of $11.50 per share. The warrants generally do not become exercisable until the later of (i) 30 days after the acquisition or business combination by the SPAC or (ii) 12 months from the IPO. The warrants may have a “crescent” feature, which is a downward adjustment to the strike price if additional securities are issued at a price below a specified threshold (such as $9.20) in connection with the acquisition or business combination. The crescent feature generally adjusts the warrant strike price to 115% of the higher of the market value or the price of the newly issued securities. Only whole warrants may be exercised, and the warrants generally expire five years from completion of the acquisition or other business combination (subject to earlier redemption or liquidation). After they become exercisable, the warrants may also be redeemed by the SPAC for a nominal amount once the market price of the common stock reaches and remains at or higher than a certain level (such as $18 per share) and have not then been exercised.

IPO Proceeds in Trust Account. Substantially all of the proceeds from a SPAC IPO are placed into a trust account in which the money is invested in short-term U.S. government securities or other highly liquid, money market-type instruments and earns interest. The money is released from the trust account to fund the SPAC’s acquisition or other business combination and/or the redemption of shares of common stock by investors who decide to do so. Money is also released to enable the SPAC to pay taxes and/or to cover other expenses. Money will also be released from the trust account and paid to shareholders if the SPAC does not complete an acquisition or other business combination within the specified time period (generally, two years from the date of the IPO).

Acquisition/Redemption Rights. A SPAC is required to complete an acquisition or other business combination within a specified time period and must use at least 80% of the balance in the trust account in the transaction. Often the transaction will be larger than the amount in the trust account, so there may be debt or additional equity financing involved. In the prospectus for the IPO, no specific target company is identified, although the SPAC will generally describe its investment criteria and acquisition process. It may also describe the industries, regions and/or the types of companies it will focus on. Although a SPAC will own a majority of the target following the transaction, it is possible that as a result of the acquisition the public shareholders of the SPAC will collectively own less than a majority of the outstanding shares of the post-transaction company, particularly if the SPAC issues more shares of its capital stock in connection with the acquisition or in exchange for the outstanding equity interests of the target. The acquisition or other business combination is either subject to a vote of the shareholders of the SPAC or a tender offer process. At that time, important information about the transaction and the subject operating company or companies is provided to the SPAC shareholders. In connection with the acquisition or other business combination, shareholders also have the right to return or redeem their shares (but usually not their warrants) back to the SPAC for an amount roughly equal to the IPO price, should they decide they no longer want to hold their shares. In most cases, a
shareholder has the right to redeem his or her shares even if they voted for the acquisition. If a SPAC seeks to amend its charter to give it more time to complete an acquisition, shareholders generally have a redemption right at that time as well. If a SPAC fails to complete an acquisition or other business combination within the specified timeframe, the money in the trust account is returned to the shareholders in redemption of their shares. As a result of the redemption rights, shareholders generally receive approximately the IPO price (although it could be less) should they elect to redeem or should the SPAC fail to consummate an acquisition within the applicable time period. Shareholders may also elect to sell their shares or warrants in the secondary trading market at prevailing market prices, although it is possible that liquidity may be limited.

Understanding the risks

The risks associated with investing in a SPAC are important considerations in making a purchase decision. Such risks include, but are not limited to, the following:

- **Lack of Operating History; No Information About Potential Acquisition or Business Combination.** A SPAC does not have any revenues or operating history and at the time of the IPO does not provide any information about a potential acquisition or other business combination that the SPAC may be considering. Thus, there is no basis on which to make an investment decision before a target company is identified and a proposed acquisition or combination is announced. Investors are only able to consider the experience of the management team, its track record and its investment and acquisition criteria, which may not provide sufficient information and are not guarantees of future success. In addition, the public accounting firm’s report on the audited financial statements of the SPAC may express doubt on the SPAC’s ability to continue as a going concern.

- **SPAC’s Inability to Complete an Acquisition or Business Combination.** A SPAC must complete an acquisition or business combination within a specified timeframe (often it is two years from the IPO). This time period may also put pressure on the SPAC to complete a transaction, which could result on the SPAC’s agreeing to less favorable terms. A SPAC may also have difficulty convincing a desirable operating company to do a deal. In addition, there is a risk that shareholders may vote against the transaction. If the SPAC is unable to complete an acquisition or other business combination within the applicable period of time, the money in the trust account will be returned to investors, which will likely be approximately the IPO price (or possibly less). A transaction that is completed on less favorable terms may also result in a decline in the market value of the SPAC shares, which may lead an investor to exercise its right to redeem and receive an amount approximately equal to the IPO price.

- **Possible Lack of Active Trading Market for Units.** Following the IPO, the shares and warrants underlying the units that were issued will be separately listed on an exchange and will trade separately. However, no assurance can be given that there will be an active trading market for either the common stock or the warrants; therefore, investors may have difficulty selling those securities (or at a reasonable price) should they wish to do so. In addition, although the market price for the common stock should approximate the value of the balance in the trust account (or about the $10 per share IPO price) until the SPAC makes an announcement about a potential acquisition or business
Important Information about SPACs, continued.

combination or some other material event, it is possible that the market price may be less than the IPO price.

- **Public Shareholders May Not Have Right to Vote on the Acquisition or Business Combination.** Depending on how the SPAC acquisition or business combination is structured and other legal matters, public shareholders of the SPAC may not be required to vote on the transaction. It could also be the case that because the founders, sponsors, initial holders and insiders have agreed to vote for the acquisition or business combination, the vote of the public shareholders may not be determinative. As a result, it is possible that public shareholders may not have a meaningful say on whether the SPAC completes the transaction. It is also possible for the SPAC to complete a transaction despite the fact that many public shareholders are against it. If a shareholder is not in favor of the transaction, that shareholder’s recourse is to redeem or sell his or her shares and only receive approximately the IPO price in return.

- **Founder Shares.** The founders of the SPAC generally receive a significant ownership stake in the SPAC, often with anti-dilution protection, even though they pay nominal consideration. This is similar to the “carried interest” concept used in traditional private equity funds. Founders also generally have the right to purchase warrants.

- **Redemption Rights May Make it Difficult for SPAC to Complete an Acquisition or Business Combination.** Because the public shareholders of a SPAC have the right to redeem their shares in connection with an acquisition or business combination, significant redemptions could deplete the trust account and make it more difficult for the SPAC to complete the transaction. As a result, even though redemption rights are designed to protect shareholders, particularly those who do not favor the proposed acquisition, those rights could harm shareholders who favor the transaction and want to continue to own the stock.

- **Risk of Failing to Exercise Redemption Rights.** Although shareholders have the right to redeem their SPAC shares in connection with an acquisition or business combination, there is a risk that shareholders will fail to exercise their redemption rights or will fail to comply with the redemption procedures. Such failures would cause a shareholder to miss out on an opportunity to redeem their shares at approximately the IPO price and require them to retain their shares unless and until they can be sold in the secondary market. It is therefore important for SPAC investors to keep up to date on developments affecting the SPAC and to read information from the SPAC that require their attention.

- **Risk of Failing to Exercise Warrants.** Investors who own warrants could fail to exercise them before they expire or to exercise them at the right time. It is also possible that the SPAC would initiate a redemption or tender process for the warrants, and the failure to respond to it could cause an investor to redeem or tender their warrants.

- **Following Completion of an Acquisition or Business Combination, the Shares May Decline in Value.** After the SPAC announces or completes an acquisition or other business combination, the SPAC shares (or the shares of the company owned by the SPAC investors following the transaction) may decline in value for various reasons, including the perceived value of the target company, the terms of
Important Information about SPACs, continued.

the transaction and the target company’s management, financial condition, business operations and prospects. In addition, there may be write-downs, write-offs, restructuring and impairment or other charges. The market value will fluctuate based on the market’s perception of the relative strengths and weaknesses of the target company.

Before investing in a SPAC, it is important to understand and discuss with your Baird Financial Advisor the structure and terms of the SPAC (including its common stock and warrants) and the potential risks, and determine whether an investment in the SPAC is right for you. Investors in SPACs should have a high tolerance for risk, including the potential lack of liquidity and potential loss of their investment. At least for several months until the SPAC announces an acquisition or acquisition target, your investment should not vary much in value because the IPO proceeds are in a trust account until they are applied to complete an acquisition or other business combination or used to honor redemption requests. Investors should also keep up to date on developments and other information released by the SPAC about potential acquisitions because investors will have certain rights in connection with the acquisition, including redemption and/or voting rights, and could miss out on those opportunities if they do not pay attention. If buying units in a SPAC IPO, you should obtain and read the prospectus so that you understand the rights and other terms applicable to the common stock and warrants. If buying SPAC common stock or warrants in the secondary market, you should review the prospectus and the SPAC’s publicly available information and understand the terms applicable to those securities. You can obtain this information from your Baird Financial Advisor or on the SEC’s EDGAR database at http://www.sec.gov.