

Special Purpose Acquisition Companies: An Examination of Litigation Risk and Mitigation Strategies

Yitong Jiang, Elizabeth Claire Krawczyk*, & Hyoseok (David) Hwang

Department of Accounting and Finance, University of Wisconsin - Eau Claire, Eau Claire, WI

<https://doi.org/10.33697/ajur.2026.163>

Students: jiangy0893@uwec.edu, krawczyk0232@uwec.edu*

Mentor: hwangb@uwec.edu

ABSTRACT

Special purpose acquisition companies (SPACs) have emerged as a popular alternative to traditional initial public offerings (IPOs), offering speed, pricing certainty, and flexibility in taking private companies public through de-SPAC transactions. However, SPACs face significantly higher litigation risks than IPOs due to limited regulatory oversight, conflicts of interest, and poor post-merger performance. Using hand-collected data on 2,450 SPACs and 25,879 IPOs from 2013 to 2024, we find that 4.8% of SPACs are sued compared to 0.6% of IPOs. This study investigates the structural factors driving these lawsuits, including weaker disclosure requirements and the use of forward-looking projections permitted under the Private Securities Litigation Reform Act (PSLRA) safe harbor. We employ regression analysis to examine how macroeconomic conditions influence litigation risk. Our findings suggest that enhanced due diligence, stricter disclosure standards, and robust post-merger governance could mitigate these risks, fostering greater investor confidence and market stability.

KEYWORDS

SPAC; IPO; litigation risk; securities litigation; macro economy; consumer sentiment

JEL CLASSIFICATION

G14; G18; K22

INTRODUCTION

Special purpose acquisition companies (SPACs) have emerged as a prominent alternative path to going public, attracting unprecedented attention in recent years. These blank-check companies raise capital through initial public offerings (IPOs) with the sole purpose of acquiring and taking private companies public through merger transactions, known as de-SPAC transactions. SPACs operate through a two-stage process: first, the SPAC raises capital through an IPO, typically offering units that include shares and warrants; second, within a specified timeframe (usually 18-24 months), the SPAC must identify and complete a merger with a private company.¹ Unlike traditional IPOs, where private firms directly raise capital by selling securities to the public, companies going public via SPAC mergers operate under different regulatory frameworks, particularly concerning forward-looking statements.² SPACs have grown in popularity because of their speed, pricing certainty, reduced regulatory burdens, and enhanced flexibility.³ The SPAC structure includes several key participants: sponsors who organize and promote the SPAC, underwriters who facilitate the IPO, and public shareholders who can redeem their shares if they disapprove of the proposed merger target.¹ This structure can cause conflicts of interest. However, they provide pricing certainty by negotiating valuation privately, reducing their exposure to market volatility. Additionally, they offer negotiable terms, allowing founders and sponsors to customize deal structures. This flexibility enables startups and growth companies to optimize their capital structure post-merger.

Despite their advantages, SPACs are far more likely to face litigation than traditional IPOs. As Coates authoritatively states, the de-SPAC process carries a “different and in some cases higher liability risk profile” under the federal securities laws compared to a conventional IPO.⁴ SPAC litigation encompasses several distinct categories beyond traditional securities fraud claims. These include merger objection lawsuits challenging the fairness of de-SPAC transactions, shareholder derivative suits alleging breaches of fiduciary duty by SPAC sponsors and directors, and claims against financial advisors for inadequate due diligence.^{5,6} They also face unique risks related to warrant accounting issues, conflicts of interest in sponsor compensation structures, and claims arising from forward-looking statements made during investor presentations that later prove overly optimistic. Recently, a case against Alta Mesa, an oil and gas company accused of making misleading financial statements, was settled for \$126.3 million.* Another example is

* Find more details here. <https://www.altamesasecuritieslitigation.com/>

MultiPlan, a data analytics provider for healthcare companies and consumers. It structured the SPAC such that SPAC sponsors, board directors, and controllers were given a massive windfall guaranteed upon completion of a de-SPAC transaction, even if it was a bad deal. The case was settled for \$33.75 million.[†] To reduce these risks, SPACs must implement enhanced due diligence, stricter disclosure standards, and improved governance structures.⁷

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

SPACS and their growth

Special purpose acquisition companies (SPACs) have evolved significantly since their recent inception in 2003, as noted by Bui and Hwang.⁸ The SPAC market experienced unprecedented growth, particularly during 2020-2021, when SPACs represented approximately 58% of volume and 64% of proceeds compared to all IPOs (**Figure 1** and **Figure 2**). These blank-check companies offer an alternative route to going public that bypasses many of the traditional IPO processes.

Regulatory framework and safe harbor provisions

As noted by Klausner et al.,⁷ the 1995 Private Securities Litigation Reform Act (PSLRA) provides that, when accompanied by appropriate cautionary language, a company making forward-looking statements without actual knowledge of their falsity will not be held liable in private securities law actions. This regulatory difference creates a fundamental distinction between SPAC mergers and traditional IPOs, as IPO prospectuses and roadshow presentations rarely include financial projections or forward-looking statements.

The less stringent provision (safe harbor) is intended to encourage SPACs to disclose potentially valuable information to investors about their future outlook and plans.⁹ However, it also raises concerns about the potential for fraud and abuse in the SPAC market.

Pre-SPAC litigation risk

The elevated litigation risk in SPACs often originates during the pre-merger phase, when forward-looking projections and due diligence practices set the foundation for potential future claims. Unlike traditional IPOs, which rarely include financial projections, SPAC presentations frequently feature optimistic revenue and growth forecasts that, if unrealized, become the basis for securities fraud allegations.¹⁰

Key pre-merger risk factors include inadequate due diligence by SPAC sponsors, unrealistic financial projections provided by target companies, and insufficient disclosure of material risks and conflicts of interest. The compressed timeline, which is typical of SPAC transactions, can exacerbate these risks by limiting the thoroughness of due diligence processes.

Effective mitigation strategies include implementing robust due diligence procedures comparable to those used in traditional IPOs, ensuring that all forward-looking statements include meaningful cautionary language and are based on reasonable assumptions, and establishing independent oversight mechanisms to review transaction terms and disclosures. Additionally, SPACs should consider obtaining comprehensive representations and warranties insurance and maintaining detailed documentation of their decision-making processes to demonstrate compliance with fiduciary duties.

Post-SPAC performance and litigation risk

Several studies have documented poor post-merger performance of SPACs. Gahng et al.¹¹ found that low-quality and unprofitable companies are more likely to merge with SPACs, adding an additional layer of uncertainty. This performance gap creates conditions ripe for shareholder litigation when expectations are not met. Based on these observations, we hypothesize that:

Hypothesis 1: SPACs face significantly higher litigation risk compared to traditional IPOs.

Hypothesis 2: Macroeconomic conditions affect SPAC litigation rates independently of their general prevalence.

METHODS AND PROCEDURES

Sample

We collected data on all SPACs listed in the U.S. from Bloomberg. Our final sample includes 2,450 SPACs and 25,879 IPOs over 46 quarters from 2013 to 2024. **Figure 1** shows SPAC volume as a proportion of all IPO volume, while **Figure 2** shows SPAC proceeds as a proportion of all IPO proceeds from 2013 to 2024. About 23.58% of SPACs went public in 2021, resulting in both the SPAC volume share and SPAC proceeds share as a percentage of all IPOs being higher than in other years. To investigate the litigation risk of SPACs and IPOs, we hand-collected securities class action lawsuits from the Securities Class Action Clearinghouse (SCAC).[‡] This database provides detailed information on securities class action lawsuits, including prosecution, defense, and

[†] Find more details here: <https://www.multiplanstockholderslitigation.com/>

[‡] Find more details here: <http://securities.stanford.edu/>

settlement of federal class action securities fraud litigation. The database tracks securities class actions filed in federal courts since the passage of the Private Securities Litigation Reform Act of 1995.[§]

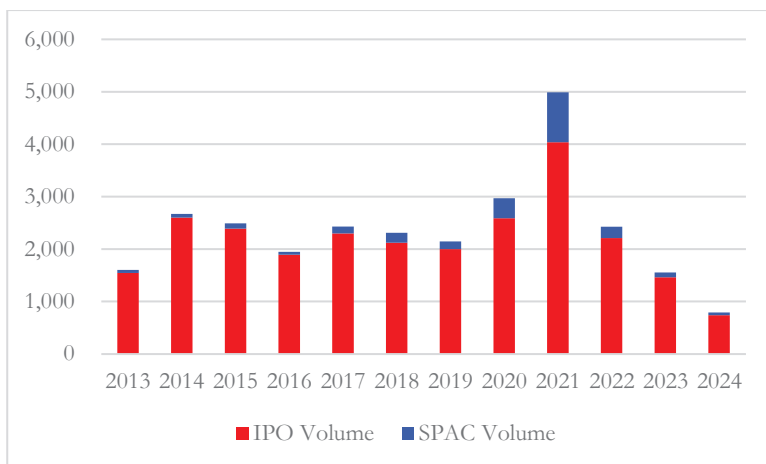


Figure 1. SPAC volume as a proportion of total IPO volume.

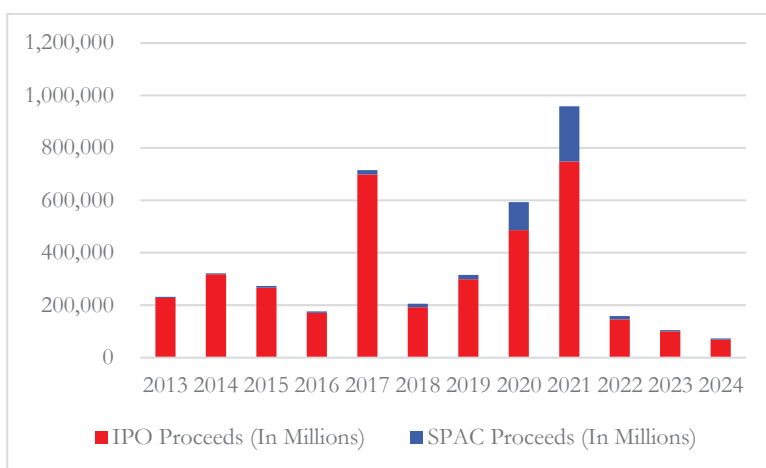


Figure 2. SPAC proceeds as a proportion of total IPO proceeds.

Descriptive statistics

Now we compare SPACs to IPOs. **Figure 3** depicts the ratios of sued SPACs to total SPACs vs. sued IPOs to total IPOs from 2013 to 2024, while **Figure 4** shows the ratios of sued SPAC proceeds to total SPAC proceeds vs. sued IPO proceeds to total IPO proceeds from the same period. Both provide evidence of the higher litigation risk of SPACs relative to IPOs. Especially, SPACs face litigation more recently as they grow in popularity. **Table 1** reports t-test results that compare the proportions of SPACs and IPOs sued over the total number (amount) of SPACs and IPOs. The results are statistically significant at 1% (number) and 5% (amount) level, respectively. Consistent with **Figures 3** and **4**, SPACs are more prone to litigation risk relative to IPOs.

[§] The Private Securities Litigation Reform Act of 1995 (PSLRA) implemented several substantive changes in the United States, affecting certain cases brought under the federal securities laws, including changes related to pleading, discovery, liability, class representation, and awards fees and expenses. Before the PSLRA, plaintiffs – usually shareholders – could file a lawsuit by simply showing their economic damages (stock price drops), and they sought potential fraud during the litigation process. After the PSLRA, however, plaintiffs were required to provide evidence of fraud.

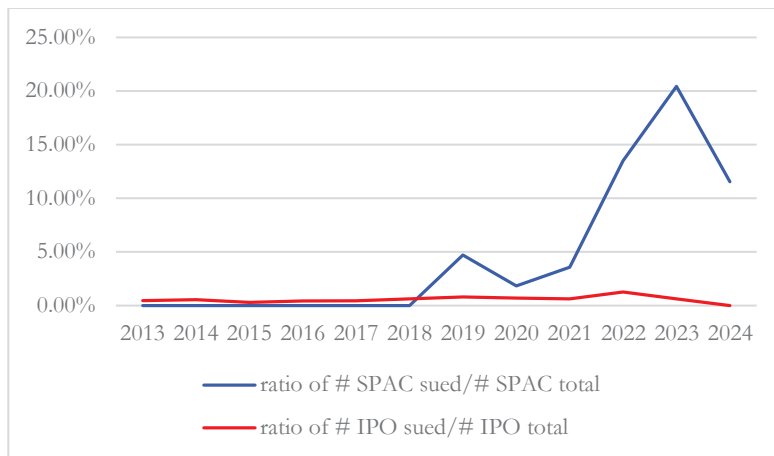


Figure 3. Ratio of the number of SPAC sued to the number of total SPAC and ratio of the number of IPO sued to the number of total IPO.

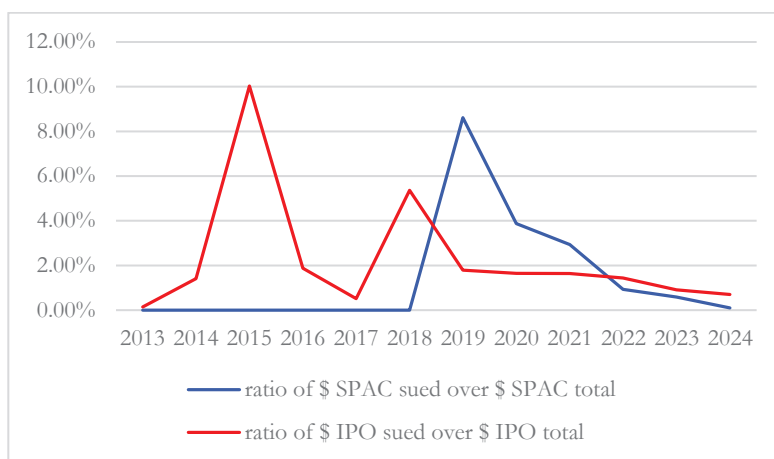


Figure 4. Ratio of SPAC sued amount to total SPAC amount and ratio of IPO sued amount to total IPO amount.

Variable	Obs.	Mean	Std. Err.	Std. Dev.	[95% Conf.	Interval]
Sued SPAC/Total SPAC	46	0.0483	0.0113	0.0768	0.0255	0.0711
Sued IPO/Total IPO	46	0.0061	0.0007	0.0050	0.0046	0.0076
diff	46	0.0422	0.0112	0.0763	0.0196	0.0649
mean(diff) = mean(Sued SPAC/Total SPAC - Sued IPO/Total IPO); t = 3.7529						
Sued SPAC/Total SPAC (\$)	46	0.2041	0.0693	0.4698	0.0646	0.3436
Sued IPO/Total IPO (\$)	46	0.0633	0.0208	0.1412	0.0213	0.1052
diff	46	0.1408	0.0701	0.4757	-0.0004	0.2821
mean(diff) = mean(Sued SPAC/Total SPAC (\$) - Sued IPO/Total IPO (\$)); t = 2.0081						

Table 1. Paired T-tests.

RESULTS

Next, we further investigate the impact of macro environments on the ratio of SPACs sued over the total number of SPACs. Bui and Hwang document that macro environments affect SPAC and IPO activities.⁸ Table 2 reports the summary statistics of the macro variables. The variables include *SPAC Volume* (the number of quarterly SPACs), *IPO Volume* (the number of quarterly IPOs), *Sued SPAC/Total SPAC* (ratio of the number of sued SPACs to the total number of SPACs), *Sued SPAC/Total SPAC (\$)* (ratio of the amount of sued SPACs to the total amount of SPACs), *Sued IPO/Total IPO* (ratio of the number of sued IPOs to the total number of IPOs), *Sued IPO/Total IPO (\$)* (ratio of the amount of sued IPOs to the total amount of IPOs). Our main independent variable is *CCI* (Consumer Confidence Index). Our control variables are *VRP* (variance risk premium), *VIX* (CBOE volatility index), *GDP Growth* (real GDP growth), *Tbill Rate* (Treasury Bill rate), *FFR* (federal funds rate), *Tbill Rate minus FFR* (Treasury Bill rate minus federal funds rate), and *Stock Index* (S&P 500). Both VIX and VRP are influenced by monetary policy and liquidity conditions. When policy rates rise, discount rates increase and market participants demand higher compensation for uncertainty, leading to higher VIX levels and a wider VRP. Conversely, accommodative monetary policy compresses volatility premia by stimulating risk-taking and reducing the cost of option protection.

Variables	Quarters	Mean	Std. Dev	P25	P50	P75
SPAC Volume	46	53.26	79.28	16	31.5	43
IPO Volume	46	562.58	221.87	396	493.5	652
Sued SPAC/Total SPAC	46	0.0483	0.0768	0	0	0.0719
Sued SPAC/Total SPAC (\$)	46	0.2042	0.4698	0	0	0.1422
Sued IPO/Total IPO	46	0.0061	0.0050	0.0025	0.0054	0.0088
Sued IPO/Total IPO (\$)	46	0.0633	0.1412	0.0037	0.0137	0.0388
CCI	46	83.0261	13.0856	74.1	83.3	95.1
VRP	46	8.3970	18.6989	6.18	8.532	12.514
VIX	46	17.9146	5.6921	13.78	16.275	20.68
GDP Growth	46	2.5957	6.9853	1.8	2.75	3.4
Tbill Rate	46	1.3563	1.7696	0.05	0.365	2.04
FFR	46	1.3507	1.7140	0.09	0.425	2.18
Tbill Rate minus FFR	46	-0.0026	0.13501	-0.08	-0.04	0.03
Stock Index	46	2977.094	1040.031	2075.13	2727.24	3980.35

Table 2. Summary statistics.

To investigate the impact of macroeconomic conditions on SPAC litigation risk, we estimate the following regression model:

$$litigation\ risk_t = a + \beta \times Macro\ Variables_{t-1} + \epsilon_t$$

Table 3 presents regression results of macroeconomic factors on SPAC litigation risk. Our findings indicate that the Consumer Confidence Index (CCI) has a significant negative relationship with SPAC litigation risk, suggesting that during periods of higher consumer confidence, the litigation risk for SPACs decreases. Also, it implies that in more optimistic economic climates, investors are less likely to initiate litigation, possibly due to greater tolerance for underperformance and reduced perceptions of misconduct. Stock market performance (Stock Index) shows a marginally significant positive relationship with SPAC litigation, indicating that during bull markets, investors may have higher expectations that lead to increased litigation when those expectations are not met. Traditional volatility measures (VIX and VRP) show no significant relationship with SPAC litigation rates, contrasting with their influence on SPAC issuance found in previous studies.¹² But both VIX and VRP are negative, suggesting that higher volatility may be associated with slightly lower litigation risk, albeit not significantly. This pattern is consistent with findings from Hansen et al. (2024) and the study by Kumar et al. (2017), which show that volatility measures often capture shifts in investor risk aversion but may not directly drive legal outcomes.^{13, 14} Interest rate variables show mixed but generally insignificant effects on SPAC litigation.

	Sued SPAC/ Total SPAC	Sued SPAC/ Total SPAC (\$)
CCI	-0.0024 (0.000)	-0.0123 (0.024)
VRP	-0.0003 (0.538)	0.0002 (0.958)
VIX	-0.0001 (0.926)	-0.0062 (0.623)
GDP Growth	-0.0002 (0.814)	0.0012 (0.874)
T-bill Rate	0.0788 (0.329)	0.9061 (0.192)
FFR	-0.0583 (0.477)	-0.7997 (0.258)
T-bill Rate minus FFR	-0.0544 (0.519)	0.3000 (0.677)
Stock Index	0.00001 (0.069)	-0.00000816 (0.916)
Constant	0.1727 (0.016)	1.2089 (0.046)
OBS	46	46
F(8, 37)	18.53	7.18
Prob>F	0.0000	0.0000
R-Squared	0.8002	0.6081
Adj R-Squared	0.7570	0.5234
Root MSE	0.0379	0.3244

Table 3. The effects of macro variables on the litigation risk of SPACs.

DISCUSSION

Our analysis reveals that 4.8% of SPACs were sued from 2013 to Q2 2024, compared to only 0.6% of IPOs. This disparity stems from several structural factors: limited U.S. Securities and Exchange Commission (SEC) oversight, conflicts of interest between SPAC sponsors and investors, and frequent post-merger underperformance, as noted by Kausner et al.⁷ Additionally, the PSLRA safe harbor provision allows forward-looking statements with cautionary language. However, this flexibility often leads to overly optimistic projections, prompting investor lawsuits when expectations are unmet. Many de-SPAC transactions result in stock price declines, which lead investors to claim they were misled. Shareholders frequently file class action lawsuits due to undisclosed risks or financial weaknesses.

We discuss some strategies to mitigate litigation risk. One of the main reasons SPACs face litigations is that they do not require extensive financial disclosures like traditional IPOs. A suggestion would be to conduct rigorous background checks that include audited financial statements, regular compliance records, and background checks for the executive boards. It would also be beneficial to have opinions on whether the target company is fairly valued. In other words, the SEC may require SPACs to disclose financial information similar to that of IPOs.

Second, SPACs' litigation risk could be mitigated by implementing strong post-merger governance. This would include regular financial reporting and clear communication with investors. Therefore, policy makers need to take measures to prevent and reduce the occurrence of the above situations. The following are some corresponding countermeasures. Avoid rushing due diligence. The key to mitigating these potential litigation risks is ensuring appropriate due diligence. It is important for SPAC sponsors to seek professional legal and financial advisors to conduct proper due diligence and ensure sufficient time is given for Public Company Accounting Oversight Board (PCAOB) audits, as this is a common cause for delayed mergers. For target companies, public company readiness is critical, in particular, bolstering the finance and accounting team to be able to meet the strict financial reporting requirements of a public company.

Disclose potential conflicts. Many of the SPAC litigation claims to date have focused on allegations of potential or actual undisclosed conflicts. Directors involved in SPACs, therefore, must carefully consider conflicts in the context of their fiduciary duties and whether their actions adhere to the essence of the "business judgment" rule. To mitigate potential conflicts of interest, companies may consider forming a special committee composed solely of disinterested and independent directors who serve as the principal negotiators in the transaction, and recusing any affiliated directors from board deliberations.

This study investigated SPAC transactions in the US. Future research could investigate the litigation risk for SPACs at the international level. D'Alvia documents a comparative study on how SPACs are governed in different capital markets.¹⁵ Each market has a different financial regulation and legal standard, which could affect the litigation risk of SPACs in different markets differently.

CONCLUSIONS

In conclusion, special purpose acquisition companies (SPACs) have emerged as a popular alternative to traditional IPOs due to their speed, pricing certainty, and reduced regulatory burdens. This study highlights the significantly higher litigation risks associated with SPACs compared to traditional IPOs. The lack of regulatory oversight, conflicts of interest, and poor post-merger performance contribute to the increased likelihood of investor lawsuits. To mitigate these risks, SPACs need to adopt enhanced due diligence practices, stricter disclosure standards, and robust governance structures. Aligning SPAC disclosures with traditional IPO standards and implementing strong post-merger governance can help reduce the incidence of litigation and foster greater investor confidence. Additionally, conducting rigorous background checks, including audited financial statements and compliance records, can ensure further transparency and accountability. By addressing these structural factors, SPACs can better navigate the complexities of going public and achieve more sustainable long-term success. Ultimately, improving these practices will not only protect investors but also enhance the overall integrity and stability of the SPAC market.

ACKNOWLEDGEMENTS

The authors thank the College of Business and the Office of Research and Sponsored Programs at the University of Wisconsin-Eau Claire for financial support and making this project possible.

REFERENCES

1. Jones Day. (22 May, 2023) SPAC Litigation: A Review of Recent Developments. <https://www.jonesday.com/en/insights/2023/05/spac-litigation-a-review-of-recent-developments>
2. Berger, R. (2008) SPACs: An alternative way to access the public markets, *J Appl C Fin* 20, 68–75.

3. Cumming, D., Helge HaB, L. H., and Schweizer, D. (2014) The fast track IPO - Success factors for taking firms public with SPACs, *J Bank Fin* 47, 198–213. <https://doi.org/10.1016/j.jbankfin.2014.07.003>
4. Coates, J. (8 April, 2021) SPACs, IPOs and Liability Risk under the Securities Laws. SEC Public Statement. <https://www.sec.gov/newsroom/speeches-statements/spacs-ipos-liability-risk-under-securities-laws>
5. Fortney, H. (May, 2022) SPAC attack: An Examination of SPAC Director Compensation and Its Legal Implications, Discussion Paper No. 93, Harvard Law School. https://laweconcenter.law.harvard.edu/wp-content/uploads/2025/01/Fortney_93.pdf
6. Danaevsky, Y., and Huskins, P. C. (2025) Guide to D&O Insurance for SPAC IPOs, Woodruff-Sawyer & Co. <https://woodruffssawyer.com/sites/default/files/document/Guide%20to%20D%26O%20for%20SPAC%20IPOs%202025.pdf>
7. Klausner, M., Ohlrogge, M., and Ruan, E. (2022) A sober look at SPACs, *Yale J Reg* 39, 228–303. <https://www.yalejreg.com/print/a-sober-look-at-spacs/>
8. Bui, Y., and Hwang, H. (2024) Market sentiment and SPACs, *Appl Econ Lett* 1–6. <https://doi.org/10.1080/13504851.2023.2301479>
9. Blankespoor, E., Hendricks, B. E., Miller, G. S., and Stockbridge, D. R. Jr. (2022) A hard look at SPAC projections, *Mgmt Sci*, 68, 3975–4753, iv-v. <https://doi.org/10.1287/mnsc.2022.4385>
10. Malioneck, R., Maeirson, R., and Junell, B. (9 August, 2021) SPAC-Related Litigation Risks and Mitigation Strategies, Harvard Law School Forum on Corporate Governance. <https://corpgov.law.harvard.edu/2021/08/09/spac-related-litigation-risks-and-mitigation-strategies/>
11. Gahng, M., Ritter, J. R., and Zhang, D. (2023) SPACs, *Rev Financ Stud* 36, 3463–3501. <https://dx.doi.org/10.2139/ssrn.3775847>
12. Blomkvist, M., and Vulcanovic, M. (2020) SPAC IPO waves, *Econ Lett* 197. <https://doi.org/10.1016/j.econlet.2020.109645>
13. Hansen, P. R., Huang, Z., Tong, H., and Wang, X. (2024) *Realized GARCH, CBOE VIX, and the Volatility Risk Premium*. *Journal of Financial Econometrics*, 22(1), 187–223.
14. Kumar, M. S., Mallick, S. K., Mohanty, M., and Zampolli, F. (2017). Market Volatility, Monetary Policy, and the Term Premium. BIS Working Paper No. 606. <https://www.bis.org/publ/work606.pdf>
15. D’Alvia, D. (2020) The international financial regulation of SPACs between legal standardised regulation and standardisation of market practices. *J Bank Regul* 21, 107–124. <https://doi.org/10.1057/s41261-019-00100-5>

ABOUT THE STUDENT AUTHORS

Yitong Jiang graduated from the University of Wisconsin–Eau Claire in December of 2024 with a Bachelor of Business Administration degree and started the Questrom School of Business at Boston University in September of 2025.

Elizabeth C. Krawze graduated from the University of Wisconsin–Eau Claire in December of 2025 with a Bachelor of Business Administration degree in Finance and started a professional career at Orgel Wealth Management in Altoona, WI, in March of 2026.

PRESS SUMMARY

This study examines the litigation risk of special purpose acquisition companies (SPACs) compared to traditional initial public offerings (IPOs). Using hand-collected data on 2,450 SPACs and 25,879 IPOs from 2013 to 2024, the authors find that 4.8% of SPACs faced securities class action lawsuits, compared to only 0.6% of IPOs. The higher litigation risk stems from weaker disclosure requirements, conflicts of interest between SPAC sponsors and investors, and frequent post-merger underperformance. The study also finds that macroeconomic conditions influence SPAC litigation risk: higher consumer confidence is associated with lower litigation rates, while stronger stock market performance is linked to marginally higher litigation. The results suggest that enhanced due diligence, stricter disclosure standards aligned with traditional IPO requirements, and robust post-merger governance could help mitigate these risks and foster greater investor confidence in the SPAC market.