SPACs: Generation III

Ellenoff Grossman & Schole LLP

Merger Ahead

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- The information which we are sharing with you today seeks and may answer some questions of yours related to SPACs and the developments which we have all observed over the last 10 years, but is not intended as a comprehensive analysis of the topic or situations directly impacting you and any of your existing SPACs. In addition, this information should not be relied upon as legal advice– these are only general observations of ours. You are encouraged to speak with your own securities counsel. Your counsel may analyze the same facts and rules differently and come to dramatically different conclusions and recommendations for you.

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- This presentation is made solely for the interest of the participants on this call and should in no way be relied upon or construed as legal advice. For specific information on particular factual situations, an opinion of your legal counsel should be sought.

About The Moderator/Panelists

- **Douglas S. Ellenoff, Esq.,** a member of Ellenoff Grossman & Schole, LLP, a 55 lawyer New York-based firm, since its founding in 1992, is a corporate and securities attorney with a specialty in business transactions and corporate financings. Mr. Ellenoff has represented public companies in connection with their initial public offerings, secondary public offerings, regulatory compliance as well as general corporate governance matters. During his career, he has represented numerous broker-dealers, venture capital investor groups and many corporations involved in the capital formation process. In the last several years, he has been involved at various stages in numerous registered public offerings, including 75 financings and, with other members of his firm, over 600 private placements into public companies, representing either the issuers of those securities or the registered broker-dealers acting as placement agent. Along with other members of his Firm, Mr. Ellenoff has been involved at various stages with over 70 registered blind pool offerings (commonly referred to as "SPACs"; 25 of which have consummated their IPO's raising over $2.0 billion). Mr. Ellenoff is counsel to 57th Street General Acquisition Corporation– the first Generation III SPAC which consummated its SPACquisition of Crumbs Holdings LLC in May 2011. He also provides counsel with regard to their respective ongoing (SEC, AMEX and FINRA – formerly known as NASD) regulatory compliance.
- **Mark D. Klein** was the Sponsor of the first Generation III SPAC-- 57th Street General Acquisition Corporation, which raised $54 million in an underwritten public offering by Morgan Joseph and Ladenburg Thalmann in April 20100. In May 2011, 57th St. successfully completed its SPACquisition of Crumbs Holdings LLC. Prior to 57th Street, Mr. Klein was the sponsor of Alternative Asset Management Corporation (“AAMAC”), a SPAC he helped form in 2007 and which completed a merger with Great American Group LLC in August 2010. Mr. Klein is also a registered representative at Ladenburg Thalmann & Co. Inc., a Managing Member of the LTAM Titan Fund, a fund of funds hedge fund and was one of the principals of Aldebaran Investment, LLC, a private fund investing in special purpose acquisition companies. From April 2007 until August 2008, Mr. Klein was the Chief Executive Officer of Hanover Group US LLC, an indirect US subsidiary of the Hanover Group. Prior to joining Hanover in 2007, Mr. Klein was Chairman of Ladenburg Thalmann & Co. Inc., a leading underwriter of blank check companies, which is engaged in retail and institutional securities brokerage, investment banking and asset management services.

About The Panelists

- **Stuart Neuhauser**, Stuart Neuhauser, a member of the Firm, is a corporate and securities attorney with a specialty in business transactions and corporate financings. Mr. Neuhauser has represented public companies (both domestic and foreign) in connection with their public offerings, secondary public offerings, PIPE financings, 34 Act reporting requirements, regulatory compliance (including ongoing compliance with the SEC, AMEX, NASDAQ, FINRA and state securities laws) as well as general corporate governance matters. Mr. Neuhauser has also represented several investment banking securities brokerage firms in connection wtih private placements, public offerings and general advisory engagements, and has counseled both public and private companies, investment banking firms and investors regarding joint ventures, corporate restructurings, corporate finance, mergers and acquistions (including "reverse mergers") and other aspects of corporate and securities matters. Mr. Neuhauser has extensive experience in the public offerings of SPACs (on behalf of issuers and underwriters) and has played an important role in drafting and formulating the structural changes of the Generation III SPACs. Mr. Neuhauser received a Juris Doctor degree from Benjamin N. Cardozo School of Law, where he was a member of the Cardozo Law Review. He received a Bachelor of Science degree from Adelphi University. He is admitted to practice law in the State of New York.

- **John Shaw** leads the SPAC product practice at Deutsche Bank, where he has originated and executed SPAC IPOs in the US and Europe raising over $2.7 billion and advised on successful initial business combinations with a total enterprise value of over $7 billion. He joined DB in 2007 from Legend Merchant Group, an investment bank and broker-dealer he co- founded in 2002. John was President and Co-Chairman of Legend from inception and lead its expansion from 4 to over 50 professionals and directed its capital markets activities, which included an industry leading SPAC product practice that completed over 30 IPOs raising $2.5 billion.

About
Ellenoff Grossman & Schole LLP

Ellenoff Grossman & Schole LLP is a New York-based law firm with over 55 professionals offering its clients legal services in a broad range of business related matters. The Firm specializes in many areas of commercial law: Corporate, Securities, Broker-Dealer Regulations, Hedge Funds, Real Estate, Litigation, Tax and Estate Planning. In May 2011 the attorneys of Weinstein Smith LLP joined Ellenoff Grossman & Schole LLP. The firm is nationally recognized as one of the leading firms representing investment banks and institutional investors in private equity transactions of all types, including registered direct and confidentially marketed public offerings (CMPO) transactions, PIPES (private investment in public equities) and equity lines of credit, as well as more traditional underwritten public offerings.

The Firm has over 25 securities professionals specializing in a range of activities, including:

- Public Offerings (IPOs and Secondaries) – Including SPACs
- Mergers and Acquisitions
- Registered Directs and CMPOs
- PIPEs
- Exchange Act reporting (Form 10-Ks, 10-Qs and Proxies)
- NASD, AMEX, NASDAQ and OTC compliance
- Broker-dealer regulations
- Rule 144 transactions
- Section 16 compliance
- Employee Benefits and Executive Compensation

SPAC Practice
Ellenoff Grossman & Schole LLP

During the course of the last 10 years, Ellenoff Grossman & Schole LLP has been involved at various stages in over 70 proposed/completed SPAC IPOs. 20 of those financings were successfully consummated and resulted in the raising of over $2,000,000,000. In addition to our IPO experience with SPACs, we have been involved with 20 SPAC M&A assignments. At present, we have 25 securities professional who are engaged in our SPAC practice. EGS was counsel to the first Generation III SPAC– 57th Street General Acquisition and continues to act as counsel to the combined companies.

SPAC Statistics

- Since 2003, there have been approximately 200 successful domestic and international SPAC IPO offerings (14 AIM and Euronext)
- Excluding Generation III SPACs, approximately 60% have successfully completed their acquisitions and the others have appropriately returned the trust capital to investors
- GSME was the only SPAC to be completed in 2009. GSME was underwritten by Cohen Brothers. GSME recently successfully completed its business combination with Plastec International Holdings
- In May 2010, 57th Street General Acquisition raised $54 million and became the first SEC approved SPAC with a tender offer feature
- In May 2011, 57th Street became the first Generation III SPAC to complete its SPACquisition
- In 2010, there were a total of 7 Generation III SPAC IPOs completed raising nearly $500 million
- Through July 20, 2011, there have been a total of 13 Generation III

  SPAC IPOs completed raising nearly $952 million
- Of the 20 Generation III SPACs

  - 10 P/E or Fundless P/E Sponsors

  - 6 Serial SPAC Sponsors

  - 8 EMT SPACs

SPAC History

- Although SPACs and their predecessors (blind pools) go back for decades, most of the public recognition of this program dates back initially to 1993 (Generation I) with the SEC adoption of Rule 419 and then with its rebirth after the dotcom mania in 2003 (Generation II).

- The program gained momentum after 2003 and really legitimacy after 2005 when
  - the “bulge bracket” underwriters became meaningfully involved (Citi, DB, Lazard)
  - the sponsors were well-recognized investors and private equity managers (Hicks, Peltz, PWP)
  - the acquisitions are household names (Jamba Juice/American Apparel/Talbotts)
  - the size of the Generation II IPOs were routinely above $100 million and we saw the first $1 billion IPO in SPACs (Liberty Acquisition)
  - we also saw the beginnings of Corporate Sponsored SPACs (Dekania, United Refining) and the beginnings of Private Equity Sponsored SPACs (Camden Partners/Steel Partners)

- Evolving complexity of the SPAC program and changing features

SPACquisition Developments

- Notwithstanding the abrupt change in market conditions in 2008 (no SPAC IPOs in second half of the year) and general loss of appetite for alternative public offerings, approximately half of the 2008/2009 SPAC acquisitions were still consummated

- From September 2008 to April 2009, yield oriented investors entered the secondary trading of SPAC issues and purchased significant blocks of securities (with no intent to support any proposed business combination) to benefit from the discounted price of SPAC common shares versus the intrinsic value of the trust, which was backed largely by US Treasury securities

- SPAC sponsors, bankers and lawyers create new deal structures to respond

Structuring Trends

- Movement to smaller transactions in specific, niche sectors
- Increasing warrant strike out-of-the money
  - Approximately 115% – 125% of unit offering price
  - Concurrent increase to warrant call price of approximately $5 - $6 above strike price
- Promote subject to earn-out provisions or clawbacks
- Shorter time horizon: 18 – 21 months to find an acquisition
- Lower up-front fees by Issuer to Underwriter
- Modifications to shareholder vote features to lessen effect of “no voters”
  - Increasing redemption threshold
  - Shareholders can vote “Yes” and can still opt to get their money back
- Tender offer option: Stockholders have the opportunity to redeem their shares of common stock for cash upon consummation of business combination
- Commitment from sponsorship to purchase open market shares up to trust levels

Structuring Trends

- No vote structure (Committed Capital) and impact to PE
- 6 SPACs priced in Q4 2010
- 13 SPACs priced in 2011 through July 20
- Deal size is significantly smaller than the SPACs of 2007/2008 allowing greater acquisition flexibility – current average size is $73 million
- Current SPACs use a $10.00 unit regardless of deal size
- Vast majority of SPACs have warrant strikes out-of-the-money, most having a strike of $11.50
- Management warrant purchases are trending higher again - most 2011 SPACs that have priced have had management warrant purchases at $0.75
- SPAC sponsor teams include repeat serial issuers and high quality first time issuers
- Most have listed on the OTCBB - lack of retail investors is forcing even the larger SPACs to initially list on the OTCBB
- Outside of the U.S., SPACS have also been popular in Europe and Korea

** As of 9/10/2010*

SPAC– 2011 Capital Markets

- 2010’s 7 SPACs - substantiates interest
- 2011’s 13 SPACs - further solidifies product
- Investor’s issues and concerns
- Will another one of the 2010 Generation III SPACs announce a well received transaction
- Will the SEC approve revisions to listing rules for AMEX and NASDAQ
- No vote structure and its appeal to PE funds

SPAC– 2011 Capital Markets

- **Average deal sizes are trending smaller again**

Year	# of SPACs	Avg. Deal Size ($mm)	Gross Proceeds ($mm)
2011	13	$73.2	$951.0
2010	7	$71.7	$502.0
2009	1	$36.0	$36.0
2008	17	$226.0	$3,842.0
2007	66	$183.2	$12,093.0
2006	37	$91.5	$3,384.0
2005	28	$75.5	$2,113.0
2004	12	$40.4	$485.0
2003	1	$24.2	$24.0
Total	**180**	**$127.0**	**$23,430.0**

SPAC – 2010/2011

SPAC	Common Symbol	% Held In Trust	IPO Unit Price	Strike Price	Mgmt Warrant Purchase Price	Mgmt Invest. % of deal	Mgmt Promote
57th Street General Acqu. Corp.	SQTC	100.0%	$10.00	$11.50	$0.50	3.7%	10%
Cazador Acquisition Corp. Ltd.	CAZA	100.8%	$10.00	$7.50	$0.50	5.4%	20%
Hicks Acquisition Company II Inc.	HKAC	99.5%	$10.00	$12.00	$0.75	6.7%	12.5%(1)
Australia Acquisition Corp.	AAC	101.0%	$10.00	$11.50	$0.50	6.3%	25%(2)
L&L Acquisition Corp.	LLAQ	101.0%	$10.00	$11.50	$0.75	5.7%	20%(3)
JWC Acquisition Corp.	JWCA	100.0%	$10.00	$11.50	$0.75	3.2%	14%(3)
Flatworld Acquisition Corporation	FTWA	102.0%	$10.00	$11.00	$0.75	6.8%	20%
RLJ Acquisition	RLJA	99.5%	$10.00	$12.00	$0.75	3.7%	20%(1)
China Vantage Point	CVPLF	99.7%	$6.00	$5.00	$0.35	6.17%	20%
Lone Oak Acquisition	LKOAF	102.0%	$8.00	$5.00	$0.35	7.22%	20%

SPAC – 2010/2011 (continued)

SPAC	Common Symbol	% Held In Trust	IPO Unit Price	Strike Price	Mgmt Warrant Purchase Price	Mgmt Invest. % of deal	Mgmt Promote
Prime Acquisition	PACQ	97.4%	$10.00	$7.50	$0.75	4.67%	25%(4)
SCG Financial Acquisition	SCGQ	100%	$10.00	$11.50	$0.75	3.75%	16%(5)
Global Cornerstone Holdings Ltd.	GHCSF	100%	$10.00	$11.50	$1.00	3.75%	18%(6)
Universal Business Payment Solutions	UBPS	101.0%	$6.00	$6.90	$0.50	4.33%	20%
Global Eagle Acquisition	EAGL	100%	$10.00	$11.50	$0.75	3.0%	18%(6)
China Growth Equity Investment Ltd.	CGEI	100.5%	$10.00	$12.00	$0.75	5.95%	20%
Empeiria Acquisition Corp.	EPAQ	102.0%	$10.00	$11.50	*	6.5%	25%(2)
Trio Merger Corp.	TMRG	101.0%	$10.00	$7.50	$0.50	5.9%	20%
Azteca Acquisition Corp.	AZTA	100.5%	$10.00	$12.00	$0.75	3.5%	20%(7)
Blue Wolf Mongolia Holdings	MNGL	100%	$10.00	$12.00	$0.75	4.5%	20%(7)
Nautilus Marine Acquisition Corp	NMAR	101%	$10.00	$11.50	$0.75	4.86%	20%(7)

(1) Subject to 2.5% forfeiture
(2) 20% subject to price threshold
(3) Subject to 2% forfeiture
(4) Subject to 10.4% forfeiture
(5) Subject to 3% forfeiture
(6) Subject to 4% forfeiture
(7) Subject to 5% forfeiture
* Management purchased Units at a price of $10 per Unit

Learning and Improving– 57th Street General Acquisition

- SEC approval of new disclosure process

- Tender Offer
  - Timing
  - Disclosure
  - Process
  - Deal certainty

- Reduced dilution
  - Sponsor promote
  - Warrant exercise price

- Attractiveness of structure to Private Equity Firms and Targets

Revised Sponsor Promote

- 57th St - 10% with no additional

- Trend is up to 20% again but with milestone reverse vesting

- (Cohen Brothers) 5% with additional (20%) milestone vesting

Revised "At Risk" Commitment

- Since the vast majority of the Generation III SPACs have approximately 100% held in trust structures, the At Risk Capital that needs to be committed by a sponsor is in the range of 4-6% of the IPO raise– which funds the underwriter discount, legal, accounting and the amount reserved for working capital for the transactional costs associated with the business combination

Listing Options and Decisions

- OTC Bulletin Board
  - No 20% Shareholder Approval Rule

- NYSE/AMEX and NASDAQ
  - Approved Rule Change
  - TO and Shareholder Approval
  - Rule Pending Approval

- Foreign Private Issuers