

SEC Charges SPAC, Sponsor, Merger Target, and CEOs for Misleading Disclosures Ahead of Proposed Business Combination

Charges Relate to Planned Merger of Stable Road Acquisition Company and Space Transportation Company Momentus Inc.

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Washington D.C., July 13, 2021 — The Securities and Exchange Commission today announced charges against special purpose acquisition corporation Stable Road Acquisition Company, its sponsor SRC-NI, its CEO Brian Kabot, the SPAC's proposed merger target Momentus Inc., and Momentus's founder and former CEO Mikhail Kokorich for misleading claims about Momentus's technology and about national security risks associated with Kokorich. The SEC's litigation is proceeding against Kokorich, against whom the SEC filed a complaint in the U.S. District Court for the District of Columbia. All other parties are settling with the SEC, with terms including total penalties of more than \$8 million, tailored investor protection undertakings, and the SPAC sponsor's forfeiture of founder's shares it stands to receive if the merger, currently scheduled for August 2021, is approved.

According to the SEC's settled order, Kokorich and Momentus, an early-stage space transportation company, repeatedly told investors that it had "successfully tested" its propulsion technology in space when, in fact, the company's only in-space test had failed to achieve its primary mission objectives or demonstrate the technology's commercial viability. The order finds that Momentus and Kokorich also misrepresented the extent to which national security concerns involving Kokorich undermined Momentus's ability to secure required governmental licenses essential to its operations. In addition, the order finds that Stable Road repeated Momentus's misleading statements in public filings associated with the proposed merger and failed its due diligence obligations to investors. According to the order, while Stable Road claimed to have conducted extensive due diligence of Momentus, it never reviewed the results of Momentus's in-space test or received sufficient documents relevant to assessing the national security risks posed by Kokorich. The order finds that Kabot participated in Stable Road's inadequate due diligence and in filing its inaccurate registration statements and proxy solicitations. The SEC's complaint against Kokorich includes factual allegations that are consistent with the findings in the order.

"This case illustrates 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," said SEC Chair Gary Gensler. "Stable Road, a SPAC, and its merger target, Momentus, both misled the investing public. The fact that Momentus lied to Stable Road does not absolve Stable Road of its failure to undertake adequate due diligence to protect shareholders. Today's actions will prevent the wrongdoers from benefitting at the expense of investors and help to better align the incentives of parties to a SPAC transaction with those of investors relying on truthful information to make investment decisions."

"Our enforcement team worked with incredible speed, efficiency, and creativity to file today's actions so that investors will have the benefit of complete and accurate information when voting on the proposed merger," said Melissa R. Hodgman, Acting Director of the SEC's Division of Enforcement. "Today's settlement will deter future misconduct in the SPAC market without inhibiting capital formation, while also allowing for the distribution of monetary relief to harmed investors."

“Momentum’s former CEO is alleged to have engaged in fraud by misrepresenting the viability of the company’s technology and his status as a national security threat, inducing shareholders to approve a merger in which he stood to obtain shares worth upwards of \$200 million,” said Anita B. Bandy, Associate Director of the SEC’s Division of Enforcement. “Our litigation against Kokorich demonstrates our commitment to holding individuals accountable for their statements to investors, which are of particular concern when they are aimed at improperly capitalizing on public interest in popular investment vehicles such as SPACs.”

The SEC’s order finds that Momentum violated scienter-based antifraud provisions of the federal securities laws and caused certain of Stable Road’s violations. It also finds that Stable Road violated negligence-based antifraud provisions of the federal securities laws as well as certain reporting and proxy solicitation provisions. The order finds that Kabot violated provisions of the federal securities laws related to proxy solicitations and that Kabot and SRC-NI caused Stable Road’s violation of Section 17(a) (3) of the Securities Act of 1933. Without admitting or denying the SEC’s findings, Momentum, Stable Road, Kabot, and SRC-NI consented to an order requiring them to cease and desist from future violations. Momentum, Stable Road, and Kabot will pay civil penalties of \$7 million, \$1 million, and \$40,000, respectively. Momentum and Stable Road have also agreed to provide PIPE (private investment in public equity) investors with the right to terminate their subscription agreements prior to the shareholder vote to approve the merger; SRC-NI has agreed to forfeit 250,000 founders’ shares it would otherwise have received upon consummation of the business combination; and Momentum has agreed to undertakings requiring enhancements to its disclosure controls, including the creation of an independent board committee and retention of an internal compliance consultant for a period of two years.

The SEC’s complaint against Kokorich alleges that Kokorich violated antifraud provisions of the securities laws and aided and abetted Momentum’s violations of the same provisions. The complaint seeks permanent injunctions, penalties, disgorgement plus prejudgment interest, and an officer-and-director bar against Kokorich.

The SEC’s investigation was conducted by Matthew Spitzer, Sharan Custer, Ernesto Amparo, and Robert Nesbitt, and was supervised by D. Mark Cave and Ms. Bandy. The litigation against Kokorich will be handled by Melissa Armstrong and Fernando Campoamor and will be supervised by Thomas Bednar.

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Related Materials

- [SEC Order](#)
- [SEC Complaint - Kokorich](#)