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**Intellectual Property-Related Risk Allocation Provisions in Share Sale and Purchase Agreements**

**Abstract**

In acquisitions, the irregularities and risks identified by the transactional due diligence will finally be either treated in the transaction documents or will be taken into consideration when establishing the purchase price. On the legal side, contractual provisions that will allocate risk include covenants, warranties and indemnities or alternatively (or additionally), provisions that prescribe that the irregularity is remedied until closing, as a pre-condition. While transactional counsels will have to come up with clear-cut answers as to which vehicle would serve its client’s interest the best, the actual contractual provision by which a specific irregularity is remedied, or a risk is mitigated ultimately will be picked and worded in accordance with the bargaining position of the parties.

**Keywords:** M&A, intellectual property, risk mitigation, SPA, warranty, indemnity

**I. Introduction**

Most contract provisions may be viewed as risk-allocating vehicles. Designed more specifically and consciously than other clauses to shift risk from one party to the other, (among others) covenants, representations and warranties, as well as indemnification provisions,¹ alter property rights by allocating risk contractually. Certain risks will be resolved pre-signing, while others will be addressed either pre- or post-closing.²

In the context of mergers and acquisitions (“M&A”), provisions allocating misvaluation risks are based on the issues identified by the due diligence reports. Our

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previous paper provided an overview – from an intellectual property (“IP”) point
of view – of the stages of M&A transactions and the purpose, disciplines and process of
due diligence exercises (“DD”), as well as the most common IP considerations and risks
identified during DDs.

This paper takes up the task of introducing risk allocation provisions (“RAP”) implemented in share sale and purchase agreements (“SPA”) that address IP-related misvaluation risks, as well as IP-related risks associated with the change of the value of the target between signing the transaction documents and completing the deal (so-called “value-shift risks”).

The structure of this paper is as follows. Part I reviews a model SPA definition for intellectual property. Part II analyses IP-specific covenants. Part III and IV elaborate on IP warranties and indemnities, respectively. Each part describes the essence of the RAP addressed and provides a model clause that may be adjusted in light of the select drafting notes included herein. Part V summarises the findings of Parts I to V.

II. Definition of “Intellectual Property”

In order to facilitate drafting, negotiation and interpretation, it is usual to include in the SPA a set of defined terms that cover major notions referred to multiple times. The definition of “Intellectual Property” is used throughout SPAs, mostly in the warranty, and occasionally in the indemnification, as well as covenant sections.

A model definition proposed in M&A literature for “Intellectual Property” is, as follows:

all copyright and related rights, moral rights, design rights, registered design, database
rights, [semiconductor topography rights,] patents, rights to inventions, [utility models,]
business names, trademarks, [service marks,] trade names, domain names, [rights in
get-up,] know-how, trade secrets, and rights in confidential information, rights to
goodwill or to sue for passing off or unfair competition, and any other intellectual
property rights or rights of a similar nature (in each case whether or not registered) and
all applications for any of them which may subsist anywhere in the world.

3 Titled “Intellectual property-related considerations in M&A due diligence”.
4 Although related to IP matters, in general, information technology, data protection and privacy matters
are treated as a separate area of the DD processes. Therefore, this analysis does not encompass IT-, data
protection-, or privacy-specific considerations.
5 Thomson Reuters Practical Law Commercial, Using contractual risk allocation provisions to minimize
risk and maximize reward.
6 R. Thompson (ed.), Sinclair on warranties and indemnities on share and asset sales, (Sweet & Maxwell,
7 Ibid.
Vendors should consider closely the scope of the definition and make sure that it is not unduly broad and no undue reference is made (e.g., reference to “semiconductor topography rights” might be futile). References that are too wide and general (e.g., to “[...] any other intellectual property rights or rights of similar nature [...] which may subsist anywhere in the world”) may also be unacceptable for the seller, especially if the target conducts business in multiple jurisdictions.8

Likewise, acquirers will generally push for an expansive definition to ensure, primarily, that all IP necessary for the operation of the target is within the perimeter, and, secondarily, that the IP-related representations and warranties are comprehensive. Therefore, buyers will want to confirm that IP is defined broadly and the definition is not unintentionally narrowed (which could cause, for example, an unintended limitation on the seller’s non-infringement warranties).9 This approach is correct, even if the target itself does not own or make use of a specific category of IP (e.g., patents), so as not to narrow warranties that refer to such a term (e.g. “non-infringement” warranties would cover patent use, as well).10 Including express descriptions or separate definitions for certain specific IP types may prove relevant where certain IP types are material for the target business (e.g., the target runs a software business), and, thus, more complex warranties are sought by the buyer in their regard.11

Where the target IP is modest and raises relatively few issues, the buyer may compromise and accept a condensed definition. In any case, the buyer should ascertain that the SPA definition does not refer to any owner and covers all IP categories and relevant jurisdictions (even territories where third-party IP could be relevant in respect of the target).12

In share purchases it is standard that a separate definition covering “Company Intellectual Property” is introduced, which encompasses IP assets owned specifically by the target. This definition is usually referred to in title, sufficiency and “non-infringement” warranties. The seller typically wants to restrict this definition to registered IP or applications for registration of the target.13

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8 Ibid.
11 Ibid.
13 Thomson Reuters Practical Law Corporate & Securities, Stock purchase agreement...
III. COVENANTS

Covenants are “agreements to do something (affirmative covenant), not to do something (negative covenant) or to maintain something (maintenance covenant)”\(^{14}\). Where the target’s IP is material, it is typical for the buyer to seek to include covenants in the SPA to ensure that the seller (or the target company) on the one hand refrains from taking certain actions, and, on the other hand, takes certain actions in connection with the relevant IP right.\(^{15}\)

IP-related SPA covenants enhance the buyer’s contractual protection against IP risks, supplementing the protection regime ensured by warranties and indemnities, and may be defined so as to apply to the interim period prior to closing (“pre-closing covenants”), and/or for a limited period after closing (“post-closing covenants”).

1. Pre-closing covenants

Where signing and closing is split in time, the buyer generally seeks a covenant from the seller that it must conduct the target company’s business (and cause the target to conduct its business) in the ordinary course in line with past practice. This covenant is designed to assure the buyer that the target is in substantially the same condition as at signing (and as appraised by the valuation and the DD) and at closing,\(^ {16}\) and is known as the “interim operating covenant”.\(^ {17}\)

The interim operating covenant usually specifies an extensive list of actions, in respect of which the buyer’s (preliminary, written) consent is necessary, the scope varying depending on the relevant industry, certain competition-related considerations\(^ {18}\).

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\(^{18}\) In defining and wording interim covenants, the counsels and the parties should be wary of compliance with antitrust regulation (e.g., “gun-jumping” rules).
and the commercial agreement of the parties. IP-specific parts of the interim operating covenant clause generally include the seller’s (and/or the target’s) undertaking:

(i) not to transfer, license, encumber, assign or dispose (including entering into proceedings) of, or abandon any IP rights owned by the target without the consent of the buyer, and

(ii) to make filings and payments necessary for maintaining the status of the IP rights owned by the target.19

Where the target IP matters and portfolio are limited, the buyer may be fine with narrow IP-specific language that covers at least the above points.20 By contrast, a more elaborate model addition to the general interim operating covenant could read as follows:

From the date hereof until the Closing Date, the Seller shall not and shall cause the Company not to […] (i) sell, assign, transfer, grant any security interest in, or otherwise encumber or dispose of any Intellectual Property; (ii) grant license to any Intellectual Property owned and/or used by the Company, or grant sublicense to any Intellectual Property licensed by the Company; (iii) abandon, allow to lapse, disclaim or dedicate to the public, or fail to make any filing, pay any fee or take any other action necessary to maintain the ownership, validity, enforceability in full force and effect of any Intellectual Property registrations of the Company.21

In each case, in negotiation, the seller should ensure that the target will be able to operate in the ordinary course without unnecessary or undue interference – key to this principle is the widely accepted exclusion from interim covenants that allow such actions that fall within the scope of the ordinary course of business of the target. More specific pro-seller limitations of the above covenant could include the limitation of the undertaking to “material” target IP, the exclusion of non-exclusive licences from the undertaking in point (ii), and the carve-out of non-material IP from the scope of point (iii) above. Pro-buyer additions to the model clause could include maintenance and protection covenants for non-registered IP, such as trade secrets and confidential information (where reasonable).22

19 Latham & Watkins LLP, The book of jargon, global mergers & acquisitions...
20 A model condensed addition could read as follows “[...] not to assign, transfer, license, abandon, fail to maintain, or otherwise dispose of any [material] Company Intellectual Property [other than in the ordinary course of business consistent with past practice]” (Latham & Watkins LLP, The book of jargon, global mergers & acquisitions...).
21 Language simplified, taking as a basis the model definition set out in the source referred to: Latham & Watkins LLP, The book of jargon, global mergers & acquisitions...
22 Ibid.
Other pre-closing IP-specific covenants may cover the following matters:23

(i) IP portfolio management in respect of any unreleased security interest, chain-of-title updates, registration, and/or renewal and maintenance fee payment issues identified during the DD but not taken care of prior to signing. In such cases, the target (or the seller) would be required to prove, prior to (or upon) closing, that the irregularities have been corrected.

(ii) Disclaimer of IP rights if the target’s trademarks or other IP rights are core assets and are in use by seller group entities, in order to prevent consumer confusion and impairment of the target’s IP rights due to their use by the seller after closing.

(iii) Obtaining consent from IP counterparties, if the respective arrangements include change-of-control provisions triggered by the transaction. If the buyer finds, based on the DD, that certain licence or maintenance agreements are not beneficial for the buyer or are otherwise problematic, the seller (target) is usually required to terminate certain arrangements prior to closing.

The target company is not usually party to the SPA. Therefore, consideration must be given to draft covenants in a way (and/or to have the target company expressly acknowledge and assume the covenants) that obliges the seller to perform and cause the target company to perform the covenants during the interim period.24

Depending on the obligation undertaken, and the obligated party, case covenants are often worded as qualified obligations by some degree of an “efforts” standard. Practitioners differentiate between “best efforts” and “reasonable best efforts”, as well as “commercially reasonable efforts” standards, which may be applied in drafting to tone down an undertaking to an acceptable standard.25

2. Post-closing covenants

In general, post-closing covenants may encompass obligations relating to the completion of the deal (e.g. further assurances, split of assets), as well as compliance with ongoing arrangements between the parties (e.g. retaining records).26

If the acquirer takes a strong position from an IP perspective, it may attempt to obtain covenants that ensure that, post-closing, the seller will not (i) challenge (or

24 See Thompson, Sinclair on warranties and indemnities on share and asset sales.
25 This may be the case in particular in connection with covenants that require actions by third parties (e.g. obtaining approvals, which are out of the control of the parties). In US deals, the “best efforts” standard is interpreted by attorneys and commentators (but not always by courts) as a higher standard than the “commercially reasonable efforts” and the “reasonable best efforts” standard. See Thompson, Sinclair on warranties and indemnities on share and asset sales.
26 Ibid.
assist the challenge of (i) the validity or enforceability of the IP of the target company, (ii) contest (or assist the contest of) target’s rights or title to its IP, and (iii) attempt to register or assert any right in the target’s IP. However, the success of having the seller agree to these strongly pro-buyer covenants is not likely.27

Key considerations for IP-specific post-closing covenants lie in carve-out situations where IP-interdependence is present (i.e. the Target licenses IP to and/or from seller group entities) and the post-closing use of shared IP rights must be agreed on. In these cases, the scope of the shared IP should be clearly defined in the SPA, and the rights of the parties must be laid down in the SPA (and/or ancillary documents). Generally, the seller will aim to retain ownership of IP rights owned by it and primarily or exclusively used by its related businesses, and the buyer is likely to attempt to obtain an assignment to the target (or the buyer) of any IP rights that is owned by the seller (or a seller affiliate) and primarily or exclusively used by the target.28

In instances where the buyer (or the target) needs a temporary licence after closing in order to continue using the IP rights of the seller, transitional licence provisions are usually included in the SPA or a separate transitional licence agreement is entered for a relatively brief period (usually 120 days or less). For example, this need may arise in respect of existing stationery and signage on inventory, as well as the corporate name of the target.29 For shared IP that is not covered by a transition arrangement, the buyer typically seeks a covenant not to sue for use after closing.30

Where IP-related third-party consents in respect of the transaction could not be obtained by the seller, the buyer often requires the seller to procure a commercially reasonable and acceptable substitute for the relevant arrangement, or provide the buyer with the benefits of the relevant arrangement.31

If ancillary IP-related agreements are concluded, they are typically negotiated and mutually agreed by the parties prior to signing and are attached to the SPA as schedules. The executed, effective copy of these documents are usually defined as completion deliverables.

27 Latham & Watkins LLP, The book of jargon, global mergers & acquisitions...
29 Ibid.
30 Latham & Watkins LLP, The book of jargon, global mergers & acquisitions...
31 Ibid.
IV. WARRANTIES

1. General

A representation is an “assertion as to a fact, true on the date the representation is made, that is given to induce another party to enter into a contract or take some other action.” A warranty is a promise of indemnity in the event that an assertion as to a fact, true on the date of the assertion (representation), is now false. In other words, warranties are “assurances from one party to the others as to the state of affairs subject to the contract (e.g. as to the Target Company or business).”

The terms “representation” and “warranty” are often used together or interchangeably, as “their technical difference [...] has been proved unimportant in acquisition practice.” Therefore, without making a distinction, this paper refers to these categories as warranties from here on.

Warranties are “where the rubber meets the road,” as they: (i) force disclosure (disclosure schedules work together and qualify representations and warranties), (ii) allocate risk between the seller and the buyer (identifying which party will be liable for which item, including the allocation of risk for unknown liabilities), (iii) may serve as closing conditions (“CP”) (e.g. bringing down “material” representations and warranties is often required as a CP), and (iv) establish a basis for indemnification (a breach of a warranty may serve as a basis for an indemnification claim against the party providing the breached warranty).

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33 Ibid.
34 Thomson Reuters Practical Law Corporate & Securities, Stock purchase agreement (pro-seller long form, USA national/federal), with commentaries.
35 For example a guide defines warranties as “contractual statement of facts made by the warrantor to the warrantee [...]” and adds that “warranties often take the form of assurances from the seller as to the condition of the target company or business” (Ashurst LLP, Quickguides, warranties and indemnities, Available at: https://www.ashurst.com/en/news-and-insights/legal-updates/quickguides-warranties-and-indemnities/ (Last accessed: 31 December 2020).
36 American Bar Association, Committee on Negotiated Acquisitions, Model asset purchase agreement with commentary, (American Bar Association, Chicago, 2001).
In the M&A context, warranties are provided by both parties, although the scope of warranties provided by the seller is usually much more exhaustive than those provided by the buyer. The drafting of the warranties sections is of particular importance and is heavily negotiated.

Although initial seller drafts may limit the scope of warranties to minimise indemnification and termination risks, a balanced draft would not exclude customary warranties. As a general rule, while the buyer will attempt to obtain the broadest coverage possible (especially if the DD identified gaps, inconsistencies and a considerable number of irregularities), the seller will insist on making only limited warranties that are qualified.

2. IP-specific SPA warranties

IP-specific SPA warranties exhibit wide variations in practice. The scope and language of the IP warranties that are appropriate in respect of a deal will depend on a number of factors: the nature of the business of the target, the level of disclosure and information available to the buyer, the bargaining position of the parties, any agreed general principle regarding warranties (e.g. the parties agree not to include warranties confirming “sufficiency of assets”), the wording of other warranties (e.g. whether warranties on assets confirm sufficiency, and whether those include IP rights), and the buyer’s position (e.g. in management buy-outs, the acquirer usually has more knowledge about the business than the sellers themselves) must be all reviewed and assessed.

Notwithstanding the above, IP warranties in SPAs usually cover the following:

(i) the “complete” and “accurate” particulars of IP rights owned, used, held for use, licensed from, or licensed to third parties by the target, together with the particulars of the respective licences, agreements, authorisations and permissions, are set out in a schedule to the SPA;

(ii) apart from the IP rights listed in the SPA as owned and/or owned by the target, the day-to-day ordinary operation of the target does not necessitate other IP rights.

Buyer warranties are usually restricted to the incorporation, capacity and solvency of the buyer, as well as the due authorisation of the signature, exchange and performance of the transaction documents.


The sufficiency warranty should be double-checked by the seller to ensure that it is consistent with (and does not unintentionally enlarge the scope of) general non-infringement warranties (see the source referred to in Thomson Reuters Practical Law Intellectual Property & Technology, Promises That Matter: IP Covenants in M&A Transactions.).
(iii) the target is the sole legal and beneficial owner of the IP listed (except for inbound licences), free from all encumbrances;\textsuperscript{43}

(iv) the IP owned by the target is valid, subsisting and enforceable; nothing has been done or omitted to be done (and/or agreed to be done or omitted) that would result in any of the target IP rights ceasing to be valid, subsisting or enforceable;

(v) all application and renewal fees related to the registration or the maintenance of the protection of the IP have been duly paid;

(vi) all confidential information owned and/or used by the company has been kept confidential;

(vii) there are no outstanding, threatening or potential claims against the target under any contract or law for employee compensation in respect of IP owned and/or used by the target;\textsuperscript{44}

(viii) there are and have been no actual, threatening or pending claims in relation to the ownership, use or validity of the IP rights owned and/or used by the target;

(ix) no third party has infringed the IP rights of the target, or breached confidence;

(x) the target (and, if applicable, its licensees) has not infringed any IP rights of third parties; no action by the target may be considered as a breach of confidence, passing off or actionable act of unfair competition, and no actions of the target have given or may give rise to any (royalty, licence fee or compensation) payment obligations;

(xi) the change-of-control in the target purported by the transaction will not result in the termination of, or have a materially negative impact on, the IP rights of the target; and

(xii) the IP rights listed in the relevant SPA schedule are all that are required to enable the target to continue the conduct of its business (in line with practice applied prior to signing).

In addition to the warranty categories listed above, counsel to the buyer should also insist on including specific warranties that aim to induce “additional disclosure” in respect of those known IP issues, the status of which was not or could not be confirmed during the DD.\textsuperscript{45}

\textsuperscript{43} Attention should be paid by seller to the scope of the „Encumbrance” definition to make sure that licenses granted to third parties are included (if relevant). Alternatively, seller should double-check whether third-party licenses have been disclosed (see the source referred in Thomson Reuters Practical Law Intellectual Property & Technology, \textit{Promises That Matter: IP Covenants in M&A Transactions}).

\textsuperscript{44} The seller may to try to differentiate between material in-licensed IP and IP owned by the target. In addition, validity and enforceability could be qualified by knowledge or limited to the confirmation that no Company IP has been held invalid or unenforceable (based on the source referred in Thomson Reuters Practical Law Intellectual Property & Technology, \textit{Promises That Matter: IP Covenants in M&A Transactions}).

\textsuperscript{45} This particular case may emerge, for instance, if the DD uncovers IP litigation, in relation to which the sellers do not provide any documentation or confirmation, and the status of which thus remains unconfirmed.
V. Indemnities

Indemnities may be defined as contractual arrangements “under which one party promises to protect another person against a loss, or to compensate another person for a specific liability that that person incurs”. 46

Indemnities entitle the indemnified party to receive an indemnification payment if the event giving rise to the indemnity obligation of the indemnifying party (as set out in the SPA) takes place. In this regard, there is a similarity between indemnities and warranties: both instruments are risk-sharing and burden-allocating contractual provisions that extend beyond deal completion. 47

The clear distinction between indemnities and warranties in English and continental M&A practice lies in their relatively clear functional difference: warranties protect the buyer against unknown risks, while indemnities provide the buyer protection against specific risks and irregularities that have been identified during the buyer’s DD or that are otherwise known to the buyer. 48

US M&A practice differentiates between “regular” and “special (standalone)” indemnities. “Regular indemnities” provide the buyer with a basis for indemnification if a representation or warranty is breached, while “standalone indemnities” are not related to warranty breaches, but to specific and/or identified risks or irregularities (typically spotted by the DD). The English and continental concept of contractual indemnities corresponds to the US application of standalone indemnities, which this section intends to address.

Standalone indemnities typically cover two types of matters: (i) matters for which the acquirer is not ready to assume any liability post-closing, and (ii) matters identified by or otherwise known by the acquirer that pose an unquantifiable or unusual risk. 49 The former category usually includes taxation matters, while the latter should cover – from the buyer’s perspective – all irregularities (including IP problems) identified by the DD that pose such a risk that buyer is not willing to bear.

In addition to the difference in functionality, specific indemnities are typically not limited by the regime applicable to warranties, and they are usually explicitly stressed in the SPA. Nevertheless, the scope and (it is not uncommon that the) limitation of specific indemnities may also form the basis of negotiation.

47 Thomson Reuters Practical Law Commercial, Using contractual risk allocation provisions to minimize risk and maximize reward.
49 Ibid.
Furthermore, consequences for a warranty breach and the occurrence of an event triggering the indemnity mechanism also differ, in the sense that a warranty breach (unlike the triggering of a standalone indemnity) is *per definitionem* a breach of contract and may result in the payment obligation of the seller, as well as the termination of the relevant contract.\(^{50}\)

In line with the foregoing, US SPA models tend to apply one single indemnification clause, encompassing covenant and warranty breaches (“regular indemnities”), as well as standalone indemnities,\(^{51}\) while UK models separate them structurally. A model standalone indemnity clause reads, as follows.

Without limiting any other rights or remedies the Buyer may have, the Seller shall indemnify the Buyer[, the Company and the Subsidiaries] against[, and shall pay to the Buyer a sum equal to,] all liabilities, costs, expenses, damages and losses (including but not limited to any direct, indirect or consequential losses, loss of profit, loss of reputation and all interest, penalties and legal costs (calculated on a full indemnity basis) and all other [reasonable] professional costs and expenses) suffered or incurred by the Buyer, the Company or any of the Subsidiaries arising out of or in connection with any of the following matters: (i) [description of dispute, issue or matter in respect of which an indemnity is to be given]; […]\(^{52}\)

The specific IP matters to be referred to in a standalone indemnity should be included and worded based on and in line with the relevant IP-related DD finding. Typical issues and irregularities in respect of which standalone indemnification is sought encompass (among others) IP litigation and infringement matters, incurable gaps in the chain-of-title of registered Company IP, irregularities in public registers in respect of the Company IP (covering the term they persisted), as well as the breach of any IP licence, maintenance or related distributorship agreement, all of which the buyer (and its counsel) is aware based on the DD.

The scope and limitation of (IP-specific) indemnities will be ferociously negotiated by counsels, sellers attempting to keep the specific indemnification provisions as void as possible, and buyers trying to include and specify as many issues identified by the DD as possible.

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51 See Thompson, *Sinclair on warranties and indemnities on share and asset sales*.

VI. Conclusion

IP issues, irregularities and the consequent, accurate application and drafting of the contractual mechanisms designed to eliminate, diminish and/or allocate risks (whether identified or not) will be of utmost importance in deals where IP problems are numerous and material, or where the target IP is valuable and securing it is a primary factor in the acquisition.

Therefore, specialist IP counsel must be consulted and included in the acquisition team, the level of involvement to be defined on a case-by-case basis, depending on the complexity of the IP matters at hand and the budget available for counsel, as well as any time constraints. On the SPA level, the review of IP-related provisions, namely, the definition of “Intellectual Property”, as well as IP-specific RAPs, may require specialist knowledge to ascertain that:

(i) the definition of “Intellectual Property” (a) (from the buyer’s perspective) covers all categories of IP that may be relevant for the target in all relevant jurisdictions, and (b) (from the seller’s perspective) is not unnecessarily broad;

(ii) the interim operating covenant (a) (from the buyer’s perspective) ensures the proper interim protection of the target IP, and (b) (from the seller’s perspective) does not restrict IP-related actions too excessively;

(iii) IP covenants (a) (from the buyer’s perspective) correct as many known irregularities (preferably prior to the transfer of ownership) as possible, and (from the seller’s perspective) do not pose unnecessary or impossible obligations on the target or the seller;

(iv) IP-related warranties (a) (from the buyer’s perspective) are as wide in scope as possible, with little to no caveats and, at a minimum, cover material points that are necessary to ascertain good and unencumbered title to the target IP and undisturbed operation post-closing, and (b) (from the seller’s perspective) are the narrowest possible in scope with strong limitations; and

(v) IP-related standalone indemnities (a) (from the buyer’s perspective) cover all or at least material IP irregularities that pose unquantifiable financial risk, and (b) (from the seller’s perspective) if provided at all, are as narrow and limited as possible.

As demonstrated above, RAPs are focal points of SPAs and the negotiations leading to the agreed forms, as the parties traditionally take opposing positions. The first seller draft will typically contain as few warranties as possible, caveated by disclosure, knowledge, de minimis and basket thresholds, as well as time constraints; perhaps they will include no standalone indemnities and will be restricted only to a customary covenant set. On the contrary, an aggressive buyer mark-up will likely mirror the DD findings meticulously in unlimited standalone indemnities, will eliminate or weaken warranty limits, strengthen interim operating covenants and specify additional covenants so that as many irregularities are corrected as possible prior to closing.
Counsel can only draft and negotiate RAPs correctly if the DD findings, the particularities of the target industry and target business, as well as the instructions and ultimate goals of the client, are considered carefully and reasonably. At the end of the day, outstanding issues will be closed off in line with the commercial compromises brought about by the parties, allocating risks in line with their respective bargaining positions and risk appetite.