



FAQ

WHAT IS AN ESCROW ACCOUNT?

An escrow account is often used in Mergers and Acquisitions (M&A) transactions as a mechanism to manage financial risks and protect the parties involved in the deal. The role of an escrow account in M&A can be summarized as follows:

- 1. Security for the Buyer:** As part of the deal, the buyer may require the seller to set aside a portion of the purchase price in an escrow account. This is done to provide security to the buyer, as it ensures that funds are available to cover any claims or liabilities that may arise after the transaction is completed. For example, if the seller breaches a representation or warranty made in the purchase agreement, the buyer may make a claim against the escrow account to recover damages.
- 2. Protection for the Seller:** The escrow account can also provide protection to the seller by giving them a level of comfort that the buyer will fulfill its obligations under the agreement. If the buyer defaults on any of its obligations, the seller may make a claim against the escrow account to recover damages.
- 3. Management of Risks:** The escrow account can be used to manage risks associated with the transaction. For example, if there are potential tax or legal liabilities associated with the acquired company, the parties may agree to place a portion of the purchase price in an escrow account to cover these liabilities. This helps to mitigate the risk for the buyer and protects the seller from potential future claims.
- 4. Third-Party Management:** An escrow account is typically managed by a third-party agent, such as a bank or a law firm, to ensure that the funds are held securely and that they are disbursed in accordance with the terms of the agreement.

Overall, the use of an escrow account in M&A transactions can provide a level of security and protection to both the buyer and seller, while also helping to manage financial risks associated with the transaction.

WHAT WE DO?

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BUSINESS BROKERAGE/M&A

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