



DUE DILIGENCE ISSUES UNDER DIFFERENT PSA CLOSING MODELS

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Purchase & Sale Agreement

- Common name for contract to sell oil and gas assets (or company holding assets), usually involving real property
- Producing wells, PUD acreage, mineral/royalty/non-op packages, gathering systems, water/SWD systems, service and infrastructure facilities, etc.
- Allocates benefits and liabilities of assets between Buyer and Seller

Purchase & Sale Agreement

- Deferred Closing Model
 - Interim Period between signing and Closing of PSA
 - For due diligence, curative/remediation, and price reductions
 - Most common model historically
- Sign-and-Close Model
 - PSA is signed and closed simultaneously
 - Due diligence occurs before sign/close
 - No reductions – price agreed is price paid
 - Common in M&A generally

Deferred Closing Model

- Execution Date
 - When Buyer and Seller sign PSA
 - PSAs often highly negotiated
- Effective Date
 - When title effectively transfers, along with benefits and liabilities of ownership
 - Often first of month prior to Execution Date, or signing of LoI or term sheet

Deferred Closing Model

- Interim Period
 - Time between Effective Date and Closing Date
 - Seller operates assets on Buyer's behalf – Interim covenants
 - Buyer conducts due diligence, Seller cures/remediates
 - Possible price reductions – Interim representations
- Closing Date
 - Assignment executed and Adjusted Purchase Price paid
 - Usually weeks or months after Execution Date

Deferred Closing Model

- Purchase Price
 - Initial agreed value of assets
 - May include deposit/earnest money
 - Prior to price reductions and accounting
- Adjusted Purchase Price
 - Possible reduction for defects in marketability
 - Accounting adjustments back to Effective Date

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Title search: Due Diligence Issues under Different PSA Closing Models

Also available as part of the eCourse

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