

SECURITY FOR INSECURITY: EVIDENCE ON REVERSE TERMINATION FEES IN ACQUISITIONS

Samarth Navin Kumar¹, Varun Jindal²

¹*Finance and Accounting Area, Indian Institute of Management Bangalore, India*

¹n.samarth24@iimb.ac.in, ²varun.jindal@iimb.ac.in

Abstract: We propose an information exploitation hypothesis to explain the adoption of reverse termination fees (RTFs) in merger agreements. During due diligence, targets disclose proprietary information. If the deal fails to close, the information remains exploitable by the bidder for its own advantage. We argue that targets secure themselves against this insecurity of exploitation risk through the inclusion of an RTF. Consistent with this prediction, RTFs are more likely when targets possess greater proprietary information, when bidders are direct product market competitors, and when bidders face greater financial constraints. Our findings identify information exploitation as a previously unexplored determinant of merger contract design and broaden the understanding of reverse termination fees beyond their traditional role in allocating deal completion risk.

Keywords: Merger, Acquisition, Reverse termination fees, Information exploitation

1. INTRODUCTION

The interim period between an M&A deal announcement and the effective date is subject to various risks that hamper the deal completion probability (Bhagwat et al., 2016). To protect their interests, bidders and targets employ deal protection devices that deter the counterparty's incentives to terminate the deal. The primarily used devices are termination fee clauses in the merger agreement that constitute a liability of one party towards another upon the former's withdrawal from the agreement (Bates & Lemmon, 2003; Neyland & Shekhar, 2018). Unlike the standard termination fees, the direction of reverse termination fees flows from the bidder to the target upon the bidder's failure to consummate the acquisition in accordance with the agreed terms (Afsharipour, 2010; Andre et al., 2007).¹ Although less common relative to target termination fees, reverse termination fees are gaining economic significance. For instance, the proportion of acquisitions including RTF nearly doubled, increasing from 21.1% in 2011 to 40.0% in 2021.

Prior literature has documented that RTFs provide bidders with contractual flexibility by allowing them to terminate an acquisition upon payment of a predetermined fee, effectively creating a real call option on the target (Davidoff, 2009; Quinn, 2010; Scott & Triantis, 2004; Sekhon, 2010). In the absence of such provisions, bidders remain legally committed to completing the transaction, even if any adverse developments reduce the value of the target between signing and closing of the deal (Afsharipour, 2010). Reverse termination fees, therefore, protect bidders against unfavorable changes in deal economics while allocating the

¹For example, the agreement for Elon Musk's \$44 billion acquisition of Twitter included both a \$1 billion termination fee and a \$1 billion reverse termination fee.

risk of deal failure between transacting parties ([Chen et al., 2022](#)). However, RTFs are frequently included in transactions that ultimately fail for reasons beyond the bidder's control, such as the inability to obtain regulatory approval or secure financing. For example, the merger agreement for Nvidia's proposed \$40 billion acquisition of Arm included a \$1.25 billion reverse termination fee, that was triggered when the transaction was abandoned following regulatory opposition. The widespread use of such provisions raises an important puzzle: why would targets expect bidders to compensate for risks beyond the bidder's influence, and why would bidders be willing to accept such contractual obligations?

In this paper, we propose an information exploitation hypothesis to explain the incidence of RTFs in merger agreements. Due diligence requires the target to disclose extensive proprietary information to the bidder, including cost structures, customer relationships, supplier contracts, and details of ongoing operations, disclosure that cannot be withdrawn once made. Non-disclosure agreements provide only partial protection, since enforcement is costly, a breach is difficult to prove, and commercially valuable knowledge may become embedded within the bidder's own decision-making without even appearing as a documented violation. If the acquisition subsequently fails, the bidder may exploit the proprietary information to the target's disadvantage. For example, after the \$4 billion deal between Staples and Office Depot collapsed, the two companies adjusted their business strategies, including delivery services and product development, based on information gained from each other during the deal process ([MacDonald & Lublin, 1998](#)). The risk of information exploitation reduces the value of proprietary information ([Yoo, 2025](#)). We postulate that, to secure itself against exploitation, a rational target is likely to demand the inclusion of an RTF.

We develop two testable hypotheses to test whether the incidence of RTFs increases with the risk of proprietary information exploitation. The first hypothesis concerns the extent of proprietary information held by the target. The costs of information exploitation following deal failure are likely to be greater when the target possesses more valuable proprietary knowledge, as bidders can potentially use this information obtained during due diligence to their own advantage. Targets with greater proprietary information therefore face higher expected costs from failed acquisitions and have stronger incentives to negotiate contractual safeguards against this risk. Accordingly, we predict that the incidence of reverse termination fees is increasing in the amount of proprietary information held by the target. We measure proprietary information using several proxies employed in the disclosure literature, including Redaction of material contracts from exhibits in 10-K, trade secret disclosures in 10-K filings, and research and development intensity ([Bao et al., 2026](#); [Boone et al., 2016](#); [Glaeser, 2018](#); [Hall et al., 2001](#); [Verrecchia & Weber, 2006](#); [Yoo, 2025](#)).

Our second hypothesis examines if RTF incidence is driven by conditions under which the risk of informa-

tion exploitation is likely to be greater. First, proprietary information disclosed during due diligence is more valuable when the bidder and target are direct competitors, since the bidder can immediately use information relating to technologies, customers, suppliers, pricing, and operations in the same product market if the acquisition fails. Second, the consequences of information disclosure are more severe when the probability of deal failure is higher. Acquisitions between direct competitors frequently attract greater antitrust scrutiny and may be blocked by regulators because of concerns regarding market concentration.² As a result, horizontal acquisitions combine both a greater ability to exploit proprietary information and a greater likelihood that the transaction will not be completed. We therefore hypothesize that the incidence of reverse termination fees is higher if (a) the firms are direct competitors and (b) if the deal is likely to fail.

Using a sample of 4,504 U.S. acquisitions announced between 1980 and 2025, we find strong support for the information exploitation hypothesis. Consistent with our first hypothesis, reverse termination fees are more likely to be included when targets possess greater proprietary information. Specifically, targets that redact commercially sensitive information from SEC filings and those that disclose the existence of trade secrets are approximately 2.4 and 2.2 percentage points more likely, respectively, to include an RTF provision. We also find that R&D-intensive targets are 5.6 percentage points more likely to include an RTF, consistent with the view that firms possessing valuable proprietary knowledge face greater costs if information disclosed during due diligence is subsequently exploited. Consistent with our second hypothesis, deals between direct competitors are significantly more likely to include an RTF. This result is robust across multiple measures of product market overlap, including common SIC classifications and mergers of equals. Moreover, the likelihood of RTF adoption increases with the combined market share of the bidder and target, suggesting that RTFs are particularly valuable when proprietary information is both more useful to the bidder and more likely to be exposed in transactions facing heightened risk of failure.

2. METHODOLOGY

2.1 Data and Sample

The sample is drawn from the SDC Platinum database and consists of completed and withdrawn acquisitions announced between 1980 and 2025 involving publicly listed acquirers and targets domiciled in the United States. Following prior merger literature, we exclude buybacks, recapitalizations, exchange offers, and transactions with missing deal-level information. Financial data for both acquirers and targets are ob-

²For anecdotal evidence, acquisitions between direct competitors - Synopsys's USD 35 billion acquisition of ANSYS, Kroger's USD 24.6 billion acquisition of Albertsons, and Netflix's USD 72 billion acquisition of Warner Bros. Discovery - carried a substantial RTF.

tained from Compustat using the fiscal year preceding the merger announcement, while markets data is collected from CRSP. Information on RTFs and other contractual provisions is obtained from SDC Platinum.

To examine the role of proprietary information in the inclusion of RTFs, we employ three measures commonly used in the disclosure literature. Our first measure, *Redacted_10K*, captures whether the target redacts confidential portions of material contracts filed as exhibits to its Form 10-K in the fiscal year preceding the merger announcement. Under Item 601 of Regulation S-K, firms are required to file material contracts with the SEC as Exhibit 10.XX. However, firms may seek confidential treatment for portions of these contracts when disclosure would reveal commercially sensitive information and result in competitive harm (Bao et al., 2026; Boone et al., 2016; Glaeser, 2018; Verrecchia & Weber, 2006). Material contracts frequently contain proprietary information relating to customer relationships, supplier agreements, licensing arrangements, distribution contracts, pricing terms, and other strategic aspects of a firm's operations. Prior research argues that firms' decisions to redact such information reflect the presence of valuable proprietary information whose disclosure could erode competitive advantage (Bao et al., 2026; Yoo, 2025). Following Glaeser (2018), we identify redacted exhibits through text searches of EDGAR filings for terms such as "confidential information", "confidential treatment", "confidential request", "redacted", "redaction", "CT order", "FOIA", "Rule 406", and "Rule 24b-2". *Redacted_10K* is an indicator variable equal to one if the target files at least one redacted material contract during the fiscal year preceding the merger announcement and zero otherwise.

Our second measure, *Trade_Secrecy*, captures proprietary knowledge protected through trade secrecy. Unlike patents, trade secrets derive their value from remaining undisclosed and often protect information that firms choose not to reveal publicly. Although firms do not disclose the substance of these assets, Regulation S-K requires firms to discuss risks associated with trade secret misappropriation when such assets are material to their operations (2018). Following Glaeser (2018), we identify firms whose Form 10-K contains references to "trade secret" or "trade secrecy" during the fiscal year preceding the merger announcement. *Trade_Secrecy* takes the value 1 if the 10-K consists of the above said keywords, and 0 otherwise.

Lastly, our third measure, *High_R&D_Intensity*, captures proprietary information generated through innovation activities. Prior research argues that R&D-intensive firms possess knowledge assets that are difficult for outsiders to observe, value, or replicate without direct access to the firm (Hall et al., 2001). We classify a target as R&D-intensive when its R&D expenditure scaled by sales in the fiscal year preceding the merger announcement exceeds the median. Firms with higher R&D intensity are therefore expected to possess

larger stocks of proprietary information that may be exposed during merger negotiations.

The final sample consists of 4,504 acquisitions for which information on RTFs, proprietary information proxies, and control variables is available. Table 1 reports summary statistics and univariate comparisons. RTFs appear in 18% of transactions. Approximately 25.4% of targets redact at least one material contract, 49.5% disclose the existence of trade secrets, and 15.7% are classified as R&D-intensive. Horizontal transactions are common in the sample, with 37.8% of deals involving bidders and targets sharing the same four-digit SIC industry and 65% sharing the same two-digit SIC industry.

Panel B compares transactions with and without RTFs. Consistent with the information exploitation hypothesis, targets that redact material contracts and targets that disclose trade secrets are significantly more likely to demand an RTF provision. Reverse termination fees are also substantially more common in horizontal acquisitions, with deals involving bidders and targets operating in the same industry exhibiting significantly higher incidence. Transactions containing reverse termination fees are larger, more likely to include a target termination fee provision, and less likely to involve all-cash consideration. Overall, the univariate evidence provides preliminary support for the view that reverse termination fees are more likely to arise when targets possess valuable proprietary information and when bidders are better positioned to benefit from that information following deal failure.

Table 1: Summary Statistics and Univariate Tests

Panel A: Summary Statistics						
Variable	N	Mean	p25	p50	p75	SD
<i>Deal and Firms Characteristics</i>						
<i>RTF_Incid</i>	4,504	0.180	0	0	0	0.384
<i>Hostile_Deal</i>	4,504	0.010	0	0	0	0.098
<i>Deal Value (USD Mn)</i>	4,504	617.430	69.329	256.251	1045.626	700.997
<i>ln(Deal_Value)</i>	4,504	5.591	4.239	5.546	6.952	1.989
<i>TTF_Incid</i>	4,504	0.562	0	1	1	0.496
<i>Same_Parent</i>	4,504	0.071	0	0	0	0.257
<i>Toehold</i>	4,504	0.061	0	0	0	0.240
<i>Lockup_Option</i>	4,504	0.065	0	0	0	0.247
<i>Poison_Pill</i>	4,504	0.007	0	0	0	0.081

Continued on next page

Table 1 continued from previous page

<i>Collar</i>	4,504	0.057	0	0	0	0.231
<i>All_Cash</i>	4,504	0.412	0	0	1	0.492
<i>Cash_and_Stock</i>	4,504	0.165	0	0	0	0.371
<i>ln(Bidder_MarketCap)</i>	4,504	14.658	13.107	14.543	16.118	2.170
<i>ln(Target_MarketCap)</i>	4,504	1.200	0.044	0.188	0.599	4.501
<i>Tar_Bid_MktCap</i>	4,504	1.200	0.044	0.188	0.599	4.501
<i>Tender_Offer</i>	4,504	0.131	0	0	0	0.337
<i>Same_PrimarySIC</i>	4,504	0.378	0	0	1	0.485
<i>Same_Primary2SIC</i>	4,504	0.650	0	1	1	0.477
<i>HM_MoE</i>	4,504	0.017	0	0	0	0.129
<i>Combined_Market_Share</i>	4,504	0.007	0	0	0	0.073
<i>Combined_Market_Share_Dummy</i>	4,504	0.063	0	0	0	0.243
<i>Proprietary Information Proxies</i>						
<i>Redacted_10K</i>	4,504	0.254	0	0	1	0.435
<i>Trade_Secrecy</i>	4,504	0.495	0	0	1	0.500
<i>R&D_Intensity</i>	4,504	0.027	0	0	0	0.104
<i>High_R&D_Intensity</i>	4,504	0.157	0	0	0	0.363

Panel B: Univariate Tests - Deals With vs. Without Acquiror Termination Fees

Variable	With Fee		Without Fee		Difference	
	N	Mean	N	Mean	Diff	t-stat
<i>Deal and Firms Characteristics</i>						
<i>Hostile_Deal</i>	812	0.005	3,692	0.011	-0.006	-1.55
<i>Deal Value (USD Mn)</i>	812	1012.828	3,692	530.468	482.361***	18.41
<i>ln(Deal_Value)</i>	812	6.765	3,692	5.332	1.433***	19.34
<i>TTF_Incid</i>	812	0.915	3,692	0.485	0.430***	23.72
<i>Same_Parent</i>	812	0.063	3,692	0.073	-0.010	-1.01
<i>Toehold</i>	812	0.025	3,692	0.069	-0.045***	-4.82
<i>Lockup_Option</i>	812	0.063	3,692	0.066	-0.003	-0.29
<i>Poison_Pill</i>	812	0.007	3,692	0.007	0.001	-0.28

Continued on next page

Table 1 continued from previous page

<i>Collar</i>	812	0.068	3,692	0.054	0.014	-1.51
<i>All_Cash</i>	812	0.216	3,692	0.455	-0.239***	-12.76
<i>Cash_and_Stock</i>	812	0.248	3,692	0.147	0.100***	7.02
<i>ln(Bidder_MarketCap)</i>	812	14.716	3,692	14.646	0.070	0.84
<i>ln(Target_MarketCap)</i>	812	0.668	3,692	1.317	-0.649***	-3.73
<i>Tar_Bid_MktCap</i>	812	0.668	3,692	1.317	-0.649***	-3.73
<i>Tender_Offer</i>	812	0.070	3,692	0.144	-0.074***	-5.66
<i>Same_PrimarySIC</i>	812	0.473	3,692	0.357	0.116***	6.18
<i>Same_Primary2SIC</i>	812	0.733	3,692	0.632	0.101***	5.46
<i>HM_MoE</i>	812	0.064	3,692	0.007	0.058***	11.70
<i>Combined_Market_Share</i>	4,504	0.007	0	0	0	0.073
<i>Combined_Market_Share_Dummy</i>	4,504	0.063	0	0	0	0.243
<i>Proprietary Information Proxies</i>						
<i>Redacted_10K</i>	812	0.283	3,692	0.248	0.035**	2.10
<i>Trade_Secrecy</i>	812	0.523	3,692	0.489	0.035*	1.78
<i>R&D_Intensity</i>	812	0.017	3,692	0.028	-0.011**	-2.78
<i>High_R&D_Intensity</i>	812	0.124	3,692	0.164	-0.039***	-2.79

Panel A reports summary statistics for the full sample. Panel B compares deals with and without reverse termination fees. Difference is computed as the mean of the former minus the latter. Variable definitions are provided in Appendix A. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

2.2 Research Design

We test the information exploitation hypothesis using a linear probability model estimated at the deal level.

For each hypothesis, we estimate the following specification:

$$\begin{aligned}
 \text{RTF_Incid}_i = & \beta_1 \text{Variable of Interest}_i + \sum_k \beta_k \text{Deal Level Controls}_{k,i} \\
 & + \sum_j \beta_j \text{Firm Level Controls}_{j,i} + \text{Ind FE} + \text{Year FE} + \varepsilon_i
 \end{aligned} \tag{1}$$

The dependent variable, *RTF_Incid*, is an indicator equal to one if a merger agreement contains a reverse termination fee provision and zero otherwise. The variable of interest varies across specifications. To test the first hypothesis that RTF incidence is higher for targets that possess proprietary information, we employ three measures of proprietary information held by the target: *Redacted_10K*, *Trade_Secrecy*, and *High_R&D_Intensity*. To test the second hypothesis that RTF incidence increases with the risk of proprietary information by the bidder, we examine several measures of competitive overlap between the bidder and target, including *Same_PrimarySIC*, *Same_Primary2SIC*, *HM_MoE* (Merger of Equals), and *Combined_Market_Share_Dummy*. The underlying intuition is that proprietary information disclosed during due diligence is more valuable to bidders that operate in the same product market and can therefore more readily exploit that information if the transaction fails. Under the information exploitation hypothesis, both the value of the target's proprietary information and the bidder's ability to exploit that information should increase the likelihood that an acquisition agreement contains a reverse termination fee. Accordingly, we expect the coefficient on the variable of interest, β_1 , to be positive across specifications.

The set of control variables follows established determinants of merger contract design documented in the M&A literature (Bhagwat et al., 2016; Chen et al., 2022; Neyland & Shekhar, 2018; Officer, 2003). We control for the method of payment and deal hostility through *All_Cash*, *Cash_and_Stock*, and *Hostile_Deal*. The specification further accounts for transaction size using the natural logarithm of deal value ($\ln(Deal_Value)$) and for acquirer size using the natural logarithm of acquirer market capitalization ($\ln(Bidder_MarketCap)$). We also include Target termination fee incidence, given that target and reverse termination fees are frequently negotiated jointly within the same agreement. Additional controls include *Same_Parent* and *Toe-hold*, *Poison_Pill*, *Tender_Offer*, *Collar*, and the relative size of the target to the acquirer (*Tar_Bid_MktCap*). All continuous variables are winsorized at 1% and 99% level. The regressions include Fama-French 12 target industry and year fixed effects, and standard errors are clustered at the target firm level to account for within-firm dependence.

3. EMPIRICAL FINDINGS

We extend our analysis to a multivariate setting to examine the determinants of RTF and to provide further evidence on the motivations for the underlying use. Consistent with the information exploitation hypothesis, in Table 2, we find that RTFs are more likely to be included when targets possess valuable proprietary information and when the potential costs associated with disclosing that information are greater.

Columns (1)–(3) examine whether RTF incidence is associated with the presence of proprietary information

in the target. Targets that redact confidential portions of material contracts are 2.4 percentage points more likely to negotiate an RTF provision (Column 1), while targets disclosing the existence of trade secrets are 2.2 percentage points more likely to do so (Column 2). Similarly, the coefficient on High R&D Intensity is positive and significant at the 1% level, indicating that R&D-intensive targets are 5.6 percentage points more likely to include an RTF (Column 3). These findings suggest that targets seek contractual protection when due diligence requires the disclosure of economically valuable proprietary information.

Columns (4)-(8) examine whether RTF adoption varies with the bidder's ability to benefit from proprietary information disclosed during due diligence. Consistent with the second hypothesis, transactions involving greater product-market overlap are significantly more likely to include an RTF. Deals between firms sharing the same four-digit SIC industry are 3.4 percentage points more likely to contain an RTF provision (Column 4), while transactions involving firms operating within the same two-digit SIC industry are 2.1 percentage points more likely to do so (Column 6). The effect is substantially larger for mergers of equals, where the estimated coefficient implies a 33.7 percentage point increase in RTF incidence (Column 5). These results are consistent with proprietary information being particularly valuable when the bidder and target compete in the same product market.

Column (7) extends this analysis using the combined market share of the bidder and target. Transactions characterized by greater combined market share are 8.7 percentage points more likely to include an RTF provision. Since such transactions face greater antitrust scrutiny and therefore a higher probability of deal failure, this result suggests that parties place greater value on contractual protection when proprietary information is both more valuable to the bidder and more likely to remain exposed following a failed acquisition.

4. CONCLUSIONS

In this paper, we propose an information exploitation hypothesis to explain the inclusion of RTFs, a relatively understudied contractual provision in merger agreements. We argue and find evidence for the hypotheses that targets are more likely to negotiate an RTF when the information disclosed during due diligence is more proprietary and when the bidder is better positioned to benefit from that information if the transaction fails. These findings suggest that reverse termination fees serve a broader contractual role than previously recognized, extending beyond the allocation of deal completion risk and the provision of contractual flexibility to bidders.

This paper contributes to the literature in several ways. First, it identifies information exploitation as a previously unexplored determinant of RTF adoption. While prior studies primarily view RTFs as mechanisms

Table 2: Determinants of Reverse Termination Fee Incidence

Variable of Interest	(1) Redacted_10K	(2) Trade_Secrecy	(3) High_R&D_Intensity	(4) Same_PrimarySIC	(5) HM_MoE	(6) Same_Primary2SIC	(7) Combined_Market_Share
<i>Hostile_Deal</i>	0.024** (2.02)	0.022** (2.03)	0.056*** (4.15)	0.034*** (3.07)	0.337*** (7.25)	0.021** (2.02)	0.087*** (4.04)
<i>ln(Deal_Value)</i>	-0.011 (-0.22)	-0.011 (-0.21)	-0.025 (-0.48)	-0.014 (-0.27)	-0.005 (-0.10)	-0.016 (-0.30)	-0.019 (-0.37)
<i>TTF_Incid</i>	0.049*** (13.85)	0.049*** (14.04)	0.050*** (14.11)	0.048*** (13.66)	0.045*** (12.86)	0.048*** (13.79)	0.048*** (13.76)
<i>Same_Parent</i>	0.227*** (18.77)	0.224*** (18.54)	0.233*** (19.21)	0.226*** (18.73)	0.225*** (18.62)	0.225*** (18.67)	0.231*** (19.14)
<i>Toehold</i>	0.069*** (3.27)	0.069*** (3.24)	0.069*** (3.25)	0.071*** (3.32)	0.050** (2.40)	0.070*** (3.31)	0.070*** (3.28)
<i>Lockup_Option</i>	-0.033 (-1.58)	-0.032 (-1.53)	-0.028 (-1.35)	-0.034 (-1.62)	-0.021 (-1.05)	-0.033 (-1.59)	-0.032 (-1.54)
<i>Poison_Pill</i>	-0.008 (-0.34)	-0.009 (-0.39)	-0.004 (-0.17)	-0.006 (-0.25)	-0.016 (-0.70)	-0.010 (-0.43)	-0.003 (-0.14)
<i>Collar</i>	0.064 (0.86)	0.064 (0.85)	0.060 (0.81)	0.072 (0.97)	0.060 (0.83)	0.070 (0.94)	0.057 (0.76)
<i>All_Cash</i>	-0.043* (-1.66)	-0.044* (-1.66)	-0.041 (-1.58)	-0.042 (-1.60)	-0.033 (-1.26)	-0.043* (-1.66)	-0.043* (-1.67)
<i>Cash_and_Stock</i>	-0.034*** (-2.87)	-0.035*** (-2.95)	-0.036*** (-3.06)	-0.033*** (-2.75)	-0.027*** (-2.30)	-0.033*** (-2.74)	-0.035*** (-2.90)
<i>ln(Bidder_MktCap)</i>	-0.009 (-0.53)	-0.008 (-0.45)	-0.009 (-0.50)	-0.011 (-0.60)	0.003 (0.18)	-0.010 (-0.56)	-0.010 (-0.57)
<i>Tar_Bid_MktCap</i>	-0.033*** (-11.60)	-0.034*** (-11.74)	-0.034*** (-11.76)	-0.032*** (-11.29)	-0.031*** (-10.78)	-0.033*** (-11.37)	-0.034*** (-11.90)
<i>Tender_Offer</i>	-0.001 (-1.59)	-0.001 (-1.47)	-0.002** (-2.03)	-0.001 (-1.50)	-0.001 (-1.28)	-0.001 (-1.46)	-0.002** (-2.34)
<i>Constant</i>	-0.136*** (-8.56)	-0.138*** (-8.68)	-0.131*** (-8.22)	-0.135*** (-8.51)	-0.131*** (-8.26)	-0.135*** (-8.50)	-0.131*** (-8.25)
<i>Observations</i>	0.297*** (7.84)	0.297*** (7.84)	0.294*** (7.74)	0.281*** (7.34)	0.276*** (7.31)	0.281*** (7.27)	0.317*** (8.31)
<i>R²</i>	4,504	4,504	4,504	4,504	4,504	4,504	4,504
<i>Adj. R²</i>	0.209	0.209	0.211	0.210	0.220	0.209	0.211
	0.201	0.201	0.203	0.202	0.213	0.201	0.203

t-statistics in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

All regressions include Fama-French 12 industry (target) and year fixed effects, and standard errors clustered at the target level. All variables are as defined in Appendix A.

for allocating completion risk and facilitating transaction execution ([Afsharipour, 2010](#); [Chen et al., 2022](#); [Coates et al., 2018](#); [Scott & Triantis, 2004](#)), our results suggest that they also protect targets against the potential misuse of proprietary information disclosed during due diligence. Second, the paper contributes to the literature on information disclosure and mergers and acquisitions by showing that concerns over proprietary information shape the design of merger contracts ([Grossman & Hart, 1980](#); [Hansen, 1987](#); [Officer et al., 2009](#); [Yoo, 2025](#)). Finally, we contribute to the broader merger contracting literature by demonstrating that product-market considerations influence the use of contractual protection mechanisms in acquisition agreements, extending existing work on deal protection devices and contractual design in M&A transactions ([Officer, 2003](#)).

REFERENCES

- Afsharipour, A. (2010). Transforming the allocation of deal risk through reverse termination fees. *Vanderbilt Law Review*, 63, 1161.
- Andre, P., Khalil, S., & Magnan, M. (2007). Termination fees in mergers and acquisitions: Protecting investors or managers? *Journal of Business Finance & Accounting*, 34, 541–566.
- Bao, D., Su, L., Zhao, C. X., & Zhou, G. (2026). Takeover threats and mandatory disclosure avoidance: Evidence from contract redactions. *Management Science*, 72(6), 5337–5360.
- Bates, T. W., & Lemmon, M. L. (2003). Breaking up is hard to do? an analysis of termination fee provisions and merger outcomes. *Journal of Financial Economics*, 69, 469–504.
- Bhagwat, V., Dam, R., & Harford, J. (2016). The real effects of uncertainty on merger activity. *Review of Financial Studies*, 29, 3000–3034.
- Boone, A. L., Floros, I. V., & Johnson, S. A. (2016). Redacting proprietary information at the initial public offering. *Journal of Financial Economics*, 120(1), 102–123.
- Chen, Z., Mahmudi, H., Virani, A., & Zhao, X. (2022). Why are bidder termination provisions included in takeovers? *Journal of Financial and Quantitative Analysis*, 57, 2860–2896.
- Coates, J. C., Palia, D., & Wu, G. (2018). *Reverse termination fees in m&a* (tech. rep.). Working Paper.
- Davidoff, S. M. (2009). The failure of private equity. *Southern California Law Review*, 82, 481–545.
- Glaeser, S. (2018). The effects of proprietary information on corporate disclosure and transparency: Evidence from trade secrets. *Journal of Accounting and Economics*, 66(1), 163–193.
- Grossman, S. J., & Hart, O. D. (1980). Disclosure laws and takeover bids. *The Journal of Finance*, 35(2), 323–334.
- Hall, B. H., Jaffe, A. B., & Trajtenberg, M. (2001). *The nber patent citations data file: Lessons, insights and methodological tools* (Working Paper). National Bureau of Economic Research.
- Hansen, R. G. (1987). A theory for the choice of exchange medium in mergers and acquisitions. *Journal of Business*, 60, 75–95.
- MacDonald, E., & Lublin, J. S. (1998, March). In the debris of a failed merger, trade secrets become known. <https://www.wsj.com/articles/SB889494175196625500>
- Neyland, J., & Shekhar, C. (2018). How much is too much? large termination fees and target distress. *Journal of Banking & Finance*, 88, 97–112.
- Officer, M. S. (2003). Termination fees in mergers and acquisitions. *Journal of Financial Economics*, 69, 431–467.

- Officer, M. S., Poulsen, A. B., & Stegemoller, M. (2009). Target-firm information asymmetry and acquirer returns. *Review of Finance*, 13(3), 467–493.
- Quinn, B. J. (2010). Optionality in merger agreements. *Delaware Journal of Corporate Law*, 35, 789.
- Scott, R. E., & Triantis, G. G. (2004). Embedded options in the case against compensation in contract law. *Columbia Law Review*, 104, 1428.
- Sekhon, V. (2010). Valuation of reverse termination options in mergers and acquisitions. *Berkeley Bus. LJ*, 7, 72.
- Verrecchia, R. E., & Weber, J. (2006). Redacted disclosure. *Journal of Accounting Research*, 44(4), 791–814.
- Yoo, I. S. (2025). When friends become foes: Disclosure decisions after failed m&a deals. *Contemporary Accounting Research*, 42, 2550–2581.

APPENDIX

Appendix A - Variable Definitions

	Variable	Definition	Source
1	<i>RTF_Incid</i>	Indicator equal to 1 if the merger agreement includes a reverse termination fee provision, and 0 otherwise.	SDC
2	<i>Redacted_10K</i>	Indicator equal to 1 if the target files at least one redacted material contract exhibit in its Form 10-K during the fiscal year preceding the merger announcement, and 0 otherwise.	EDGAR
3	<i>Trade_Secrecy</i>	Indicator equal to 1 if the target's Form 10-K contains a reference to "trade secret" or "trade secrecy" in the fiscal year preceding the merger announcement, and 0 otherwise.	EDGAR
4	<i>R&D_Intensity</i>	Target's R&D expenditure scaled by sales.	Compustat
5	<i>High_R&D_Intensity</i>	Indicator equal to 1 if the target's R&D expenditure scaled by sales exceeds the sample median, and 0 otherwise.	Compustat
6	<i>Same_PrimarySIC</i>	Indicator equal to 1 if the bidder and target share the same four-digit SIC industry code, and 0 otherwise.	Compustat
7	<i>Same_Primary2SIC</i>	Indicator equal to 1 if the bidder and target share the same two-digit SIC industry code, and 0 otherwise.	Compustat
8	<i>HM_MoE</i>	Indicator equal to 1 if the transaction is classified as a merger of equals, and 0 otherwise.	SDC
9	<i>Combined_Market_Share</i>	Bidder-target combined market share in the target's industry.	Compustat
10	<i>Combined_Market_Share_Dummy</i>	Indicator equal to 1 if the bidder-target combined market share exceeds the sample median, and 0 otherwise.	Compustat
11	<i>Hostile_Deal</i>	Indicator equal to 1 if the transaction is classified as hostile, and 0 otherwise.	SDC

Continued on next page

	Variable	Definition	Source
12	<i>Deal Value (USD Mn)</i>	Value of the transaction, in USD millions.	SDC
13	<i>ln(Deal_Value)</i>	Natural logarithm of transaction value.	SDC
14	<i>TTF_Incid</i>	Indicator equal to 1 if the merger agreement contains a target termination fee provision, and 0 otherwise.	SDC
15	<i>Same_Parent</i>	Indicator equal to 1 if the bidder and target share the same parent company, and 0 otherwise.	SDC
16	<i>Toehold</i>	Indicator equal to 1 if the bidder holds an equity stake in the target prior to announcement, and 0 otherwise.	SDC
17	<i>Lockup_Option</i>	Indicator equal to 1 if the merger agreement contains a lockup option provision, and 0 otherwise.	SDC
18	<i>Poison_Pill</i>	Indicator equal to 1 if the target employs a poison pill defense, and 0 otherwise.	SDC
19	<i>Collar</i>	Indicator equal to 1 if the merger agreement contains a collar provision, and 0 otherwise.	SDC
20	<i>All_Cash</i>	Indicator equal to 1 if consideration consists entirely of cash, and 0 otherwise.	SDC
21	<i>Cash_and_Stock</i>	Indicator equal to 1 if consideration consists of both cash and stock, and 0 otherwise.	SDC
22	<i>ln(Bidder_MarketCap)</i>	Natural logarithm of the bidder's market capitalization.	CRSP
23	<i>Tar_Bid_MktCap</i>	Ratio of target market capitalization to bidder market capitalization.	CRSP
24	<i>Tender_Offer</i>	Indicator equal to 1 if the transaction is structured as a tender offer, and 0 otherwise.	SDC