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The High Price of Imprecision: An Examination of the Enforcement of Letters of Intent Under California Law

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Letters of intent and other similar pre-contractual documents, such as term sheets or memorandums of understanding, are used extensively in California real estate transactions as a means for negotiating parties to demonstrate commitment to the deal at hand and memorialize agreements on key business points early in the process. In most cases, parties do not intend for their letter of intent to constitute a binding contract. Rather, the goal is usually to craft a document that can be used to facilitate and guide the preparation of final, comprehensive contract documents, while leaving the parties free to walk away in the event agreement on final documents cannot be reached. In fact, many letters of intent contain specific language stating that the parties do not intend to be binding.