CALIFORNIA M&A; LAW

Why M&A Deals Fall Apart: What California Buyers and Sellers Should Know

By Ari Tuchman | Tuchman Law, APC | Los Angeles, CA

Mergers and acquisitions can provide significant opportunities for growth, expansion, and liquidity. However, even deals that appear promising at the outset may ultimately fail before closing. For buyers and sellers alike, understanding the common causes of failed M&A transactions can help reduce risk and improve the likelihood of a successful outcome.

Incomplete or Problematic Due Diligence

Due diligence is one of the most important stages of any acquisition. Buyers typically review financial records, contracts, intellectual property, employment matters, litigation history, and regulatory compliance before finalizing a transaction.

Deals often begin to unravel when diligence uncovers undisclosed liabilities, inaccurate financial reporting, unresolved disputes, or operational concerns that materially affect the value of the business.

Disagreements Over Valuation

Valuation disputes are another common reason transactions fail. Sellers may have expectations based on projected future growth, while buyers may focus more heavily on current revenue, profitability, or risk exposure.

If the parties cannot bridge the gap between purchase price expectations and perceived value, negotiations may stall or terminate entirely.

Poor Deal Structure

The structure of an acquisition can significantly impact both parties from legal, tax, and operational perspectives. Asset purchases, stock purchases, earn-outs, seller financing, and equity rollovers each carry different risks and consequences.

Disagreements over indemnification obligations, escrow terms, post-closing adjustments, or allocation of liabilities can quickly complicate negotiations if not addressed carefully.

Financing and Regulatory Issues

Some transactions depend on third-party financing, investor approval, or regulatory clearance before closing can occur. Delays in securing funding or concerns raised by lenders, investors, or regulators may jeopardize the transaction timeline or cause a deal to collapse altogether.

California businesses operating in regulated industries may face additional compliance considerations during the acquisition process.

Lack of Clear Communication

M&A transactions often involve attorneys, accountants, brokers, executives, and investors working simultaneously under tight deadlines. Miscommunication between parties or unrealistic expectations can create unnecessary friction and erode trust throughout negotiations.

Clear communication and organized deal management are often critical to maintaining momentum toward closing.

Final Thoughts

While not every merger or acquisition reaches the finish line, many failed transactions can be traced back to preventable legal, financial, or operational issues. Careful preparation, thorough diligence, and experienced legal guidance can help buyers and sellers navigate complex negotiations and reduce avoidable risks during the transaction process.

About the Author

Ari Tuchman is a Los Angeles transactional attorney and founder of Tuchman Law, APC. He focuses on real estate transactions, business acquisitions, and general counsel services for companies and investors throughout California.

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