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Innovation - Success

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Office Move

After nine years at Level 3, 380 Queen Street, Brisbane, our landlord's refurbishment plans has forced us to reluctantly relocate. Our new address is Level 3, 33 Queen Street, Brisbane, on the corner of George Street.

Telephone numbers, email addresses, our fax number, and our GPO box remained unchanged.

Is an MOU legally binding ? Should it be ?

What is an MOU ?

An MOU or Memorandum of Understanding, by whatever name it may be labeled, including Heads of Agreement, Letter of Intent, or Term Sheet, is a frequent document that evolves in the course of a negotiation.

It can be a particularly helpful document in the negotiation phase, recording the terms upon which consensus has been reached.

It might even be an essential document, particularly in a negotiation that gives rise to many complex issues, and where over the course of many meetings, it is necessary to record the consensus reached over numerous and complex issues.

How long should an MOU be ?

An MOU is usually a short document, perhaps a few pages. Desirably it should be short. Its purpose is to record the consensus reached in a conceptual framework, not the detailed wording of how legal rights and liabilities would be legally recorded. Length is therefore a disadvantage, as lengthy legally framed provisions distract from the substantive points that the MOU seeks to record, which should be the focus.

But sometimes a substantially longer document in a more complex transaction may be required. In one Innovation Law negotiation, where there were 19 separate transaction documents, an MOU that was some 15 pages long, for what it recorded, was relatively brief.

It is not the length of the document that is so important, but rather, whether it accurately records the substantial points that have been agreed. Generally, for most transactions, that need would be met with 2 or 3 pages.



Should an MOU be legally binding ?

After a long negotiation, the prospect of a party changing its mind from what it has agreed in a MOU is sought to be avoided.

Making the MOU legally binding might be considered attractive.

But the implications of making an MOU legally binding need to be considered.

A two page MOU records at a conceptual level the substantive terms agreed. This document will be transformed into what may perhaps be a 20 page legally binding agreement, which because it is legally binding, will be expressed in the language in which legal rights and enforceable obligations need to be expressed.

A two page MOU is expressed conceptually, and in a summary form, and is not typically expressed in language upon which parties need to rely to enforce their rights, or to submit themselves to legally binding obligations, and the exposures of doing so.

A two page MOU therefore, if legally binding, is unlikely to be expressed in language upon which the parties can submit themselves to be accountable.

At the other extreme, a 15 page MOU cannot be a substitute for the legal rights and enforceable obligations created in 19 separate transaction documents.

The process of a two page MOU evolving into a 20 page legal contract allows for the parties to choose the language upon which they are prepared to be legally accountable, and the language upon which they will seek to make the other party legally accountable.

A two page MOU therefore is usually inadequate upon which to submit to be sued, and usually inadequate to record what one party may want to sue the other for.

Yet, if an MOU was to be legally binding, its inadequate language would be the basis of any such litigation, with as a result, an unpredictable outcome.

If the parties want to record their bargain in a 20 page contract that records what they would sue for if they don't get it, and what they are prepared to be sued for if they don't deliver, then it follows that a two page MOU is inadequate for that purpose.

Making an MOU legally binding therefore prematurely creates rights and obligations.

Potentially, it may lead to disputes when the "devil in the detail" emerges when the formal contract is negotiated, or worse, lead to litigation.

Making an MOU legally binding is therefore inadvisable.

Is it binding anyway ?

It might be.

If the document does not state that it is not intended to be legally binding, the parties may be held liable under the inadequate and brief MOU.

This is why typically an MOU and similar documents state expressly:

1. This MOU is not legally binding
2. The parties have no obligations to each other unless and until formal contracts are signed.
3. This MOU states concepts to be reflected in formal contracts, but not the actual wording.

But should parts of the MOU be binding ?



There will be a need for some provisions of the MOU to be legally binding.

For example, if the MOU includes obligations of confidentiality, these clearly should be legally binding, and this part of the MOU should clearly state that it is legally binding. Better still, confidentiality obligations should be contained elsewhere, in a separate confidentiality agreement.

Another example is a “lockout” or “no shop” or “no talk” provision, where the parties agree that for an agreed period while they finalise their negotiation they will not negotiate with anyone else, nor seek anyone else with which to do the same deal. Such a provision is not uncommon in a MOU. In that case, the provision should clearly state that it is legally binding, although the remainder of the document is not.

Commercialisation Tools: Discounted cash flow spreadsheets

Below are links to

1. two articles on the use of a discounted cash flow analysis to arrive at a risk adjusted net private value of intellectual property
2. two spreadsheets to undertake that discounted cash flow analysis.

The articles and spreadsheets do have a biotech focus, but the principles in the spreadsheets can be adapted to other sectors.

Articles:

Putting a Price on Biotechnology, J J Stewart, P N Allison, R S Johnson.

<http://www.biogeneticventures.com/news/feature2.pdf>

Biotechnology Valuations for the 21st Century Milken Institute

<http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=167&cat=PBriefs>

Spreadsheets

<http://www.milkeninstitute.org/publications/downloads/biotech.xls>

<http://www.biogeneticventures.com/news/Bioval60.xls>

Recent Deals

XenoPort license to GSK February 2007

There's a few things that make this 7 February 2007 deal between XenoPort Inc and GSK noteworthy.

XenoPort granted GSK an exclusive worldwide (other than Asia) license to XenoPort's new chemical entity XP13512. It improves the gut absorption of the epilepsy drug gabapentin. Presently it is in Phase III development for the neurological condition Restless Legs Syndrome and in Phase II development for neuropathic pain.

XenoPort received an upfront payment of \$75 million. It will receive up to \$65 million in milestone payments up to the filing of a New Drug Application for Restless Legs Syndrome, and up to \$210 million in milestone payments for the second indication of neuropathic pain. As well, XenoPort will receive a tiered double digit royalty, which converts to a profit share if it elects to co-market the drug.

Noteworthy is that the milestone payments do not stop there. Additionally, XenoPort will receive up to \$290 million in milestone payments triggered by sales quantity milestones being achieved by the drug.



This deal with GSK comes 14 months after XenoPort granted an exclusive license for the Asian market to Astellas Pharma Inc on 30 November 2005. In that deal XenoPort received an up front payment of \$25 million, and was to receive up to \$60 million in milestone payments, as well as a royalty rate expressed as being in the mid teens.

Public Speaking

Sydney. On 28 and 29 January 2007 Philip Mendes made two presentations at IP Australia's Trading Ideas Symposium: "IP Commercialisation, Valuation and Licensing", and "Challenges of Research Institutes' Commercialisation in the Asia Pacific".

Brisbane. On 27 February 2007 Philip Mendes presented the "Negotiating Wisely" one day workshop to the CRC Business Manager's meeting.

Singapore. On 8 March 2007 Philip Mendes presented "Financial Terms in IP Licenses", a one day workshop for Singapore's IP Academy.

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