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Is it a good idea to enter into a binding letter of intent?

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Generally not. Business people often use a letter of intent, memorandum of understanding or term sheet to describe the key terms of a proposed deal, with the expectation that a full contract will be signed later to "paper the deal." A letter of intent or similar document can constitute a binding agreement, however, even if not signed, if the parties approve it with the intent of being bound. These types of informal documents are usually not drafted with the precision or customary legal terms that a major contract should reflect.

If the informal document is a binding contract and no formal agreement is signed later, ambiguous terms may give rise to disputes and terms not addressed will be omitted altogether or inferred based on default legal rules that may be quite different from the terms of a customary contract. Therefore, it is prudent to state expressly that a letter of intent or similar document is non-binding.