



## Part of the Washington SBDC Podcast Series

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### **Law of Contracts and the Small Business Owner:**

Contracts must be written in order to be legally binding in a court of law.

*Business law:* the statutes, codes, rules, and regulations established to provide a legal framework within which business may be conducted which is enforceable by court action.

*The Law of Contracts:* involves the legally enforceable duties created by the exchange of promises between two people or businesses. At one time, these laws varied from state to state.

The Uniform Commercial Code (UCC) has been adopted by all states: defines the rights of parties to a sale of goods relative to the specific performance and damages. This includes the concepts of warranties and negotiable instruments.

*Contract:* a legally enforceable agreement between two parties if:

- 1) An offer is made
- 2) There is voluntary acceptance of the offer
- 3) Both parties must give consideration
- 4) Both parties must be competent
- 5) The contract must be legal
- 6) The contract must be in proper form

If one party fails to follow the terms of the contract, they are in breach of the contract.

If one person violates the contract any of the following may occur:

- **Specific performance:** the party who violates the contract may be required to live up to the agreement if money damages are not adequate.
- **Payment of damages:** the other party can sue them for damages to the amount they would lose (including court costs) from the non-performance.

- **Discharge of obligation:** the other party could agree to drop the matter and not fulfill their obligations either.

*It is always best to have a contract in writing that is signed and dated.*

A Contract needs to be:

- In writing
- Consideration is specified
- A clear offer and acceptance

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