

## **Your Greatest Asset: 5 Essential Contracts to Help Your Business Avoid Legal Pitfalls**

All businesses have a variety of different assets, each of which contributes in some way to the business as a whole. Physical property, inventory, and even employees can all be seen as assets that the business can benefit from. One asset that many people don't think about as an asset, but actually offers huge benefits to the company, are the contracts that the business holds.

A well written contract can provide a business with a significant amount of legal protection today, and far into the future. Contracts help to ensure that multiple parties can work together, avoid miscommunication, and accomplish amazing things. These same contracts can effectively protect a business by deterring very serious (and costly) legal issues, and offer protection should someone ever sue.

In order to maximize the benefit of this type of asset, however, the contracts need to be properly written and effectively leveraged. There are many different types of contracts available, and knowing what each one is used for is absolutely essential for any business. Here are five of the most important for your business to be aware of and to utilize:

### **Inter-Owner Agreements**

When going into business with a partner or other owners, it is important to have an agreement written up as soon as possible that will effectively identify the roles and responsibilities, as well as the rights, of each party. Whether a shareholder agreement for a corporation, an operating agreement for an LLC, or a partnership agreement for any type of partnership, a strong inter-owner agreement should include details concerning things like:

- **Business Goals** – Having clear business goals written out can help ensure both parties are on the same page in terms of the direction they want the partnership to go.
- **Financial Contributions** – Identifying not only who has already put in money toward the business, but also who will add more money in the future should it become necessary. Money problems can destroy a partnership faster than any other issues.
- **Ownership Breakdown** – Having a clear understanding of who owns what percentage of the business is critical for establishing control over the company and its operations.
- **Adding Partners** – If additional owners are going to be added in the future, it is a good idea to identify how this will happen today.
- **Options to Exit the Agreement** – Everyone starts off a new joint venture with big dreams for the future, but over time one partner may want to call it quits. Having the exit process in writing will help minimize potential conflict and ensure the survival of the business.

A comprehensive ownership agreement is essential to any company's long-term success. For any new company that is just starting up, good contracts can go a long way toward avoiding some of the most common problems that businesses experience.

### **Vendor Agreements**

Very few businesses can operate without utilizing some type of third-party vendor. Whether you develop relationships with companies who provide you with raw materials for your products, supplies for your office, or even cleaning services for your office, you absolutely must define the nature and details of the relationship through an in-depth vendor agreement. These types of agreements need to define various key elements and expectations regarding the service or product that the vendor provides, such as how long the relationship will last and under what circumstances you can terminate the contract (such as when the vendor fails to fulfill its obligations). Any time your company works with another business, you can rest-assured that the other business is going to put their interests ahead of yours. Thus, you cannot afford to neglect protecting your company's interests with a strong vendor agreement.

## **Employment Agreements**

While not quite as popular as they once were, employment agreements are still an important type of contract for many businesses. These agreements clearly lay out the details of a position, including things like the rate of pay, the job responsibilities, and much more. A good employment contract will also identify specific types of activities and behaviors that could lead to the termination of employment.

One of the biggest benefits of this type of contract is that it helps to avoid miscommunication between a new employee and the employer. This is a great way to start off the new relationship on a strong foot where everyone can be successful. Should there be any problems with the employee, this type of contract will make it far easier to resolve disputes and, if necessary, terminate the employment in an amicable way.

## **Nondisclosure Agreement**

Businesses regularly work with vendors, employees, other companies, and others who may gain access to confidential information. This could be information about new products, new advertising campaigns, or any number of other things. Keeping these types of things a secret is absolutely essential for the company, which is where a nondisclosure agreement comes in. A nondisclosure agreement lets the person know that they are not permitted to share any of the information they learn while in the area. If they do disclose the information, the contract will identify what repercussions will take place. This could include a financial penalty, termination of employment, or any number of other things.

## **Noncompete Agreements**

In many cases, it may become necessary to ensure that those who work for your company and gain inside information about your company's operations—whether as regular employees or independent contractors—are not legally able to put that knowledge to use for a direct competitor. For example, you wouldn't want an employee with extensive knowledge of your client list to take that knowledge to a competitor who would then use it to poach your clients for themselves. Nor would you want to apply significant resources to the training of an employee only to see them immediately put that training to work for a company that directly competes with your interests. Noncompete agreements can be an effective way to ensure your hard work and resources do not end up benefiting other businesses more than your own by preventing

signatories to such an agreement from going to work for competing organizations for a specified period of time.

### **Always Ensure Your Contracts Are Properly Written**

It is easy to see that contracts are among the most valuable assets for any business. If the contract is not properly crafted, however, it can become as useless as the paper it was written on. With this in mind, it is absolutely essential to have an experienced business attorney drafting all of your company's contracts in a manner that will properly protect your interests and fulfill your business goals. For any and all contract needs, please do not hesitate to [contact](#) the Law Firm of J.W. Stafford, L.L.C. today at (410) 514-6099 to set up a consultation where we can analyze your needs and advise you on the best course of action regarding your company's contractual needs.