CALIFORNIA BUSINESS & CONTRACT LAW

Common Terms You'll See in Business Contracts (And What They Mean)

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Entering into a business contract often means encountering legal terminology that can be unfamiliar or unclear. While many of these terms are standard across agreements, misunderstanding them can lead to unintended obligations or overlooked risks. Having a clear understanding of commonly used contract language is an important step in navigating agreements with confidence.

Common Contract Terms and What They Mean

Below are several terms that frequently appear in business contracts, along with a general explanation of their function:

Indemnification — A provision that requires one party to compensate the other for certain losses or damages, often arising from specific actions or breaches.

Limitation of Liability — A clause that caps the amount or types of damages one party can recover from the other.

Force Majeure — Addresses unforeseen events (such as natural disasters or major disruptions) that may excuse or delay a party's performance under the contract.

Representations and Warranties — Statements of fact that each party asserts are true at the time of entering into the agreement.

Covenants — Promises regarding actions a party will or will not take during the term of the contract.

Termination Clause — Defines how and when the agreement can be ended, including any required notice or conditions.

Governing Law — Specifies which state's or jurisdiction's laws will be used to interpret the contract and resolve disputes.

Assignment — Addresses whether a party can transfer its rights or obligations under the contract to another party.

Confidentiality — Requires certain information shared between the parties to remain private and not be disclosed to third parties.

Default — Defines what constitutes a failure to meet contractual obligations and what remedies are available if it occurs.

The Role of Legal Review

Retaining an attorney can help interpret these provisions in context, clarify their practical impact, and ensure the agreement aligns with the parties' expectations. Careful review can also identify areas where revisions may reduce risk

or improve clarity.

Final Thoughts

Understanding common contract terms is a key part of managing business relationships effectively. With a stronger grasp of these concepts, parties can approach agreements more strategically and with greater confidence.

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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