
Global Certificate in Paralegal Studies

Business Organizations and Contracts

Business Organizations encompass a wide array of legal structures that enable individuals to pursue commercial activities while providing varying degrees of protection, governance, and tax implications. Understanding the vocabulary associated with each form is essential for a paralegal who must draft documents, conduct research, and advise clients on compliance matters. The following terms are foundational and are presented with definitions, examples, practical applications, and common challenges.

Sole Proprietorship is the simplest business entity, owned and operated by a single individual. The owner bears unlimited personal liability for all debts and obligations of the business. For example, a freelance graphic designer who invoices clients directly operates as a sole proprietor. The practical advantage is ease of formation—no filing with the state is required—but the challenge lies in exposure to personal assets if the business is sued. Paralegals often assist in drafting a “doing business as” (DBA) filing to register a trade name, which helps separate personal and business branding while not altering liability status.

Partnership involves two or more persons who agree to share profits, losses, and management responsibilities. Partnerships are categorized as general partnerships (GP) and limited partnerships (LP). In a GP, each partner has joint and several liability, meaning a creditor can pursue any partner for the full amount owed. An LP includes at least one general partner and one limited partner; the limited partner’s liability is restricted to the amount of capital contributed, provided they do not partake in management. A practical example is a real-estate development venture where the developer serves as the general partner and investors join as limited partners. Challenges include the need for a comprehensive partnership agreement that delineates profit sharing, decision-making authority, and dispute-resolution mechanisms to avoid personal exposure and internal conflict.

Limited Liability Company (LLC) merges the liability protection of a corporation with the tax flexibility of a partnership. Members of an LLC are shielded from personal liability for the company’s debts, and the entity can elect to be taxed as a partnership (pass-through) or as a corporation. A common example is a tech startup that wishes to attract venture capital while preserving a simple management structure. The operating agreement is a crucial document that sets out member rights, capital contributions, voting procedures, and procedures for adding or removing members. A frequent challenge for paralegals is ensuring the operating agreement complies with state statutes and that the LLC observes required formalities—such as maintaining a separate bank account—to preserve the liability shield.

Corporation is a distinct legal person created by filing articles of incorporation with the appropriate state authority. Corporations can be classified as C corporations, S corporations, or B corporations, each with unique tax and governance features.

C Corporation is subject to corporate income tax at the entity level; shareholders also pay tax on dividends, resulting in “double taxation.” This structure is favored by companies planning to go public or seeking extensive equity financing. An example is a multinational manufacturing firm that issues common stock to raise capital. The corporate governance framework includes a board of directors, corporate officers, and shareholders’ meetings. Challenges include compliance with securities regulations, maintaining corporate formalities, and preparing detailed disclosures for the Securities and Exchange Commission (SEC).

S Corporation elects pass-through taxation, allowing income, losses, deductions, and credits to flow directly to shareholders’ personal tax returns, while still providing limited liability. Eligibility restrictions include a maximum of 100 shareholders, all of whom must be U.S. Citizens or residents, and only one class of stock. A small family-owned consulting firm may elect S corporation status to benefit from tax efficiency while limiting personal liability. Paralegals must verify eligibility criteria, draft the necessary Form 2553 election, and monitor shareholder changes that could jeopardize S corporation status.

B Corporation (Benefit Corporation) is a for-profit entity that includes a statutory purpose to create a positive impact on society, workers, the environment, and community. While similar in structure to a C corporation, B corporations must produce an annual “benefit report” assessing performance against a third-party standard. A socially-focused apparel company might adopt B corporation status to align its legal obligations with its mission. The challenge lies in balancing profit motives with the broader social purpose and ensuring compliance with the benefit reporting requirement.

Nonprofit Corporation is organized for charitable, educational, religious, or scientific purposes and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Nonprofits must adhere to strict governance rules, including a board of directors that oversees mission compliance, financial stewardship, and fundraising activities. A community health clinic operating as a nonprofit must file Form 1023 for tax-exempt status and maintain records demonstrating that earnings are not distributed to private individuals. The main challenges involve maintaining public support tests, avoiding private inurement, and complying with reporting obligations such as the Form 990.

Joint Venture is a contractual arrangement where two or more parties combine resources for a specific project or business activity while retaining separate legal identities. Joint ventures often arise in international construction, where a foreign contractor partners with a local firm to meet regulatory requirements. The joint venture agreement outlines each party’s contribution, profit-sharing, management structure, and exit strategy. A key challenge is the allocation of risk and liability, especially when the venture involves cross-border transactions subject to differing legal regimes.

Franchise is a method of distributing goods or services involving a franchisor granting the right to use its trademark, business model, and operating system to a franchisee. The franchise agreement details the franchisee’s obligations, fees, training, quality-control standards, and territorial exclusivity. Fast-food chains such as a popular burger brand rely on franchising to expand rapidly. Paralegals often assist in reviewing franchise disclosure documents (FDD) for compliance with the Federal Trade Commission (FTC) rule and

ensuring that renewal and termination clauses protect the franchisor's brand integrity.

Limited Partnership and Limited Liability Partnership (LLP) are distinct structures that provide limited liability to certain partners. In an LLP, all partners enjoy limited liability, but the partnership must be used for a professional service (e.G., Law firms, accounting firms). An LLP allows a law firm's partners to be shielded from each other's malpractice claims while maintaining the partnership's tax benefits. The operating agreement must specify the scope of permitted activities and the mechanism for handling claims against individual partners.

Shareholder refers to an individual or entity that owns shares of a corporation's stock. Shareholders enjoy rights such as voting at annual meetings, receiving dividends, and inspecting corporate records. A practical scenario involves a minority shareholder who wishes to enforce their right to inspect the corporation's books under state corporate statutes. The challenge for paralegals is to balance shareholder rights against corporate confidentiality and to draft proper demand letters that comply with procedural requirements.

Director is a member of the board of directors, elected by shareholders to oversee corporate affairs, set strategic direction, and appoint officers. Directors owe fiduciary duties of care and loyalty to the corporation. For instance, a board member who approves a merger must ensure that the transaction is fair to all shareholders. Breach of fiduciary duty can lead to derivative lawsuits, where a shareholder sues on the corporation's behalf. Paralegals often prepare board resolutions, minutes, and conflict-of-interest disclosures to document compliance with fiduciary obligations.

Officer is a corporate official (e.G., President, chief financial officer, secretary) responsible for day-to-day management. Officers are appointed by the board and may have authority to bind the corporation in contracts. A chief financial officer (CFO) who signs a loan agreement on behalf of the corporation must have proper corporate authority documented in board minutes. A challenge arises when a third party alleges lack of authority; the corporation must produce evidence of proper delegation to avoid contract invalidation.

Fiduciary Duty encompasses the duty of care, requiring directors to act with the competence and diligence of a prudent person, and the duty of loyalty, obligating them to place the corporation's interests above personal gain. A director who diverts a corporate opportunity to a competing venture breaches the duty of loyalty. Paralegals may need to investigate potential conflicts, draft conflict-of-interest policies, and advise on indemnification provisions that protect directors from personal liability when acting in good faith.

Indemnification is a contractual provision whereby a corporation agrees to reimburse directors, officers, or employees for legal expenses and judgments arising from lawsuits related to their corporate role. Indemnification clauses are typically found in the corporation's bylaws or a separate indemnification agreement. While indemnification offers protection, it does not shield individuals from liability for intentional misconduct or fraud, which remains a challenge for risk management.

Corporate Veil refers to the legal separation between a corporation and its shareholders. Courts may "pierce the corporate veil" when shareholders use the corporation as a façade for fraud or commingle personal and

corporate assets. In a case where a shareholder siphons corporate funds for personal use, a court may hold the shareholder personally liable. Paralegals assist in maintaining the corporate veil by ensuring proper corporate formalities—holding regular meetings, keeping minutes, and maintaining separate financial records.

Articles of Incorporation (also called the certificate of incorporation) is the foundational document filed with the state to create a corporation. It typically includes the corporate name, purpose, registered agent, authorized capital stock, and the incorporator's name. Drafting articles requires attention to statutory language to avoid inadvertent ultra-vires provisions (activities beyond the corporation's stated purpose). An example of a challenge is when a corporation wishes to expand its business scope and must amend its articles, requiring shareholder approval and filing a certificate of amendment.

Bylaws are internal rules governing corporate operations, including the procedure for board meetings, officer duties, shareholder voting, and quorum requirements. Bylaws are not filed with the state but are essential for corporate governance. A paralegal may be tasked with drafting bylaws that comply with the corporation's articles and applicable state law, ensuring that provisions such as the "drag-along" rights for majority shareholders are clearly articulated.

Operating Agreement is the governing document for an LLC, analogous to corporate bylaws. It delineates member rights, capital contributions, profit distribution, management structure, and dissolution procedures. For multi-member LLCs, the operating agreement is critical for preventing disputes over decision-making authority. A common challenge is that members may overlook the importance of a buy-sell provision, which becomes crucial when a member wishes to exit the LLC.

Shareholder Agreement is a contract among shareholders that supplements corporate bylaws by addressing issues such as voting agreements, restrictions on share transfers, right of first refusal, and tag-along rights. In a closely held family business, a shareholder agreement may prevent a spouse from selling shares to an outsider without the family's consent. Paralegals often draft these agreements to protect the continuity of ownership and to provide mechanisms for dispute resolution.

Merger is a transaction where two corporations combine into a single entity. Types of mergers include "stock-for-stock" mergers, where shareholders exchange their shares for the surviving corporation's shares, and "asset" mergers, where one corporation purchases the assets of another. The merger agreement outlines the exchange ratio, representations and warranties, closing conditions, and post-merger integration plans. A challenge is obtaining shareholder approval, which may require a majority or supermajority vote, and ensuring compliance with antitrust regulations.

Acquisition involves one company purchasing another's equity or assets. In an equity acquisition, the buyer obtains the target's stock; in an asset acquisition, the buyer selectively purchases assets and assumes selected liabilities. Due diligence is critical to identify hidden liabilities such as environmental obligations or pending litigation. Paralegals often coordinate the review of target company contracts, leases, and

intellectual property assignments to mitigate post-closing risk.

Dividends are distributions of a corporation's earnings to shareholders, typically paid in cash or additional shares. A corporation's board declares dividends, and the payment must not impair the corporation's ability to meet its obligations. An example of a challenge is the "solvency test" required in many jurisdictions; if a corporation pays dividends while insolvent, directors may be held personally liable for the resulting creditor losses.

Stock represents ownership interests in a corporation. Stock may be "common" or "preferred." Preferred stock usually carries preferential dividend rights and may have conversion features into common stock. Understanding the rights attached to each class of stock is essential when drafting securities purchase agreements. A challenge arises when a corporation issues additional shares that dilute existing shareholders, potentially triggering anti-dilution provisions in existing agreements.

Board of Directors is the governing body elected by shareholders to oversee major corporate decisions. The board's composition, term limits, and removal procedures are often set out in the bylaws. Directors must act in the best interests of the corporation, and failure to do so can result in derivative suits. Paralegals assist in preparing board packets, resolutions, and minutes that document proper decision-making and compliance.

Annual Meeting is a required gathering of shareholders, typically held once per year, where directors are elected, reports are presented, and major corporate actions are voted upon. Notices must be sent in accordance with statutory timing requirements, and proxy statements may be used to solicit votes. Failure to hold an annual meeting can result in challenges to the validity of corporate actions taken thereafter.

Special Meeting can be called by the board or shareholders to address urgent matters outside the regular annual meeting schedule. The notice must specify the business to be transacted, and the meeting may require a lower quorum than a regular meeting depending on the corporation's bylaws. Paralegals often draft the notice, agenda, and any requisite consents to ensure that the meeting's actions are legally effective.

Proxy is an authorization given by a shareholder to another person to vote on their behalf at a meeting. Proxy forms must disclose any conflicts of interest and comply with securities regulations. In large public companies, proxy statements are filed with the SEC on Form DEF 14A. A challenge for paralegals is ensuring that proxy solicitations are accurate, that voting instructions are clear, and that the proxy is validly executed.

Quorum is the minimum number of shares that must be represented, in person or by proxy, for a meeting to conduct business. For example, a corporation's bylaws may require a quorum of 50% of outstanding shares. If a quorum is not met, any actions taken may be void, leading to operational delays. Paralegals must verify attendance lists and proxy returns before a meeting proceeds.

Record Date is the cut-off date established by a corporation to determine which shareholders are entitled to receive dividends or to vote at a meeting. The record date is typically set a few days before the meeting to

allow for the processing of share transfers. Accurate maintenance of the shareholder register is essential to avoid disputes over entitlement.

Stockholder's Equity represents the residual interest in the assets of a corporation after deducting liabilities. It includes common stock, additional paid-in capital, retained earnings, and treasury stock. Understanding equity components is vital when analyzing a corporation's financial health and when drafting financial covenants in loan agreements.

Retained Earnings are accumulated profits that have not been distributed as dividends. Retained earnings may be used for reinvestment, debt repayment, or acquisition. A challenge arises when a corporation with negative retained earnings seeks financing; lenders may view the negative balance as an indicator of poor financial management.

Financial Statements consist of the balance sheet, income statement, and statement of cash flows. These documents provide insight into a company's profitability, liquidity, and solvency. Paralegals often review financial statements during due diligence to assess covenant compliance, identify red flags, and verify representations made in transaction documents.

Audit is an independent examination of a company's financial statements to ensure they fairly represent the financial position in accordance with generally accepted accounting principles (GAAP). Public companies are required to have annual audits by a registered public accounting firm. The audit report is filed with the SEC and is a key source of information for investors and creditors.

Compliance refers to adherence to laws, regulations, and internal policies governing business operations. In a regulated industry such as banking, compliance programs must address anti-money-laundering (AML) rules, data protection, and consumer protection statutes. Paralegals support compliance efforts by drafting policies, monitoring regulatory updates, and assisting with internal investigations.

Regulatory Filing is the submission of required documents to governmental agencies. Examples include Form 10-K for annual reports, Form 8-K for material events, and Form S-1 for securities registration. Timely filing is crucial; failure to comply can result in penalties, loss of registration, or litigation.

SEC (Securities and Exchange Commission) is the U.S. Federal agency responsible for enforcing securities laws and protecting investors. Companies that issue publicly traded securities must comply with SEC reporting requirements, including periodic disclosures and insider trading rules. Paralegals often assist in preparing filings, reviewing disclosures for accuracy, and coordinating with counsel on compliance matters.

S Corporation and C Corporation differ primarily in tax treatment, but both must observe corporate formalities, such as maintaining minutes and filing annual reports. A challenge for paralegals is ensuring that corporate minutes accurately reflect decisions, especially when the corporation is involved in complex transactions that could affect tax status.

Business Entity is a general term for any organization that conducts business, including corporations, LLCs, partnerships, and sole proprietorships. The choice of entity influences liability exposure, tax obligations, governance, and ability to raise capital. Paralegals often prepare comparative analyses to help clients select the most appropriate entity based on strategic goals and risk tolerance.

Legal Personality refers to the capacity of an entity to own property, sue, and be sued in its own name. Corporations and LLCs possess legal personality separate from their owners, while partnerships may have limited personality depending on jurisdiction. Understanding legal personality is essential when drafting contracts to correctly identify the contracting party.

Limited Liability protects owners from personal responsibility for the entity's debts, beyond their investment. For example, members of an LLC enjoy limited liability, but they must avoid personal guarantees that could pierce that protection. A practical challenge is ensuring that all contracts are signed in the entity's name, not the individual's, to preserve limited liability.

Shared Liability occurs in general partnerships where each partner may be held responsible for the entire partnership's obligations. In a case where a partnership defaults on a loan, the creditor can pursue any partner for the full amount. Paralegals must advise partners on the importance of clear partnership agreements and consider insurance coverage to mitigate shared liability.

Capital Stock is the total amount of stock a corporation is authorized to issue, as specified in the articles of incorporation. Authorized capital may be higher than issued capital, providing flexibility for future financing. A corporation may need to amend its articles to increase authorized capital, requiring shareholder approval and filing a certificate of amendment.

Authorized Capital is the maximum amount of share capital that a corporation is permitted to issue. If a corporation wishes to raise additional funds, it may need to increase its authorized capital through a shareholder vote. Paralegals assist in drafting the amendment, preparing the shareholder meeting materials, and filing the necessary documents.

Issued Capital is the portion of authorized capital that has actually been issued to shareholders. The difference between authorized and issued capital represents shares that remain unissued and can be used for future financing or employee stock options. Managing the balance between authorized and issued capital is a strategic consideration for corporations planning growth.

Dividends can be paid in cash, property, or additional shares (stock dividends). Cash dividends affect the corporation's liquidity, while stock dividends increase the number of shares outstanding without affecting cash flow. Paralegals must ensure that dividend declarations comply with the corporation's bylaws and any contractual restrictions, such as debt covenants that limit dividend payments.

Stock Split is a corporate action that increases the number of shares outstanding while proportionally reducing the price per share. A 2-for-1 split doubles the share count and halves the price. Stock splits are

often used to improve marketability of a stock. Documentation for a stock split includes board resolutions, shareholder approvals (if required), and filings with the state and securities regulators.

Board of Directors may delegate authority to committees (e.G., Audit committee, compensation committee). Committee charters define the scope of authority and reporting requirements. Paralegals often draft committee charters, prepare meeting agendas, and compile minutes to maintain a clear record of delegated authority.

Officer titles, such as Chief Executive Officer, Chief Financial Officer, and Secretary, denote specific responsibilities. The officer's authority to bind the corporation is typically evidenced by a board resolution. A challenge emerges when third parties rely on an officer's apparent authority without confirming the existence of a proper resolution; the corporation may be held liable for unauthorized acts.

Annual Meeting requirements vary by jurisdiction; some states require a minimum notice period (e.G., 10 Days) and a specific method of delivery (e.G., Certified mail). Failure to meet statutory notice can render shareholder votes invalid. Paralegals must track deadlines, prepare proxy statements, and ensure that all procedural steps are documented.

Special Meeting may be called by a majority of directors or by shareholders holding a specified percentage of voting power. The notice must state the purpose of the meeting, and only business listed in the notice may be acted upon unless a unanimous consent is obtained. Paralegals coordinate the logistics and documentation for special meetings, ensuring compliance with bylaws and state law.

Proxy voting can be electronic or paper-based. The proxy must be signed by the shareholder and may include specific voting instructions. In proxy contests, the proxy statement must disclose all material relationships and compensation arrangements. Paralegals review proxy statements for accuracy and compliance with SEC rules.

Quorum thresholds may differ for different types of business; for example, a corporation may require a quorum of a majority of shares for ordinary business but a higher threshold for actions like amending the articles. Paralegals must verify that quorum requirements are met before any corporate action is ratified.

Record Date determines shareholder eligibility for voting and dividend rights.

Stockholder's Equity includes components such as common stock, additional paid-in capital, retained earnings, and treasury stock. Treasury stock represents shares that the corporation has repurchased and held in its treasury; it reduces total equity. Understanding these components is crucial when analyzing a company's financial position and when drafting equity-related provisions.

Retained Earnings can be used for reinvestment, debt reduction, or distribution as dividends. Negative retained earnings may signal accumulated losses, which can impact the corporation's ability to meet debt covenants. Paralegals may need to advise clients on the implications of negative retained earnings when

negotiating financing terms.

Financial Statements are audited or unaudited reports that provide insight into a company's performance. Paralegals often review financial statements during due diligence to verify representations about revenue, profit margins, and cash flow. Discrepancies between audited and unaudited statements can raise red flags.

Audit reports include an opinion section (unqualified, qualified, adverse, disclaimer). An unqualified opinion indicates that the financial statements present fairly, in all material respects, the financial position. A qualified opinion may highlight specific concerns, such as limited scope or accounting policy disagreements. Understanding audit opinions helps paralegals assess risk in transaction documents.

Compliance programs may incorporate internal controls, whistleblower policies, and regular training. In heavily regulated sectors, compliance failures can result in civil penalties, criminal liability, and reputational damage. Paralegals assist by drafting policies, conducting compliance checklists, and supporting internal investigations.

Regulatory Filing deadlines are strict; late filings can trigger penalties or loss of licensure. For example, a pharmaceutical company must file annual reports with the Food and Drug Administration (FDA) to maintain product approvals. Paralegals track filing calendars and coordinate with counsel to ensure timely submissions.

SEC filings, such as Form 10-K and Form 8-K, must be accurate and complete. Errors can lead to enforcement actions, including cease-and-desist orders or fines. Paralegals play a key role in reviewing disclosures for consistency, ensuring that material events are promptly reported, and maintaining a repository of filing documents.

Business Organizations also involve specialized concepts such as Ultra Vires, which refers to acts beyond the corporation's authorized purpose. Historically, ultra-vires acts could be void, but modern statutes often limit the doctrine, allowing shareholders to ratify unauthorized actions. Nonetheless, a corporation should regularly review its articles to ensure that its activities remain within the authorized purpose, reducing the risk of disputes.

Shareholder Rights include the right to vote, the right to receive dividends, the right to inspect corporate books, and the right to bring a derivative action. A derivative action allows a shareholder to sue on behalf of the corporation for wrongdoing by directors or officers. Paralegals must understand the procedural requirements for standing, demand-making, and court approval.

Derivative Action typically requires the shareholder to first demand that the board address the alleged wrongdoing, unless such a demand would be futile. The demand-futility exception is a complex area; paralegals often assist in researching case law to support a claim that the board is incapable of making an independent decision due to conflicts of interest.

Conflict of Interest arises when a director or officer has a personal interest that could interfere with their duty to the corporation. Conflict-of-interest policies often require disclosure and abstention from voting on related matters. Failure to disclose can result in personal liability and corporate governance challenges.

Indemnity Clause in a corporate charter or contract provides that the corporation will reimburse officers and directors for legal expenses incurred in defending lawsuits arising from their corporate role. The clause may be limited by the corporation's financial condition or by the presence of insurance. Paralegals help draft indemnity provisions that align with state statutes and corporate governance best practices.

Corporate Governance encompasses the system of rules, practices, and processes by which a corporation is directed and controlled. Good governance includes clear delineation of board and management responsibilities, transparent reporting, and effective risk management. Paralegals contribute by preparing governance documents, monitoring compliance with internal policies, and supporting board education initiatives.

Business Organizations Vocabulary – Summary:

- Sole Proprietorship: Unlimited liability, simple formation. - Partnership: General vs. Limited, joint liability. - LLC: Pass-through taxation, operating agreement. - Corporation: C, S, B forms; articles, bylaws, limited liability. - Nonprofit: Tax-exempt, board oversight. - Joint Venture: Project-specific collaboration. - Franchise: Trademark licensing, FDD compliance. - Shareholder: Voting rights, inspection rights. - Director: Fiduciary duties, board resolutions. - Officer: Corporate authority, delegation. - Indemnification: Protection against legal costs. - Corporate Veil: Liability shield, veil-piercing risks. - Articles of Incorporation: Formation document. - Bylaws: Internal governance rules. - Operating Agreement: LLC governance. - Shareholder Agreement: Ownership controls. - Merger & Acquisition: Due diligence, integration. - Dividends, Stock, Equity: Capital structure. - Board of Directors, Committees: Oversight mechanisms. - Annual & Special Meetings, Proxy, Quorum, Record Date: Shareholder processes. - Financial Statements, Audit: Financial health. - Compliance & Regulatory Filing: Ongoing obligations.

Contracts form the backbone of commercial transactions. A contract is a legally enforceable agreement that creates mutual obligations between parties. Mastery of contract terminology enables paralegals to draft, review, and manage agreements effectively. The following key terms are organized by the stages of contract formation, essential clauses, and enforcement concepts.

Offer is a manifestation of willingness to enter into a bargain, made with the intention that, upon acceptance, a contract will be formed. The offer must be definite, communicated to the offeree, and must not be terminated prior to acceptance. For example, a supplier sends a quotation stating, "We will sell 10,000 units at \$5 each, delivery within 30 days." That quotation can be considered an offer if it contains essential terms. A challenge arises when the language is vague (e.g., "Price to be negotiated"), which may render the communication a mere invitation to negotiate rather than a binding offer.

Acceptance is the unconditional assent to the terms of the offer. Acceptance must be communicated in the manner prescribed by the offeror (e.G., By mail, email, or performance). The “mirror image rule” requires that the acceptance match the offer exactly; any variation constitutes a counter-offer. In the classic case of a buyer responding to a seller’s offer with a different delivery date, the response is a counter-offer, not an acceptance. Paralegals must track communications to ensure that acceptance is properly documented and that the timing of acceptance aligns with any stipulated deadlines.

Consideration is the exchange of something of legal value between the parties. It can be a promise, an act, or forbearance. Consideration distinguishes a contract from a gratuitous promise, which is generally unenforceable. For instance, a promise to give a gift of \$10,000 without receiving anything in return lacks consideration and is therefore not enforceable. However, a promise to pay \$5,000 in exchange for the delivery of goods constitutes valid consideration. A practical challenge is when parties attempt to create “nominal consideration” (e.G., \$1) To satisfy the requirement while the real exchange is more substantial; courts generally accept nominal consideration if it is not a sham.

Capacity refers to the legal ability of a party to enter into a contract. Minors, persons of unsound mind, and certain protected classes (e.G., Intoxicated individuals) lack full capacity. Contracts entered into by a minor are typically voidable at the minor’s option, though some jurisdictions impose liability for necessities. Paralegals must verify the capacity of parties, especially in transactions involving large sums or long-term obligations, and advise on the need for parental or guardian consent where appropriate.

Legality requires that the contract’s purpose be lawful. Contracts for illegal activities (e.G., Drug trafficking) are void and unenforceable. Even if the parties intend to perform only lawful portions of an agreement, any illegal objective can invalidate the entire contract. A common issue is “contracts with illegal consideration,” where the consideration itself is unlawful (e.G., Paying a bribe). Paralegals must screen agreements for compliance with applicable statutes and regulations.

Mutual Assent (or “meeting of the minds”) is the agreement of the parties on the essential terms. It is established through the offer-acceptance process and is evidenced by the contract’s language and conduct of the parties. Ambiguities can lead to disputes over mutual assent. Courts often interpret ambiguous terms against the drafting party (the “contra proferentem” rule). Paralegals should strive for clarity, using precise definitions and avoiding vague language.

Statute of Frauds is a legal doctrine that requires certain types of contracts to be in writing to be enforceable. Typical categories include contracts for the sale of goods over a certain amount (usually \$500 under the Uniform Commercial Code), contracts for real estate, contracts that cannot be performed within one year, and agreements to answer for the debt of another (suretyship). For example, a lease for a commercial premises extending beyond one year must be written. Failure to comply can render the contract unenforceable, though partial performance may provide an exception. Paralegals must identify when a written contract is required and ensure that all necessary elements (signatures, dates, essential terms) are present.