

Is There Any Escape From Your Contract?

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Are you stuck in a contract with onerous provisions and desire to get out of it? Are you paying too much for an item or service and want to stop making such payments? If you answered yes to either of the preceding questions, you should review the term and termination clauses in your contract. This article explores the meaning of the term of a contract and common termination provisions.

The “term” of a contract is the duration of a contract, which typically commences on a certain date and ends, terminates or expires after a certain period of time. Upon expiration or termination of the term, the contract may permit renewal, which means that the contract continues to bind the parties according to the same terms and provisions for another set period of time. Renewal terms may be automatic at the end of the term, unless one of the parties provides notice of its intention to terminate. This type of provision is called an “evergreen” clause. Other times, parties are required to enter into negotiations regarding renewal within a certain time period prior to expiration at which point you can mutually agree to continue the contract or simply let it expire. Therefore, it is important for you to be diligent and review the contract so that you understand how long the term is, if it expires on a certain date, or if you need to give notice of your intention to terminate to avoid automatic renewal. Be sure to calendar the significant dates in your contract because if your contract contains an evergreen clause and you fail to provide the requisite notice, your contract may automatically renew and your chance to escape is lost.

In determining whether and how to terminate your contract, you should review the termination provisions to find out your options. The easiest way to terminate a contract is “without cause,” which means you do not have to provide a reason for your termination. Often, termination without cause requires notice to the other party. So, if your contract contains a termination without cause provision, the quicker you provide the notice, the quicker you can terminate the arrangement. Contracts also usually contain a termination “with cause” provision, where either party has the right to terminate if specific events occur. Depending on the event, there may be a time period in which the other party can “cure” the cause incident and avoid termination. Otherwise, termination with cause is normally effective immediately. The most common example of a cause event is a breach of the agreement where one party failed to carry out an obligation it had under the contract. Termination with cause can lead to disputes over whether cause actually existed and/or whether the cause was appropriately cured. If you have cause to terminate your contract, be sure that you carefully document the reasons for cause and keep good records if the event happens on numerous occasions. Last, be sure you understand any obligations that continue after termination, such as confidentiality provisions or restrictive covenants, which obligate the parties of a contract to adhere to certain provisions even after the contract has terminated.

Therefore, if you are party to a contract and are considering your escape, be careful to review the nuances of the term and termination provisions. You should also contact an experienced business law attorney to discuss the requirements and implications of terminating your contract. For more information, call Alyson M. Leone.

Attorney

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