Business Law Dictionary

**abandonment** In trademark law, a situation in which the owner of a trademark or service mark does not use the mark for a long time or does not object to the unauthorized use of the mark by others. An owner who abandons a trademark loses his or her exclusive rights to it.

**acceptance** In contracts, agreeing verbally or in writing to the terms. This is one of the requirements for making a valid contract (i.e., an offer, an acceptance of that offer, and a consideration). A written offer can be accepted only in writing.

**accord and satisfaction** An agreement to accept less than is legally due in order to conclude a dispute. The new agreement (i.e., the accord) and the payment (i.e., the satisfaction, when made) replace the original obligation. See novation.

**account stated** A statement between a creditor and a debtor that a stated amount is owed as of a stated date. The statement may be a bill, invoice or summary of invoices that the debtor may agree to pay either in whole or in part.

**accounts payable** The bills or invoices that are owed by a business.

**accounts receivable** The bills or amounts that are due or owed to a business by customers. In general, this term refers to the total amount owed and is used in calculating the value of a business or the likelihood of the business being able to pay its own debts. Calculating receivables involves evaluating each customer’s payment history and the age of the debt.

**accrue** Growing or adding to, such as accumulating interest on a debt. Also, the circumstances that allow the bringing of a lawsuit. For example, the right to sue on a contract accrues only if the other party breaches or repudiates it.

**act of God** An unusual and unexpected natural event (e.g., hurricane, earthquake, sudden death), which may be a defense against liability for injuries or damages, or for not fulfilling a contract. Under the law of contracts, an act of God often serves as a valid excuse if one of the parties to the contract is unable to fulfill his or her duties, such as completing a construction project on time.

**act of nature** see Act of God.

**ADA** see Americans with Disabilities Act.

**ADEA** see Age Discrimination in Employment Act.

**adhesion** contract A contract (often a signed preprinted form) that is so much in one party’s favor that there is every appearance of its not having been bargained freely. Also called a contract of adhesion. See unconscionability.

**ADR** see American Depository Receipt.

**advance** A prepayment made in anticipation of services, such as a shipment being made or a book written. An advance is normally set against a final bill,
a sales commission or an author’s royalty.

affirmative action In employment or admission to programs: a business, institution or governmental agency giving preference in hiring or advancement to ethnic minorities to make up for past discrimination. Affirmative action has been at the center of several lawsuits arguing reverse discrimination, but it has usually been upheld.

age discrimination Unfair treatment, especially in the hiring or laying off of current or potential employees aged 40 to 70 years, which is illegal under the Age Discrimination Employment Act (ADEA). The main challenge by the claimant is to prove age discrimination. See wrongful termination.

Age Discrimination in Employment Act (ADEA) A federal law prohibiting discrimination against workers older than 40 years of age in employment decisions, especially those regarding which workers should be laid off. Under the law, no worker can be forced to retire. See Older Workers Benefit Protection Act.

agent A person who, by mutual consent, is authorized to act for the benefit of and under the direction of another person when dealing with third parties. The person who appoints the agent is the principal. The agent is in a fiduciary relationship with the principal, can enter into binding agreements on behalf of the principal, and could potentially create liability for her or him. See apparent authority; ostensible agent.

agent for acceptance of service In corporations, a named individual who is authorized to accept service of lawsuits or claims against the corporation. The person is usually named in the articles of incorporation or similar documents filed with each state’s Secretary of State, and is often a professional agent representing many corporations.

agreement An understanding between two or more parties about a particular issue, covering their obligations, duties and rights. The term can also mean contract (i.e., a legally binding agreement), but it has a broader application and extends to understandings that are not legally binding.

alter ego An entity set up as a legal shield for the person actually controlling the operation. Proving that such an entity is an alter ego involves having to prove complete control by an individual. See piercing the veil.

American Depository Receipt (ADR) A receipt issued by U.S. banks to U.S. citizens as a substitute for the outright ownership of foreign shares. ADRs can be readily traded on American stock exchanges, avoiding the need to trade the actual foreign shares.

Americans with Disabilities Act (ADA) A federal law prohibiting discrimination against people with physical or mental disabilities in employment, public services, and places accommodating the public (e.g., restaurants, hotels, theaters).

annual meeting In corporations, a general meeting of shareholders or directors. Shareholders’ meetings are held to elect directors or to vote on major changes to the corporation, such as amendments to the articles of incorporation or the merging of the business with another. A meeting of directors might consider raising funds by borrowing and other financial decisions, buying property, and hiring or replacing key staff.
**anticipation** In patent law, a situation in which an invention is too similar to an existing invention to be considered novel—it has been anticipated. Novelty is one of the requirements for a patent, so anticipated inventions cannot be patented. See prior art.

**anticipatory breach** The repudiation of obligations by one party to a contract before the obligations have been fully performed. This releases the other party from his or her contractual obligations; one party cannot simultaneously repudiate obligations and demand that the other party perform. See breach of contract.

**antitrust laws** Acts of Congress (starting with the Sherman Antitrust Act of 1890) that forbid or restrict business practices that are deemed to be monopolistic, that restrain interstate commerce, or that are anticompetitive. See price fixing; restraint of trade.

**apparent authority** Appearing to be the agent of another (i.e., the employer or principal) with the power to act for her or him. Under the law of agency, the principal is liable for the acts (e.g., damage caused, contracts signed) of her or his employee (i.e., agent), and this applies to someone who only appears (to a customer, supplier or other member of the public) to have been given authority. Providing someone who is not a proper agent with, for example, stationery, forms, a company truck or an office desk could be considered granting them apparent authority, leaving the employer liable. See ostensible agent.

**appraisal** An estimate of the fair market value of something (e.g., real estate, valuables, shares). A professional appraiser (a neutral expert) makes an estimate by studying the property and comparing the initial purchase price with recent sales of similar property. Appraisals are often ordered by courts in probate, bankruptcy and other proceedings in which market values need to be established. Banks and mortgage companies use appraisals before making loans, and insurance companies use damage appraisals before settling claims.

**appraiser** A professional expert who is hired to determine the current market value or full cash value of real estate or other property.

**appreciation** An increase in value, particularly of property that has risen in value since it was acquired.

**arm’s length** The nature of an agreement when it has been made by two parties freely and independently of each other. If the parties are relatives or have a prior contract that puts one under the control of the other, the new agreement may not have been made at arm’s length and may not be enforceable.

**arrears** Money owed and due, but not yet paid; often the total of a series of unpaid amounts.

**articles of incorporation** The basic (and usually founding) charter of a corporation, setting out the name, type of business, directors, and amount and types of shares that may be issued. Each state has its own approval system and requirements for registering names and issuing shares, as well as its own criteria for registering nonprofit corporations. Articles of incorporation are usually filed for approval with a state’s Secretary of State or Corporations Commissioner.
**as is** Provision in a sales contract by which the buyer waives the right to complain if the property being sold is faulty: the buyer takes it "as is." The buyer must have the right to inspect the purchase and spot deficiencies. If the seller intentionally conceals defects, the contract can be cancelled. See caveat emptor; latent defect.

**assets** In business, items of property that have monetary value and are shown in the company balance sheets. Such items include current assets (e.g., accounts receivable), fixed assets (e.g., equipment, supplies), and business goodwill and copyrights.

**assignment** Transferring an interest in a property, contract or other right from one person or company to another. In copyright law, the unconditional transfer of all rights in a copyright from the owner to another person or entity.

**assignment for benefit of creditors** A method of scheduling debt repayment by which a trustee receives directly a portion of a debtor’s income and uses it to pay the debtor’s bills. Compare garnishment.

**audit** An examination by a trained accountant of the financial records of a person or business, including notation of improper or careless practices, recommendations for improvements in keeping proper records, and a balancing of the books. An "internal audit" is done by an employee, whereas an "independent audit" is done by an outside accountant. Auditors who have not been able to examine all the supporting documents will note that the audit was based on limited information and will not guarantee the accuracy of the information provided.

**author** In terms of copyright protection, a person who creates a work; a person or business that pays another to create a work as part of her or his employment; or a person or business that commissions a work under a work made for hire contract. For example, a technical writer may produce a manual, but if she or he is employed by a company to do so, the company is the author of the manual for copyright purposes.

**bad debt** A debt that is considered uncollectible because of bankruptcy or the passage of time.

**bad faith** An intentional dishonest act involving the nonfulfillment of contractual obligations, misleading of another, or entrance into an agreement without the intention or means to fulfill it.

**bait and switch** A dishonest sales practice in which a business attracts customers by advertising a bargain price for an item and then claims that the advertised item is no longer available, attempting to switch the prospective customer to a more expensive product. Such tactics often apply to retail items (e.g., stereos, televisions), but there are also loan interest rates and other financial products that turn out to be available for very specific circumstances only. Such practices can make a business a target for a class action.

**balance due** The amount of a debt still owed on an account or the principal owed on a promissory note. With a promissory note, the balance due is not the sum of the remaining installments, because that amount includes interest payments, but may be the principal due without further interest.

**balance sheet** A statement that shows the financial position of a company
in terms of its assets and liabilities at particular times (current and past); an indicator of the overall condition of the business. This differs from a profit and loss statement, which is concerned with the current operational activity of the business.

**bankruptcy** Proceedings under federal law whereby a debtor can discharge (i.e., wipe out) his or her debts or have protection from creditors while trying to repay them. Liquidation bankruptcy (Chapter 7) involves discharging debts by the surrender of assets. Reorganization bankruptcy (Chapter 13) involves providing the court with a plan for repaying the debts. Reorganization bankruptcy for businesses and for consumers with very large debts is called Chapter 11.

**bankruptcy court** The specialized federal court that deals with bankruptcy matters as detailed in the Federal Bankruptcy Act. Each state also has a number of such courts, usually covering several counties.

**bankruptcy trustee** A court-appointed individual who oversees the case of a person or business that has filed for bankruptcy. In a consumer Chapter 7 case, the trustee gathers the debtor's nonexempt property, liquidates it, and distributes it proportionally to the creditors. In a Chapter 13 case, the trustee receives the debtor's monthly payments and distributes them proportionally to the creditors.

**bearer** Someone who holds a negotiable instrument, such as a check, promissory note, bank draft or bond. If the document states that it is “payable to bearer,” the bearer can receive the funds due on it.

**beneficial interest** An individual’s right to some profit, distribution or benefit from a contract or trust. Such an interest is different from the rights of a trustee, who has responsibility for certain assets, but who does not directly share in the benefits.

**benefit** In contracts, any profit or acquired right. In workers’ compensation, “benefit” is the insurance payment for a fatal accident on the job (“compensation” is for nonfatal injuries). “Fringe benefits” may be part of employment compensation other than salary or wages (e.g., health insurance).

**Berne Convention** An international treaty (first created in Berne, Switzerland in 1886, and subsequently revised) standardizing basic copyright protection among the signatory countries (currently more than 100). A signatory country is obliged to offer the same treatment to authors from all other signatory countries, including the protection of an author’s moral rights.

**bid** An offer to buy something or to provide a service at a specified price. Bids include offers made during an auction (where the highest bidder buys the property) and offers made by contractors to build a project at a given price (where the lowest bidder usually gets the job).

**bill of exchange** A document prepared by one party (i.e., the maker or drawer) ordering another (i.e., the payor or drawee) to pay a certain amount to a third party (i.e., the payee). It is the same as a draft. A check is a bill of exchange drawn on a bank account.

**bill of lading** A document detailing the transfer of goods from a supplier (often foreign) to a buyer.
**bill of sale** A document certifying the transfer (i.e., sale) of property such as goods, possessions or a business (but not real estate) to a buyer.

**blue sky laws** Laws that are designed to protect people from investing in fraudulent companies that have no assets and consist of nothing but “blue sky.” These laws require that companies seeking to sell shares to the public first provide information to and obtain the approval of a state official or federal body, such as the Securities and Exchange Commission.

**board of directors** see director.

**boilerplate** Slang term for the language of “standard” provisions in a contract or other form, often preprinted and now often stored in a computer. The term comes from an old method of printing. Such boilerplate forms tend to favor and protect the entity providing them.

**bona fide purchaser** In finance, an individual who has bought an asset (e.g., a promissory note, bond or other negotiable instrument) for a stated amount, unaware of any facts that would have cast doubt on the right of the seller to have sold it in “good faith” (Latin: bona fide). If the good faith of the purchaser can be proved, then he or she can keep the asset and the true owner must pursue the fraudulent seller for recompense. See holder.

**bond** An interest-bearing document issued by a government or company as evidence of a debt, with the terms of payment to the bondholder spelled out. A bond provides predetermined payments at a set date to the bondholder. A “registered” bond provides payment to the bondholder whose name has been recorded with the bond issuer and appears on the bond certificate. A “bearer” bond provides payment to whomever has possession of the bond. Another meaning of bond is a written agreement purchased from a bonding company (usually an insurance firm) that guarantees that the bond buyer will properly perform a stated act, such as managing funds or completing a building project. If the person who bought the bond fails at the task (e.g., by stealing funds), the bonding company will pay the party that has suffered an amount up to the value of the bond.

**book account** An account of a customer that is kept in a business ledger of debits and credits (i.e., charges and payments) that shows the amount due at any given time. See account stated.

**book value** In accounting, a determination of the value of a corporation’s stock by adding up the stated value of corporate assets as shown on the books (i.e., records) and deducting all the liabilities (i.e., debts). This may not be the true value of the corporation or its shares because the assets may be undervalued or overvalued. The book value of an individual asset is its cost minus its depreciation.

**breach of contract** The failure to perform any term of a contract, written or oral, without a legitimate legal excuse. A breach (literally, a “break”) may include not completing a job, not paying in full or on time, not delivering goods (or substituting inferior goods), or being late without excuse. An anticipatory breach is an act that shows that the party will not complete the work. See partial breach.

**broker** An intermediary between a buyer and a seller who usually charges a commission (i.e., a percentage of the sale price). Examples include real estate brokers (who have responsibility for an agency and its sales agents), insurance
brokers (who handle more than one company), and stockbrokers. Such brokers are regulated and licensed by each state and have a fiduciary duty to act in the best interests of the customer.

**bulk sale laws** State laws (modeled on those in the Uniform Commercial Code) that require the seller of a business or a large amount of business assets or inventory to publish notice of the sale, give written notice to all creditors, and set up an account to hold the funds from the sale for a brief period during which creditors may make claims against the money. These laws are intended to prevent the sale of business assets to avoid paying current creditors.

**business invitee** see invitee.

**buy-sell agreement** A contract among the owners of a business (often dating from the time the business was set up) that provides terms for their purchase of the percentage of the enterprise owned by a partner or shareholder who has decided to withdraw.

**bylaws** The formally adopted written rules that govern the conduct of a corporation, association, partnership or other organization. Bylaws normally are adopted by the shareholders of a profit-making business or the board of directors of a nonprofit corporation. Bylaws generally provide for meetings and elections of a board of directors and officers, and establish hiring practices and other operational matters. They should not be confused with the articles of incorporation, which only state the basic outline of the company and its share structure.

**C corporation** A business term for a corporation, the profits or losses of which are taxed separately from those of its owners, as set out in subchapter C of the Internal Revenue Code. Such a corporation differs from an S corporation, the profits or losses of which are passed through to the shareholders and taxed on their personal returns, as set out in subchapter S of the Internal Revenue Code.

**call** The demand by a corporation that a shareholder pay an installment or assessment on shares already owned. More generally, a repayment demand given without notice (“on call”).

**cancel** In finance, to render a document void, by tearing it up or marking on its face that it is cancelled, void or terminated if the debt for which it stood has been paid. The purpose of canceling is to ensure that the document cannot be used again.

**capital** In business, the basic assets of a company (particularly a corporation or partnership). These assets constitute actual funds, equipment and property, as distinct from stock in trade, inventory and payroll.

**capital account** A listing of all the basic assets of a business, not including inventory or the value of goodwill.

**capital assets** The equipment, property and funds owned by a business.

**capital expenditure** Payments by a business for basic assets such as property, fixtures or machinery, but not for day-to-day operations such as payroll, inventory, maintenance and advertising. Such expenditure is intended to increase the value of the company, normally by improving productivity. Also
known as capital investment.

**capital gains** In business, profits made from a capital transaction (i.e., the buying and selling of assets). In general, the difference between the price something is sold for and the original price paid for it (plus improvements or investments accrued during the period of ownership).

**capital stock** The amount originally invested by shareholders in a corporation for its issued shares. Capital stock has no direct relationship to the current value of the corporation’s shares, which may have gone up or down after the initial issue or first stock offering.

**capitalized value** Anticipated earnings, as shown in company projections, that are then discounted (reduced) as a precaution, because projected earnings often turn out to be less than anticipated.

**carryback** In accounting, the use of a current tax year’s deductions, business losses or credits to amend a previously filed tax return so as to reduce the tax liability. Compare carryover.

**carrying for hire** Transporting goods or individuals for a fee. A business should confirm that the carrier has liability for safe delivery and is subject to regulation.

**carrying on business** Pursuing a particular occupation on a continuous and substantial basis. There need not be a physical or visible business entity as such.

**carryover** In accounting, using a tax year’s deductions, business losses or credits to apply to the following year’s tax return to reduce the tax liability. Compare carryback.

**cartel** A group of companies that come together to monopolize a market, agreeing among themselves which company presides over which area of operation. The supposedly independent companies (often multinationals) may control distribution, set prices, reduce competition, and sometimes share technical expertise. The most well-known cartel is OPEC (Organization of Petroleum Exporting Countries), which represents all of the oil-producing countries in the Middle East and North Africa, as well as Venezuela. Cartels are illegal in the United States (under the antitrust Sherman and Clayton Acts) and the United Kingdom.

**cashier’s check** A check that is issued by a bank on its own funds for the amount paid to the bank by the buyer; it has a named payee and states the name of the buyer (the remitter). To the recipient, the check is the same as cash because it is guaranteed by the bank and does not depend on the account of a private individual or business. Such checks are often used when payment must be credited immediately upon receipt, as in real estate transactions or tax payments.

**casualty loss deduction** In taxation, a deduction that is allowed by a loss caused by an unexpected or unusual event such as a storm, flood, fire, shipwreck, earthquake or act of God.

**caveat emptor** (Latin: let the buyer beware) The premise that a buyer makes a purchase at her or his own risk and must examine a product for defects before buying it. Under the doctrine of implied warranty, a seller has responsibility for defects that could not be noted by casual inspection (even if
something is sold as is), particularly because many products cannot be tested before use and are elaborately packaged.

certificate of incorporation A document issued in some states confirming that a corporation has filed articles of incorporation; in other states, the articles themselves are sufficient proof.

certification mark The name, symbol, device or statement of an organization used by a separate organization or business to vouch for the quality of its products and services (e.g., tourist board star ratings on hotels or restaurants).

certified check A check issued by a bank that certifies that the maker of the check has sufficient funds in his or her account to cover the amount to be paid. The bank will already have set aside the funds, so that the check will remain good even if other checks are written on the same account. Like a cashier’s check, a certified check is the equivalent of cash, in that the recipient does not have to wait until it clears.

Chapter 7 bankruptcy Liquidation or straight bankruptcy, the most familiar sort, in which many or all debts are discharged (i.e., wiped out) completely in exchange for an individual’s or business’ nonexempt property. Proceeds are distributed to creditors. Chapter 7 refers to the relevant section of the federal Bankruptcy Code.

Chapter 11 bankruptcy Reorganization bankruptcy mainly for businesses, either voluntary or involuntary, in which the debtor remains in possession and control of the business. The creditors and the debtor agree on a plan that permits the business to continue after creditors accept a portion of their claims as payment in full. Owners also accept less for their share of the business. Chapter 11 refers to the relevant section of the federal Bankruptcy Code. See debtor in possession.

Chapter 13 bankruptcy Reorganization bankruptcy for individual consumers that may allow the full repayment of debts. Individuals keep their property and use their income to pay their debts (partly or fully) over three to five years, according to a plan presented to the court. The minimum amount to be paid is approximately equal to the value of the individual’s nonexempt property. In addition, the individual’s disposable net income (minus reasonable expenses) must be used to pay debts during the period. At the end of three to five years, the outstanding balance of the debt owed is erased. Chapter 13 refers to the relevant section of the federal Bankruptcy Code.

charity An organization set up to help those in need or to provide educational, cultural, scientific or religious benefit to the public. Charities are usually corporations established under state guidelines and require Internal Revenue Service approval if their donors are to be allowed to make tax-deductible contributions.

charter In some states, the term for articles of incorporation.

check The most familiar bill of exchange. A draft on a particular account in a bank in which the drawer or maker (i.e., the person who has the account and signs the check) directs the bank to pay a certain amount to a recipient, the payee. Funds are not available to the payee until the bank has cleared the check (i.e., confirmed that the drawer’s account has sufficient funds to make the payment). See cashier’s check; certified check.
churning Informal term for the unethical and usually illegal practice by a stockbroker or sales agent of buying and selling shares solely for the purpose of generating a higher sales commission.

CIF see cost, insurance and freight.

civil law That part of the law that encompasses business, contracts, estates, family relations, accidents, negligence and all other legal issues—except for criminal law.

Civil Rights Act of 1964 Federal legislation that was intended to end discrimination based on religion, color, race or national origin. This law prohibits employment discrimination and guarantees the right of access to education and public facilities and accommodations.

claim in bankruptcy The written claim filed by a creditor when a debtor (i.e., an individual or business who owes the creditor money) files for bankruptcy. The known creditors receive notice when a bankruptcy is declared, and will be told if the bankrupt party has no assets to distribute and that, therefore, they should not file a claim until further notice.

class action A lawsuit in which all members of a group of persons who have suffered the same or similar injury join together in an action against the alleged wrongdoer. The group must be sufficiently numerous that it is impractical for them all to be before the court individually, so they are represented collectively by only a few members, or by one. All members are bound by the court’s decision. Typical class actions involve a manufactured product that has injured many people or a group that has suffered discrimination by an organization.

close corporation A corporation that is permitted by state law to operate more informally than most (e.g., making decisions without meetings of the board of directors) and that has a limited number of shareholders—often family members rather than public shareholders. A close corporation’s shareholders often also help run the business.

closed shop A company that hires only union members, either by choice or by agreement with the unions. Under the Labor-Management Relations Act, however, closed shop practices that require employees to be union members are prohibited. Compare union shop.

COBRA see Consolidated Omnibus Budget Reconciliation Act.

collateral Money or other property that serves as security for the guaranteed payment of a debt. The creditor has legal right to the property, if not outright physical possession. See secured debt.

collection agency A company hired by a creditor to collect a debt. Such agencies are usually taken on only after the creditor has tried (by letters or phone calls) to collect the debt itself. These agencies are regulated by the federal Fair Debt Collection Practices Act.

collective mark A name, symbol or device used by an organization to identify goods or services that its members provide. A union stamp on a product is a collective mark that indicates a member of the union made it.
collective work For copyright purposes, a work (e.g., an anthology or encyclopedia) in which a number of separate works have been assembled. In creating a collective work, permission must be obtained from the copyright owners of the various parts (if these parts are still in copyright and not already in the public domain).

collusion In business, a form of fraud in which two individuals or companies (through their officers or other employees) enter into an agreement, usually secret, to defraud and/or gain an unfair advantage over a third party, competitors, consumers or parties to a negotiation. Examples of collusion include wage or price fixing, secret rebates, and pretended independence.

comaker An individual who signs a check or promissory note with one or more others; each comaker is responsible for the entire amount promised. See maker.

commercial frustration An unforeseen and uncontrollable event that renders a party to a contract unable to carry out his or her contractual duties. The nonoccurrence of the event must be a basic assumption of the parties when the contract is signed. Also known as commercial impracticability or frustration of purpose.

commercial law That part of the law (including statutes, cases and precedents) that encompasses the rights, relations, and conduct of persons and businesses engaged in commerce, merchandising, trade and sales. This body of law is now codified in the Uniform Commercial Code, which has been adopted, at least in part, by all states.

commission In commerce, money paid to an agent, employee, or other intermediary for her or his role in a sale or other transaction, usually calculated as a percentage of the total sum involved. A commission is distinct from the regular payment of wages or salary.

common carrier An individual, company or public utility that is in the business of transporting people and/or freight.

common counts Claims for debt alleged in a lawsuit (and listed in the complaint) that are alleged together and must be defended against collectively. Common counts could include claims of debt for goods sold and delivered, for work performed, for money loaned or advanced, or for money due on an account stated or on an open book account.

common stock Shares in a corporation for which dividend payments are calculated on a percentage of net profits and distribution is determined by the board of directors. Holders of common stock usually have voting rights in the elections of directors and on major corporate decisions. Common stock is distinguished from preferred stock, the holders of which receive dividends at a predetermined percentage (i.e., fixed rate) and generally have no voting rights, although they are paid before the common shareholders (who hope to participate in higher profits).

company A formal business enterprise that is set up to make a profit. Examples include corporations, partnerships and sole proprietorships.

compensation Payment for work performed, in the form of salary, wages, commission or goods rather than money. Also, the amount received after an injury or loss, usually paid by the insurance company of the party who caused
the damage or by the injured party’s own insurer.

**compound interest** Payment of interest on both the principal and the previously accumulated interest, which increases the amount paid for money use above simple interest. If interest is compounded daily, the balance on an annual rate of 7 percent will rise by $\frac{1}{365}$th of 7 percent each day; if compounded monthly, the balance will rise by $\frac{1}{12}$th of 7 percent on the first day of each month.

**concealment** A form of fraud involving the failure to reveal information that in good faith should be communicated. Examples include failure to disclose defects in goods for sale, not listing large liabilities in a credit application and omitting assets from a bankruptcy schedule. Concealment can be a cause for the cancellation (i.e., rescission) of a contract by the misled party or, more seriously, the basis for a civil lawsuit for fraud.

**condition precedent** In a contract, an event that must take place before a party must perform or do his or her part. For example, supplies must be delivered to a building site before a contractor is required to start work on a project.

**condition subsequent** In a contract, an event that terminates the duty of a party to perform or do her or his part. For example, if a company closes a branch, a supplier will not be required to make contracted deliveries to the branch.

**conditional sale** A sale of property or goods that will be completed if certain agreed conditions are met by one or both parties to the transaction. For example, a painting will be sold for a certain price if an independent expert confirms that it is an original.

**confusingly similar** In the law of trademarks, a trademark, logo or business name so close to that of a pre-existing example that confusion might arise among potential customers. For a complaint to succeed, the products or businesses must be directed at similar markets or geographic areas.

**conscious parallelism** A coincidental (i.e., not prearranged or discussed) imitation by a business of a competitor’s action, such as moving prices up or down or making similar special offers. This must be done without active conspiracy between the business rivals, or the activity becomes a violation of antitrust laws.

**consideration** An inducement to and the basis of a contract; that which is bargained for and that which is given by one party in exchange for a promise by the other party. Consideration is often a promise to perform a certain act (e.g., paint a house) in exchange for another promise (e.g., to be paid a certain amount of money), but it can also be a promise (known as forbearance) to refrain from doing something (e.g., making an unsightly addition to a house).

**consign** To turn goods over to another for transportation or sale. For example, an individual may ask a dealer to sell her or his car, or a business may consign goods for sale in a market in which it does not currently operate. This is distinct from selling goods to a retailer at a wholesale price for resale.

**Consolidated Omnibus Budget Reconciliation Act (COBRA)** A federal law that requires employers to offer employees—and their spouses and dependents—continuing insurance coverage if their work hours are cut or...
they lose their jobs for any reason other than gross misconduct. The act also states that an ex-spouse and children are eligible to receive group-rate health insurance provided by the other ex-spouse’s employer for three years after a divorce. However, the employer is not responsible for paying the insurance premiums.

**consolidation** In corporate law, the fusion or joining together of two or more companies to create a new one. This may be done to improve the efficiency of two complementary businesses by rationalizing output and taking advantage of economies of scale or to fight off unwelcome takeover bids by other companies. The shareholders of the consolidated companies exchange their holdings in the original companies for shares in the new concern at an agreed rate. Compare merger.

**consortium** A group of separate individuals or companies that join together to undertake an enterprise or complete a project or transaction that is beyond the means of any one member. For example, a consortium of local businesses may come together to build a new office complex.

**consumer protection** Federal and state agencies and laws that are intended to protect consumers (i.e., the retail purchasers of goods and services) from inferior, hazardous or deceptively advertised products, and fraudulent sales and business practices. See bait and switch; implied warranty; product liability.

**contract** A legally enforceable agreement, not contrary to any law, to do or not to do something. A contract involves two or more people or businesses; it sets forth what they will or will not do and can be either oral or written (though real estate and larger commercial contracts must be in writing to be enforceable). A contract involves competent parties—usually adults of sound mind or business entities—one of whom makes an offer to which the other agrees by acceptance, by which each provides the other some benefit (called consideration), such as a promise to pay money in return for a promise to deliver, or the actual delivery of, particular goods or services, within a stated time frame. Contracts are at the heart of most business dealings, and contract law is one of the most significant areas of legal concern.

**contractor** Commonly, a person or entity that agrees to construct a building or to provide or install part of a construction. The person responsible for the overall job is a “general contractor,” and those hired to construct or install certain parts (e.g., electrical, plumbing, roofing,) are “subcontractors” who are responsible to the general contractor and not to the property owner. Owners need to ensure that subcontractors are paid by the general contractor by receiving proof of payment; an unpaid subcontractor is entitled to payment from the owner based on a “mechanic’s lien” against the property.

**cooperative** An association of individuals, businesses or manufacturers with similar interests who intend to work together to sell their goods and services efficiently and to share the profits in proportion to the production, capital or effort of each.

**copy** For copyright purposes, the physical form in which an expression or statement is reproduced and retained over time. Copies include photocopies, computer disks and tape recordings. The exclusive right to make copies of an original work of authorship is one of the chief rights protected by a copyright. See fixed in a tangible medium of expression.
**copyright** The legal instrument by which the owner of a creative work controls how it is used. A copyright provides a number of exclusive rights, including the right to make copies or derivative works, and to record, distribute, sell or market, and perform the work. Any one of these rights can be sold separately through transfers of copyright ownership. As soon as a work is created and is fixed in a tangible medium of expression (e.g., writing or taping), the work automatically has federal copyright protection.

**copyright notice** The © symbol, plus the date of publication and the author’s name. Under the Berne Convention, a copyright notice is no longer required for all forms of copyright protection, but it remains a useful reminder that the work is copyrighted.

**copyright office** A branch of the U.S. Library of Congress that ensures the implementation of the federal copyright laws and oversees applications for copyright registration.

**copyright owner** The person or entity listed in the U.S. Copyright Office as the owner—usually the original author or creator. Also the person or entity to which an exclusive part of the copyright has been transferred in writing.

**copyright registration** An act required by the U.S. Copyright Office before a court action may be brought to prevent or redress infringement. As soon as a work is created and is fixed in a tangible medium of expression (e.g., writing or taping), the work automatically has federal copyright protection, but registration offers important benefits in an infringement action, including a presumption that the registered owner is the rightful owner.

**corporate opportunity** A business opportunity that a corporate official becomes aware of because of her or his position within the corporation. In such cases, the opportunity or knowledge properly belongs to the corporation itself; its officials owe a fiduciary duty not to use that opportunity or knowledge for their own benefit. Corporations may have the right to damages for the improper use of opportunities, and they may obtain an injunction (i.e., court order) preventing their use. Shareholders may bring their own suit against an offending official in a derivative action. Insider misappropriation may also be criminal theft or a violation of federal or state securities laws.

**corporate resolution** A written document recording an action taken by the board of directors of a corporation.

**corporation** A legal structure authorized by state law that allows a business to organize as a separate legal entity from its owners—as an artificial person. As such, it can enter into contracts, sue and be sued, issue shares to raise funds, and do the other things involved in carrying on a business. A corporation’s owners (i.e., shareholders) are legally shielded from personal liability for the corporation’s liabilities and debts (which are limited to its assets). A business corporation is usually planned as a profit-making enterprise, but a corporation can be organized for nonprofit purposes. See C corporation; S corporation.

**cost** The total charges to be paid on goods purchased and shipped.

**cost of completion** The amount of money required to finish a job when a contract has been breached by the failure to perform. For example, if a general contractor is in breach of contract by not finishing a house extension,
the cost of completion is the actual cost of bringing in a new contractor to finish it. The actual costs become the measure of the damages to be paid, rather than an estimate of cost based on a supposed percentage of work still to be done.

counteroffer An offer made in response to a previous offer during contract negotiations. The counteroffer rejects the previous offer and simultaneously makes a different offer, changing the terms in some way. For example, if a buyer offers $500 for a used computer and the seller replies that he wants $600, the seller has rejected the original offer and made a counteroffer. Legally, a counteroffer voids an earlier offer, so that if the seller later decided that $500 was an acceptable price after all, the buyer would be under no legal obligation to complete the sale.

counterpart In contract law, a written paper that may be one of several documents constituting a contract, such as a written offer and a written acceptance. Often a contract is in a number of counterparts that are exactly the same except that each is signed by a different party, particularly if the parties are in different places.

course of employment To be actively involved in doing one’s job at a particular time; usually an issue when an accident occurs. This is a requirement for making a claim for a work-related injury under state workers’ compensation acts.

Court of Customs and Patent Appeals A federal court established in 1929 to hear appeals from decisions by the U.S. Patent and Trademark Office and from the U.S. Customs Court. It sits in Washington, D.C., and is composed of five judges.

credit bureau A profit-making company that gathers information on the credit-worthiness of individuals and companies, and distributes this information to those who provide credit facilities. Typical clients include banks, mortgage lenders and credit card companies that use the information to screen applicants. The major credit bureaus are regulated by the federal Fair Credit Reporting Act.

credit insurance Insurance against the risk of nonpayment of a commercial debt. Lenders often require this insurance. If the borrower dies or becomes disabled, or a business becomes insolvent, before the loan is paid off, the policy will pay the remaining balance. Consumer protection laws require lenders to inform borrowers of the terms and costs of taking out such insurance.

creditor A person or entity (e.g., a bank) to whom a debt is owed.

creditor’s claim A claim, which must be filed in writing and in a proper form, by a person or business who is owed money by a debtor who has filed a petition in bankruptcy court (or had a petition filed to declare the debtor bankrupt), or who is owed money by a person who has died. Notice of the need to file a creditor’s claim in the estate of a person who has died must be printed in a legal advertisement giving notice of death. A creditor then has a few months (during probate) to file the claim. See claim in bankruptcy.

cross-licensing An arrangement by which businesses share patent rights through licensing agreements so that they can use each other’s inventions.
customs The laws, regulations and taxes relating to imports and exports. See duty.

Customs Court A federal court established in 1926 to hear appeals from decisions of customs officials on classification of merchandise, duty rates and interpretation of customs laws. In turn, its decisions can be appealed to the Court of Customs and Patent Appeals.

cut a check To write and sign a check.

damages Money awarded by a court to a plaintiff for injury or loss caused by the defendant. Types of damages include the following: compensatory damages, intended to make good or replace the loss suffered; consequential damages, when there is a breach of contract by a seller and a buyer suffers losses from unfulfilled requirements that the seller knew of, or should have known of, when the contract was agreed to; general damages, a type of compensatory damages related to nonmonetary losses, covering pain and suffering, shortened life expectancy, loss of companionship, and loss of reputation (in libel and slander actions); incidental damages, when there is a breach of contract by a seller (e.g., the expenses incurred by the buyer to return the goods to the seller); nominal damages, an insignificant amount awarded when a defendant has violated the rights of the plaintiff but no monetary loss has been suffered or can be proved (also known as token damages); punitive damages, awarded in addition to compensatory damages to the victim of willful or malicious misconduct (also known as exemplary damages); special damages, awarded to cover the winning party’s out-of-pocket costs (e.g., medical expenses, loss of wages, repair fees, car rental costs if a car has been damaged); statutory damages, required by statutory law; and treble damages, the actual damages determined by a judge or jury, multiplied by three to punish the wrongdoer and to serve as an example.

DBA see doing business as.

de facto corporation (Latin: by fact—by virtue of existence rather than right) A company that functions as if it were a corporation, although it has not completed the legal process of becoming incorporated (e.g., by not yet filing its articles of incorporation) or has been dissolved or suspended but continues to operate. Courts will temporarily treat the corporation as if it were legal to avoid unfairness to people who thought it was.

de jure corporation (Latin: by law) A corporation in good legal standing.

dealer A person whose business is the buying of goods or property in order to sell them. Professional dealers often need to obtain business licenses and register with sales tax authorities, and may not defer capital gains taxes by buying other property.

debenture A type of bond (i.e., an interest-bearing document serving as evidence of a debt) that does not require security such as a mortgage or lien on a specific piece of property. Thus, a debenture repayment is guaranteed only by the general credit of the issuer. The holders of debentures issued by corporations are considered creditors of the corporation and are entitled to payment before shareholders if the corporation goes out of business.

debt A sum of money, or value of goods or services, owed by one person or entity to another. Debt arises because a seller allows a buyer credit. The term debt is also used to describe the whole of a company’s borrowings.
debtor A person or business that owes an amount of money or service to another. In bankruptcy, the debtor is the party whose affairs are the subject of the proceedings.

debtor in possession In bankruptcy proceedings, a debtor who has filed for the right to submit a plan for reorganization or refinancing under Chapter 11, and is allowed to continue to manage her or his business without an appointed trustee.

deciet A form of fraud usually involving false statements made knowingly, with the intent to mislead the party receiving the statements, who is expected to believe and rely on them. Deceit is a civil wrong (i.e., a tort), which can give rise to a lawsuit if a person relied on the deceiver to the point of injury.

defalcation (Latin: deduction) The withholding or misappropriation of funds held for another, particularly by a public official, or the failure to make a proper accounting of them.

defeasance An old-fashioned term for a document that terminates the effect of an existing document or agreement (e.g., a deed, bond, or contract) if some event occurs.

defendant The person who must defend herself or himself. In a civil trial, this is the person from whom money or other damages are sought by the plaintiff; in a criminal trial, it is the accused. In some states, and in certain types of lawsuits, the defendant is known as the respondent.

deficit In a budget, more expenditure than income. In more general terms, a shortage or less than is due.

defined benefit plan A type of occupational pension in which the pension provision is defined (e.g., a fixed monthly amount for each year of service) and guaranteed. The employer has to make up the difference if the scheme fails to perform as well as expected. Also known as a final salary pension scheme, in which the benefit is calculated as a percentage of the final salary.

defined contribution plan A type of occupational pension that has a fixed contribution rate but does not guarantee any particular pension amount on retirement. The employer pays into the pension fund a certain amount every month or every year for each employee; this is usually a fixed percentage of the employee’s wages or salary but may be a percentage of the company’s profits. The plan is based on these contributions rather than on the employee’s final salary immediately before retirement. At retirement, the pension fund is used to purchase an annuity, the value of which depends on the level of contributions made to the fund on behalf of the employee, the investment returns received by the fund as a whole, and annuity rates at the time.

defraud see fraud.

demand note A promissory note that is payable at the request of the holder—as opposed to a note due on a certain date, on the performance of a particular action, or by installments.

depreciation In accounting, the actual or theoretical progressive loss of value of an asset (especially business equipment or buildings) through increasing age, natural wear and tear, or deterioration. The concept of
depreciation is widely used for the process of writing off the cost of an asset against profit over an extended period, irrespective of the real value of the asset.

**depreciation reserve** A business fund in which the estimated replacement cost of equipment is accumulated each year over the life of an asset, so that it can be replaced readily when it becomes obsolete.

**derivative action** A lawsuit brought by a corporation shareholder against the directors, management and/or other shareholders for a failure by management. The suing shareholder claims to be acting on behalf of the corporation because the directors and management are failing to exercise their authority in the best interests of the business and its shareholders. A derivative action suit often arises when there are claims of fraud, insider trading, self-dealing, misuse of a corporate opportunity, mismanagement, and other acts that are being ignored by the officers or board of directors.

**derivative work** For copyright purposes, a new work based on an original work to which enough distinctive creative work has been contributed to make the new work itself an original work of authorship. Examples of derivative works are a translation of a novel into another language and a screenplay adaptation of a book.

**descriptive mark** A trademark or service mark (e.g., “Jet Fast” hamburger service) that describes the characteristics of a product or service (in this example, speed). Such marks initially receive little protection from the courts, and at the federal level are placed on the Supplemental Register rather than the Principal Register of trademarks. After a descriptive mark has been in active use for five years, however, it can be moved to the Principal Register because by then it may have become fairly widely known.

**design patent** A patent issued on a new design that is novel for aesthetic reasons but makes no functional contribution to the device of which it is an element. Design patents last for 14 years from the date the patent is issued.

**digital signature** see electronic signature.

**dilution** A situation in which a trademark or service mark is used in a context potentially damaging to the mark’s reputation. Dilution is an issue in situations where infringement (which can lead to customer confusion) is not, such as using the name of a purportedly wholesome product to promote pornography.

**director** A member of the governing board of a corporation who is usually elected or re-elected at an annual meeting of the shareholders. Directors are responsible for making important business policy decisions, especially those that are legally binding on the corporation (e.g., borrowing money, leasing or buying a new office). Day-to-day management and operational matters are the concern of the officers and other employees of the corporation. In small businesses, however, an owner may well be a director, officer and employee simultaneously. Most states require a minimum of three directors on corporate boards.

**disability** A condition that prevents a person from performing all the usual physical or mental functions, either temporarily or permanently. Current laws require that people with disabilities be accommodated and encouraged to fulfill their maximum potential. Access to businesses and institutions by ramps
and elevators, special parking places, and other special arrangements are now required in many states.

**discharge in bankruptcy** An order given by a judge in a bankruptcy court, at the conclusion of all legal steps in processing a bankrupt person’s assets and debts, which forgives (i.e., discharges) those remaining debts that cannot be paid—with exceptions. Debts for fraudulent or illegal actions, alimony and child support, and taxes are not dischargeable and remain owed (which does not mean they can be collected).

**dischargeable debts** Debts that can be erased through bankruptcy. This includes most debts incurred before an individual or business declares bankruptcy. Compare nondischargeable debts.

**discount** The payment of less than the full amount due on a promissory note or the full quoted price for goods or services. The usual situation leading to a discount is when the holder of a long-term promissory note or material goods sells for less than face value in order to get the cash immediately. In finance, to discount means to give something (e.g., projected earnings) a lower value, as a precautionary measure.

**discrimination** The unequal treatment of persons for a reason that has nothing to do with legal rights or ability. Federal and state laws prohibit discrimination in employment, rates of pay, right to promotion, availability of housing, educational opportunity, civil rights, and use of facilities based on race, nationality, creed, color, age, sex, or sexual orientation. Various federal and state laws allow for private lawsuits, with the right to damages, in order to enforce equal treatment. There are also federal and state commissions to investigate and enforce equal rights. See Equal Employment Opportunity Commission; equal opportunity.

**dishonor** To refuse to pay the face amount of a check (i.e., to “bounce” the check) or the amount due on a promissory note or other bill of exchange.

**dissolution of corporation** The termination of a corporation. This can be voluntary, by resolution, payment of debts, distribution of assets, and filing of the appropriate documents with the state authorities. It can also be involuntary, by state action, for failure to pay corporate taxes or some other offense.

**distinctive mark** A trademark or service mark that is memorable because it is unusual in its context. Distinctive marks often use arbitrary terms (e.g., Penguin Books, Apple Computers) or newly coined terms (e.g., Microsoft). Such marks receive the maximum protection under state and federal laws.

**divestiture** The giving up of a possession (e.g., part of a business) or right. If voluntary, divestiture may be an attempt to improve efficiency by cutting a loss-making business or concentrating on one product or business area. If court-ordered, it may be the result of an antitrust action to prevent monopoly or other restraint of trade.

**dividend** A portion of a corporation’s profits distributed to its shareholders on the basis of the number and type of shares they own. Dividends are not always paid in money, but can be paid in shares, known as a stock dividend. The amount of a dividend is decided by the corporation’s board of directors, although state laws may require that there be a minimum level of profits or assets before the dividend can be approved.
doctrine of equivalents In patent law, the rule under which a new invention violates an existing patent if it does the same work in a similar way to achieve the same result.

doing business as (DBA) When a business owner operates a company under a name different from his or her real name. All states have requirements for filing a fictitious name statement with the appropriate county or state agency. Such a document allows consumers to determine the names of the business owners in the event of a need to sue the business, and allows the owner to conduct transactions and make contracts in the name of the business.

domain name A combination of letters and numbers that identifies a specific computer or Web site on the Internet. The owner of a domain name can stop another business from using the same name only if the domain name is being used in the sale of goods or services to consumers and is thus a trademark.

domicile see state of domicile.

draft In finance, a written order, such as a bill of exchange or check, for one party to pay money to another. The person who writes the draft is the drawer; the person or entity with the money (i.e., the bank) is the drawee; and the person who is to receive the money is the payee. A draft may be payable on demand or at a specified time.

draw In banking, to prepare and sign a bill of exchange or check.

drawee The party (e.g., a bank) that is instructed to make a payment on a bill of exchange or check. Sometimes the term is used to mean the person or entity that is to receive payment, but this is usually known as the payee.

drawer The person who signs a bill of exchange.

drop dead date A provision in a contract or a court order that sets the last date an event (e.g., a payment) must take place before certain consequences automatically follow, such as voiding of the contract, foreclosure, or entering of a court judgment.

duty A tax on imports. See customs.

earnest payment Part payment or deposit made to demonstrate seriousness in the purchase of goods and services or to bind a contract, with the remainder due at a particular time. If the contract is breached by failure to pay the agreed balance, then the earnest payment may be kept by the recipient as predetermined damages.

EEOC see Equal Employment Opportunity Commission.

electronic signature A paperless method of agreeing to an electronic contract. To "sign" a contract electronically, a person may be asked to type his or her name into a box, paste a scanned version of his or her signature into a box, click an "I Accept" button, or use a "key" to encrypt (i.e., scramble) information that identifies a unique signer, using a method called Public Key Infrastructure (PKI). Under the Electronic Signatures in Global and International Commerce Act (2000), electronic signatures are as binding as
those in ink. A signature encrypted by technology such as PKI is now generally called a “digital signature.”

embezzlement Theft by an employee of money or property belonging to his or her employer, or misappropriation of money or assets held in trust.

emolument Salary, wages and benefits paid for employment or an office held.

employee An individual who is hired for a wage, salary, fee or payment to perform work for an employer. In the law of agency, the employee is known as an agent and the employer is called the principal. The agency relationship is important to establish whether someone is acting as an employee when injured (and thus may qualify for workers’ compensation) or when an employee causes damage or injury to another in the scope of employment, making the employer liable for damages to the injured party.

Employee Retirement Income Security Act (ERISA) A federal law that regulates private pension plans that supplement Social Security. The Act sets minimum standards for such plans, provides workers with some protection if a plan cannot pay the benefits to which they are entitled, and requires employers to provide full information about their employees’ pension rights and to ensure that the administration of their pension funds is transparent.

employer A person or entity that hires the services of another (i.e., an employee) for payment (i.e., compensation). An employer is known as a principal in the law of agency.

endorsement In banking, the act of the owner or payee signing her or his name to the back of a check, bill of exchange or other negotiable instrument so as to make it payable to another or cashable by any holder. A “qualified endorsement” contains specific instructions (e.g., “pay John Jones” or “for deposit only”) restricting the use to which the check can be put. A “blank endorsement” has no such instructions and is payable to the holder.

entity An organization or institution that has its own existence for legal or tax purposes. This is often an organization that has individual members, such as a corporation, partnership, trust, estate or government agency, but is separate from them and can be treated like an individual person in that it can sue, be sued, or operate through agents. Compare natural person.

Equal Employment Opportunity Commission (EEOC) The federal agency that deals with discrimination in the workplace. The EEOC was set up by the Civil Rights Act of 1964.

equal opportunity A right guaranteed under both federal and many state laws that outlaws any discrimination in employment, education or housing because of a person’s race, color, sex (or sexual orientation), religion, national origin, age or disability. Anyone who believes she or he has not been granted equal opportunity or has suffered harassment or discrimination may bring a lawsuit under federal or state laws, or file a complaint with the federal Equal Employment Opportunity Commission or a comparable state agency. See affirmative action.

ERISA see Employee Retirement Income Security Act.

escape clause A provision in a contract that allows a party to be relieved
from any obligation if a certain event occurs or does not occur. See condition precedent; condition subsequent.

**escrow** An account held by a third party (i.e., an escrow agent) in which documents and funds are held in trust before a transfer of real estate, the completion of a sale, or some other transaction. When the funding is complete or other specified conditions are met, the escrow agent will release the documents and funds to the buyer and seller. As a verb, “to escrow” means to place documents and funds in an escrow account.

**escrow agent** An individual or company (e.g., an escrow or title company) that holds documents and funds in a transfer of real estate or other sale. The agent acts for and is paid by both the buyer and the seller.

**excise** A tax on the manufacture, sale or consumption of a commodity (e.g., alcohol or tobacco). Also a tax on business privileges, often assessed in the form of a license or charter. Excise is distinguished from the taxation of property, income or estates.

**exclusive license** A valid contract in which a copyright owner authorizes another person or entity (i.e., the licensee) to exercise exclusively a right or rights that belong to the owner in copyright law. In relation to the rights granted in the license, the licensee becomes the copyright owner.

**exempt property** In a bankruptcy proceeding, the possessions that an individual is allowed to keep (i.e., protect against seizure) if he or she loses a lawsuit to a creditor or files for Chapter 7 bankruptcy. In general, one can keep such basic items as clothing, household furnishings, a car worth $2,500 or less, and Social Security payments. In a few states, one can keep one’s house.

**expense** In business accounting and taxation, any current cost of operation (e.g., rent, utilities, payroll) as distinguished from capital expenditure for long-term assets (e.g., property and equipment).

**expenses** Costs incurred (usually out-of-pocket) by an employee in the normal course of business activities, particularly personal expenses such as travel and entertainment. Expenses may be met from an expense account.

**express contract** A contract in which all the elements (e.g., offer, acceptance, consideration) are specifically stated or written out, and the terms are made clear. Compare implied contract, in which the existence of the contract is assumed by the circumstances in which all the parties are acting.

**express warranty** A warranty in which the seller explicitly makes promises regarding the quality, condition or performance of the goods being sold. Such warranties usually come directly from the manufacturer or are included in the sales contract. It is best to get an express warranty in writing.

**face amount** The original amount due on a promissory note or insurance policy as written in the document, without any calculation of interest.

**face value** In shares of stock, the original cost of the share, as written on the certificate; this is the par value.

**failure of consideration** The refusal or inability of one party to a contract to carry out its side of the contract, especially by not delivering promised
goods or services.

**Fair Debt Collection Practices Act (FDCPA)** A federal law that applies to debt collectors working for collection agencies and prohibits unfair debt collection practices, such as lying to and harassing debtors. The law does not apply to creditors collecting their own debts. Debtors who feel a collection agency has violated the law can contact the Federal Trade Commission.

**Fair Labor Standards Act (FLSA)** A federal law that guarantees a worker’s right to be paid fairly. It defines the 40-hour workweek, the federal minimum wage, the requirements for overtime, and the restrictions on child labor.

**fair trade laws** State laws that have permitted manufacturers and other producers to set minimum rates for the resale of their products. Such laws have been repealed or disputed in many states.

**fair use rule** A law that authorizes the noncompetitive use of copyrighted materials for certain purposes without the copyright owner’s permission and without giving the author the right to sue for infringement. Fair uses are generally considered to be those intended to further scholarship, education or an informed public (e.g., limited photocopying for classroom use or quoting from a work in a review), but limits on fair use are growing.

**false pretenses** A form of fraud that involves knowingly making untrue statements or other misrepresentations to obtain money or property. Examples include falsely claiming to represent a charity and then keeping any donations, and claiming that a painting is an original when in fact it is a copy.

**Family and Medical Leave Act (FMLA)** A federal law that requires employers to provide an employee with 12 weeks of unpaid leave over the course of a year for the birth or adoption of a child, family health needs, or personal illness. Employees must be allowed to return to the same or a similar position to the one held before taking leave. The Act applies only to employers with 50 or more employees, so about half the workforce is not covered by it.

FDCPA see Fair Debt Collection Practices Act.

**Federal Trade Commission (FTC)** A federal agency that is responsible for regulating business practices and enforcing antitrust laws. The FTC can be concerned with investigating big corporate mergers, but is also involved in consumer protection when unfair business practices are an issue.

**fictitious name** For business uses, see doing business as.

**fiduciary** (Latin, fiducia: trust) An individual or business (e.g., a bank or brokerage) that has the power to act for another in circumstances of trust. Often, a fiduciary is a trustee of a trust, but others filling this role can be attorneys, guardians, administrators of estates, real estate agents, stockbrokers or title companies. A fiduciary relationship is one in which one person places complete confidence in another regarding a particular transaction or more general affairs.

**firm offer** In contracts, an offer, probably written, stating that it may not be revoked or amended for a specific period. If the offer is accepted as written within the stated period, an enforceable contract has been made.

**fixed in a tangible medium of expression** A requirement for a work
to have copyright protection: it must exist in a physical medium, such as paper, tape or computer disk. Thus, spontaneous speech is not protected by copyright.

**FLSA** see Fair Labor Standards Act.

**FMLA** see Family and Medical Leave Act.

**FOB** see free on board.

**forbearance** Voluntarily refraining from doing something, especially choosing not to assert a legal right. For example, a creditor may postpone or reduce a borrower’s payments, or one party to a contract may forbear demanding performance of the other party.

**foreign corporation** A corporation that is incorporated under the laws of a state different from the one in which it is doing business, or of another country. Such a corporation must file a notice of doing business in any state in which it does substantial regular business, and name an agent for acceptance of service in that state (a state’s Secretary of State is sometimes the agent) so that customers or suppliers can bring legal actions locally.

**401(k) plan** A savings plan with deferred compensation in which employees invest part of their wages (sometimes with employers also contributing) as a way of saving on taxes. The contributions are invested, usually as the employee chooses, in various instruments, including savings accounts, money market funds, shares, bonds and mutual funds. Income taxes on the investments are not due in the year earned, but when the employee withdraws money from the fund, usually at retirement—when his or her tax liability will be lower. This plan, and others, are described in section 401 of the Tax Code.

**franchise** A license bought by a retailer or supplier of services that entitles her or him to operate a business or sell the goods or services of a particular manufacturer under a particular trading name. This gives the manufacturer direct control over who sells its goods, and can give the seller exclusive rights to sell those goods in a particular area. McDonald’s and various hotel chains are well-known franchise operations.

**franchise tax** A state tax on corporations or businesses that is levied for the right to conduct business, as opposed to a tax on profits, property or income.

**free on board (FOB)** A description of purchased goods that are shipped without transportation charge to a specific place. Free on board at the place of manufacture shows there is a charge for delivery to other destinations. For example, if books are manufactured in Ann Arbor and are sold “FOB Michigan,” then there will be a shipping charge if delivery is taken in Illinois.

**freeze-out** The majority shareholders in a company using their power to deprive one or more minority shareholders of their say in how the company is run. This may be done to force the minority shareholders to sell their shares at a discount.

**frolic** Actions by an employee that are clearly outside his or her scope of employment, such as running a personal errand or visiting a friend during normal working hours. An employer will not be liable for injuries the employee sustains or causes while on a frolic.
FTC see Federal Trade Commission.

**full disclosure** The requirement in business transactions that all relevant facts be made known to a buyer or party to a contract. Many states require that in real estate sales, a full disclosure form be completed and signed, under penalty of perjury for knowingly making false statements or concealing significant facts.

**fungible things** Interchangeable goods, which are often sold or delivered in bulk, such as oil, wheat, bolts, lumber or identical securities. Also known as fungibles.

**garnishment** A legal proceeding in which a creditor (or other plaintiff) obtains a court order compelling a third party (e.g., a bank, the employer of a debtor or other defendant) to pay money earned by the defendant to the plaintiff. Up to a quarter of a debtor's wages can be deducted in this way. The “garnishee” is the person or entity (i.e., the bank or employer) that receives the court order not to release funds. If the garnishee mistakenly gives the money to the debtor, the garnishee will be liable to pay the creditor the amount that should have been set aside.

**GATT** see General Agreement on Tariffs and Trade.

**gender bias** Unequal treatment in employment opportunities (e.g., pay, benefits, chances at promotion) arising from attitudes of an employer that are based on the sex of an employee or group of employees. Such bias can be the basis for a lawsuit under antidiscrimination laws. See discrimination.

**General Agreement on Tariffs and Trade (GATT)** A comprehensive free-trade treaty originally signed in 1947 by 117 nations, including almost all developed countries. The goal of GATT is to promote global economic growth by encouraging negotiation on trade policies and especially the reduction of tariffs and other barriers to free trade. Under it, members must offer basic copyright protection to authors from other member countries. The World Trade Organization (WTO) was created by GATT as the international regulatory body responsible for enforcing the agreement.

**general partner** One of the owners of a partnership, which is a joint business for profit. Unlike the owners of a corporation, a general partner is personally liable for all the business’ debts and obligations. A general partner can take actions (e.g., signing contracts) that legally bind the entire business, including the other general partners. A general partner differs from a limited partner, who is liable only to the extent of the money he or she has invested in the business. In some states, the term may also refer to the managing partner of a limited partnership who is responsible for partnership debts over and above his or her individual investment.

**good faith** The honest intention to act fairly without taking an unfair advantage over another person, or to fulfill agreed promises without using technical excuses or willfully misconstruing clear understandings.

**goods** Items held for sale as part of the normal operation of a business, such as a retail store.

**goodwill** The value of a business over and above the book value of its identifiable or physical assets; that is, the benefit to a business of having regular customers and a good reputation under its name. Goodwill
is not tangible and cannot be shown in accounts, but it becomes important when a business is sold, because there can be an allocation in the sale price for its value, which is always a subjective estimate. Part of goodwill in a sale may be a noncompetition agreement by the seller. As part of a sale price, goodwill is not subject to capital gains tax and cannot be depreciated by the buyer like tangible assets.

**grace period** A time stated in a contract during which a late payment or performance may be made without penalty. If, after the grace period ends, there has still been no payment or performance, the contract is suspended.

**greenmail** A situation in which a person or entity has bought enough shares in a company to be in a position to make a hostile takeover. The person or entity can greenmail the (potential) victim company into buying back its shares at a higher price in order to avoid the takeover.

**gross income** In calculating income tax, the income of an individual or business from all sources before the deduction of allowable expenses or mandatory deductions, which then results in net income.

**group life or group health insurance** A single policy (usually term insurance) that covers all members of a designated group, such as employees of a company, and their dependents.

**guarantor** One who makes a legally binding secondary promise to pay the debts of another or to perform another person’s duty if that person fails to perform it. See guaranty.

**guaranty** As a verb, to promise to pay another person’s debt or fulfill her or his obligation should she or he fail to do so. As a noun, the written document stating these promises. For example, the co-signer of a loan has made a guaranty and will be legally responsible for the debt if the borrower fails to repay the money as promised. Also known as a guarantee or warranty. See guarantor.

**harassment** Systematic and continuing unwanted and annoying actions by an individual or group against another individual or group. Harassment may involve the expression of racial prejudice or personal malice, efforts to force someone to quit a job or grant sexual favors, or illegal pressure to collect a bill. In business, such activities may be the basis for a lawsuit if discrimination based on race or sex is a factor or the statutory limitations on collection agencies are exceeded. A pattern of harassment by an employee against another worker may involve the employer in a lawsuit for failing to protect the worker. See sexual harassment.

**hold harmless** The promise by one party to a contract or agreement to pay any costs or claims that may result from it. The promise is often extracted when one party is concerned that there might be unknown lawsuits or claims stemming from the performance of the contract.

**holder** In financial dealings, anyone who holds—either by delivery or signed over by endorsement—a promissory note, check, bond or other document, for which the holder is entitled to receive payment as stated in the document.

**holding company** A company that exists to own shares of other companies, which are—depending on the percentage of shares held—its subsidiary.
companies.

**house counsel** An attorney who works only for a particular business, as distinct from a general counsel.

**hypothecate** (from Greek: pledge) A term for using property as security for a loan (i.e., creating a secured debt) while the borrower continues to retain possession of the property. Normal mortgages function in this way; another example is a shipper who uses a cargo currently being shipped as security.

**illusory promise** An agreement that is so indefinite that one cannot tell what is to be done or in which the performance is optional (e.g., a promise to stay in a job for a certain length of time, unless one resigns sooner). The other party to such an agreement cannot be held to obligations under it.

**implied contract** An agreement that is judged to be in effect based on circumstances and actions rather than on the wording of the agreement. The situation arises when to deny that a contract exists would be unfair or result in unjust enrichment to one of the parties. Compare express contract.

**implied covenant of good faith and fair dealing** A general assumption of the law of contracts that a person will act in good faith and deal fairly without breaking her or his word, attempting to avoid obligations, or denying that which was clearly understood. A lawsuit based on the breach of this covenant can be brought when the offending party uses technical excuses for the breach or willfully misconstrues specific words in the contract to refuse her or his obligations when the context and apparent understanding of the parties were to the contrary.

**implied warranty** A warranty on goods and services that is not explicit but is assumed. An implied warranty of “merchantability” guarantees quality and performance, and that the new item will work for its specified purpose. An implied warranty of “title” guarantees that the seller has the legal right to sell the goods. An implied warranty of “fitness” guarantees that the item will fulfill a specific purpose that the buyer has made clear to the seller that he or she wants it for. See caveat emptor.

**income** Money, goods or services received by an individual or business. Income may be a return on work or investment (e.g., salary, rent, interest, profit) or a payment made for some other reason (e.g., unemployment benefit). For tax purposes, income does not include gifts and inheritance.

**incorporate** To obtain articles of incorporation or an official charter from a state for an organization (a profit-making business, a professional business such as a law office or medical office, or a nonprofit entity). The steps include having one or more incorporators (most states require a minimum of three for profit-making companies); choosing a name that is not currently used by (or confusingly similar to) any corporation; preparing articles and filing them with the relevant state’s Secretary of State; appointing an agent for acceptance of service; deciding on the share structure; adopting a set of bylaws; holding a first meeting of incorporators to launch the enterprise; electing a board of directors; selecting officers; and issuing shares according to state laws. See corporation.

**indemnification** Compensatory payment made by one person (e.g., an employer) to another (e.g., an employee) to make up for a loss suffered by the latter in the performance of a job.
**indemnify** To guarantee against a loss that another might suffer. For example, two parties settle a dispute over a contract, and one of them agrees to pay any claims that may arise from it, deciding to hold harmless the other party.

**independent contractor** A person who is hired (i.e., contracted) to work for another to do a specific job, and who retains control over how the job is done. Such a contractor does not qualify as a statutory employee under the day-to-day control of the employer (i.e., the person who did the hiring) and is not protected by most employment laws.

**informed consent** An agreement to commit an act or to allow something to happen, made on the basis of knowledge of all the relevant facts, including the risks involved and any alternatives available. In contracts, this involves full disclosure by both parties. In medicine, a patient can give informed consent to the performance of a surgical procedure or to the administration of certain drugs only after being made aware of the risks and alternatives.

**infringement** The improper use of a patent (i.e., protected invention) or creative work (written, graphic or musical) that is protected by copyright or trademark without permission or notice, and without agreeing to a contract involving the payment of a royalty. Patent infringement involves the use or sale of something that is the same as or functionally equivalent to a patented invention. Copyright infringement involves everything from willful plagiarism to accidental use of copyright material, unless fair use can be demonstrated. Trademark infringement involves uses likely to cause confusion in the average consumer. The party found in a lawsuit to be infringing may have to pay the original patent or copyright holder significant damages, which can be royalty arrears or as much as the accumulated gross profits of the infringer.

**insider trading** Illegal transactions made on the basis of privileged information. This may involve using confidential information (e.g., proposed management changes, forthcoming profit and loss reports, unreleased sales figures, merger talks) about a business, gained through an individual’s employment in a company or a stock brokerage, to profit from buying and selling shares and bonds based on that confidential information. Normal investors are the victims. Insider trading is a crime under the Securities and Exchange Act.

**insolvency** The state of having more liabilities than the total assets that might be available to pay them, and therefore the inability to pay debts when called upon to do so. If insolvency is chronic, bankruptcy normally follows.

**installment contract** An agreement in which payments of money, delivery of goods, or performance of services are to be made in a series, usually on fixed dates or based on certain actions. A failure to pay (or perform) an installment when due is a breach of contract and may relieve the other party from performing further. In many such contracts, the failure to make a payment gives the seller the right to repossess any article that has been sold.

**insurance** A contract (i.e., insurance policy) under which the insurer (usually an insurance company) agrees for a fee (i.e., insurance premiums, normally paid at fixed intervals) to pay the insured party all or a portion of any loss suffered by accident, negligence or death. Insurance premiums vary according to the insurer’s estimate of the probability of the event insured against actually happening.
intangible property Personal property recognized by law even though it has no physical existence, such as shares, bonds, debts, warranty rights, bank notes, business goodwill, trade secrets and copyrights. Compare tangible property.

intellectual property (IP) law The area of law that regulates the ownership and use of creative works, including patent, copyright and trademark law.

intent-to-use application The reserving of a trademark for later registration by the filing of such an application with the U.S. Patent and Trademark Office. The initial reservation lasts for six months and can be extended for up to five additional six-month periods (for a total of three years). Intent-to-use applications are covered by the Lanham Act.

inter se (Latin: among themselves) A legal phrase used to indicate that, for example, certain corporate rights are limited to shareholders as a group only—and not as individuals.

interest In finance, a commission paid by borrowers to creditors for the use of money belonging to the latter. The money being loaned (as opposed to the interest charged) is known as the principal. The interest to be charged is usually stated in writing at the time the money is loaned. An interest rate is the annual percentage that is added to the borrower’s balance. See compound interest.

interference In patent law, a procedure for resolving conflicts when two or more patent applications have been filed on the same invention. The U.S. Patent and Trademark Office determines who first conceived of the invention and worked out its details, who first built and tested it, who first filed a patent application, and other factors in deciding who receives the patent.

interlineation The act of writing between the lines or in the margins of a document to make a correction or to add something that was thought of later. Such an act may leave a question as to whether all the parties to the document agreed to the changes or whether the interlineations were part of the document when it was signed. Legally, it is best for all parties to initial any interlineations or to create a new document and have it signed again.

Internet service provider (ISP) A business that provides access to the Internet, and possibly other services, such as Web site hosting. The Digital Millennium Copyright Act protects ISPs, but they can sometimes be held accountable for material posted by their subscribers that infringes copyright. The Communications Decency Act usually protects ISPs from the posting of obscene or defamatory material by subscribers or users.

interstate commerce Commercial trade, business, movement of goods or money, or transportation from one state to another. Such commerce is regulated by the federal government under powers granted in the Constitution. The federal government can also regulate commerce within a state that may influence the interstate movement of goods and services, and may strike down state actions that impede such movement. At present, commerce is regulated by the Interstate Commerce Commission (ICC) on the basis of the Interstate Commerce Act, first enacted by Congress in 1887, but there are now several federal agencies with an interest in the area.
inventory  The list of the stock of raw materials, goods in production, or finished goods owned and stored by a company, including details of their cost, value, and price. In a retail store, a similar list of items for sale.

invest  To put money into a business venture, or to buy property or securities, with the intention and expectation of making a profit. An investment is different from a gift or loan.

investor  One who makes investments, acting either for herself or himself, or, like a stockbroker or fund manager, on behalf of others.

invitée  A person who comes onto another’s property or business establishment upon invitation. The invitation may be direct or “implied,” as when a shop or museum is open. An invitée is entitled to assume safe conditions on the property or premises, and the owner or proprietor might be liable for any injury suffered by the invitée while on the property that is not due to the invitée’s own negligence.

invoice  A document that summarizes a business transaction and also usually serves as a request for payment. An invoice lists and describes the goods or services ordered and their price, and also records the dates of their dispatch and delivery.

IP  see intellectual property law.

ISP  see Internet service provider.

issue  In finance, the quantity of shares or bonds of a corporation that has been sold and distributed. As a verb, issue can mean to make the original distribution of shares to the initial investors.

jobber  A middleman merchant who buys products (usually in bulk) and sells them to various retailers, but not to the public. A jobber normally specializes in particular types of products (e.g., books, electrical goods, petroleum) and unlike a broker, does not act for specific clients.

joint and several  In finance, a concept that refers to a debt in which each debtor is liable for the entire amount of the debt. For example, if it is stated in a promissory note that more than one person owes the funds to be paid, the debt is joint and several, because the creditor can collect the entire amount from any of the joint signers of the note and not be limited to a share from each. In the same way, in a business with general partners, each partner is individually liable for all the debts of the partnership.

joint enterprise  An activity of two or more people, usually (but not necessarily) for profit, which may involve a partnership, joint venture, or any business in which more than one person invests, works or manages. If a court finds that two or more people are involved in a joint enterprise and a member of the enterprise causes negligent damage or a breach of a contract, each of those who are part of the enterprise may be liable for all the damages.

joint liability  When two or more persons are responsible for a debt, claim or judgment. Anyone making a claim can demand that everyone with joint liability for an alleged debt or claim for damages be brought into a lawsuit.

joint venture  An enterprise entered into by two or more people for profit, for a specific and limited purpose. A joint venture has many characteristics
of a partnership (i.e., shared management, the power of each member to bind the others in the business, division of profits and joint responsibility for losses). Unlike a partnership, however, a joint venture focuses on a specific project or period of operation, and after the project is completed and the finances settled, the joint venture is terminated.

**joint work** For copyright purposes, a collaboration between two or more authors to create a single cohesive work. Each author of a joint work has equal rights to register and enforce the copyright, regardless of what proportion of the total they contributed.

**judgment creditor** A winning plaintiff in a lawsuit to whom a court decides the defendant owes money. It remains up to the creditor to collect the judgment. If the defendant debtor files for bankruptcy, the judgment creditor has priority—a share of the assets ahead of general unsecured creditors who do not have judgments.

**judgment debtor** The losing defendant in a lawsuit who owes the amount of the judgment to the winner, the judgment creditor.

**judicial sale** The sale of goods by an official (e.g., keeper, trustee, or sheriff) appointed by a court, to satisfy a judgment or other court order. Such sales require public notice of time and place, and a description of the goods to be sold.

**key man insurance** Life insurance on a business partner or an especially important manager that is intended to help a business through the loss of a contributor of money and expertise, and to help pay for hiring and training a replacement.

**Lanham Act** The main federal statute that deals with trademarks, service marks and unfair competition. Its purposes are to eliminate deception in marketing and to protect established marks against the confusing use of similar marks.

**latent defect** A hidden flaw or imperfection in an article that is known to a seller but is not discoverable by a buyer during a reasonable inspection. This could include a defective title in a land or property deal. In general, a latent defect entitles the buyer to get her or his money back, or to obtain a replacement on the basis of the implied warranty of "merchantability." Even an as is purchase could be rescinded on the basis of a latent defect.

**letter of credit** A letter from a bank authorizing another bank to pay the sum specified to the person or entity named in the letter. Such letters are used primarily to help with business transactions conducted beyond the region normally covered by the bank that produces the letter.

**leverage** The use of borrowed money to buy real estate or business assets, often with borrowed sums that represent a high percentage of the value of the purchased property. The term also refers to funds borrowed against real estate to buy other real estate or business assets. This can go wrong if there is a decrease in property values and if the carrying costs (e.g., interest, insurance, taxes, maintenance) are greater than the income produced by the property, resulting in a lack of funds to finance improvements to increase profits.

**leveraged buyout** The purchase of a large company by a smaller one, using
funds that have been borrowed with the assets of the company being bought as security.

**liability** In finance, the debt of a company or person. In more general terms, a legal responsibility for an act, an omission, an obligation or a debt. See liable.

**liable** Legally responsible for a debt, an accident, an unfulfilled obligation (under a contract) or a crime. A person found liable for an act or omission usually must pay damages or, if the act was a criminal one, face punishment. See liability.

**license** In relation to a patent, copyright or trademark, a contract that gives written permission for the use of protected creations and thus for the creator to make money (often in the form of royalties) without having to become a manufacturer or marketer.

**lien** A legal claim by a creditor against property that arises from some obligation of the property owner, usually a debt. Security interests are liens that an individual agrees to (e.g., mortgages, home and car loans, and personal loans for which property is pledged to guarantee repayment). Nonconsensual liens are made without a person’s consent and include judgment liens (from a creditor who has sued and obtained a judgment), tax liens, and mechanic’s liens (from an unpaid contractor, subcontractor or other worker).

**limited liability** The maximum amount a business owner or investor can lose if the business is subject to debts, claims or other liabilities. An owner of a limited liability company or an investor (shareholder) in a corporation usually stands to lose only the amount invested. This “limited personal liability” means that creditors cannot claim the owner’s home or other personal assets if the business folds or goes bankrupt. On the other hand, owners of a sole proprietorship or general partnership have unlimited liability for business debts, as do the general partners in a limited partnership and limited partners who are also the managers of a business.

**limited liability company (LLC)** A flexible form of business ownership that is becoming the most popular structure for small businesses. Owners of an LLC have limited personal liability (as they would with a corporation) and a choice of how the business will be taxed. The owners can choose for the LLC to be taxed as a separate entity (like a corporation) or as a partnership, with profits or losses passed through to the owners and taxed on their personal income tax returns.

**limited liability partnership (LLP)** A type of partnership that offers protection to each partner from personal liability for negligent acts committed by any other partner or by an employee not under his or her direct control. LLPs are recognized in most states, but are often restricted to partnerships of professionals (e.g., lawyers, doctors, accountants, architects).

**limited partnership** A business structure recognized in most states that allows one or more partners (called limited partners) to have limited personal liability for partnership debts, while another partner or partners (called general partners) have unlimited personal liability. The defining difference between a general partner and a limited partner concerns the management of the business: general partners run it, whereas limited partners (often straightforward investors) are not involved in business decisions. A limited
partner who becomes too involved may come to be regarded as a general partner in terms of liability.

**limited personal liability** see limited liability.

**liquid assets** Business property that can be readily converted into cash, such as shares, bank accounts and accounts receivable.

**liquidate** To sell the assets of a business and convert them into cash, using the cash to pay bills and dividing the remainder among shareholders, partners or other investors. See winding up.

**liquidated damages** An amount of money specified in a contract that a defaulting party will pay to the other if there is a breach of contract. The prearranged liquidated damages may be the amount of a deposit or a downpayment, or an agreed percentage of the total value of the contract.

**liquidating partner** The member of an insolvent or dissolving partnership who is responsible for paying the partnership’s debts and settling its accounts.

**LLC** see limited liability company.

**LLP** see limited liability partnership.

**loss** In accounting, when expenses are greater than profits, loss is the difference between the amount of money spent and the income.

**loss of bargain** The inability to complete a sale or other business deal, caused by a party’s breach of contract, negligence or other wrongdoing. The amount of damages to be paid can be determined in a lawsuit.

**Mail or Telephone Order Rule** A Federal Trade Commission rule requiring a seller to ship goods ordered by mail, telephone, computer or fax to the buyer within the time promised or, if no time has been stated, within 30 days. If the seller cannot ship within that period, the seller must send the buyer notification of a new shipping date and give the buyer the option of canceling the order and obtaining a refund.

**make** In finance, to sign a check, promissory note, bill of exchange or some other note that guarantees, promises or orders payment of money.

**maker** The individual who signs a bill of exchange, check or promissory note, thus becoming responsible for payment. Also, an individual who endorses a check or note over to another person.

**malum prohibitum** (Latin: wrong due to being prohibited) Crimes defined by statute, as compared to crimes based on common law and clear violations of society’s norms. Such statutory crimes include criminal violations of regulatory acts and most white collar crimes involving business and finance.

**manifest** In shipping, a written list of goods in a shipment.

**market value** The price a business, property or other commodity would bring if offered for sale in a fair market (i.e., not at auction or in a forced sale) without either buyer or seller being under compulsion. Also known as fair market value.
Massachusetts Trust A form of limited partnership. A business in which the investors give management authority to a trustee and receive “trust certificates” or “units” documenting their investments. Because they are only owners of the certificates and are not involved in the management of the business, the investors stand to lose only their investment and are not personally liable for any debts of the trust.

master and servant The body of law concerned with the relationship of an employer and employee.

maturity The date at which the payment of the principal amount owed under the terms of a promissory note or bill of exchange becomes due. The note often states that failure to pay interest or installments when due “accelerates” the note, making the “maturity date” immediate, if such payments are demanded and not paid.

meeting of minds The parties to an agreement all having the same understanding of its terms. Mutual comprehension is a requirement for a contract to be valid.

mercantile law see commercial law.

merchantable Fit for sale. To be merchantable, a product must be usable for the purpose it is made and not unworkable or flawed. See implied warranty.

merger In corporate law, the fusion of two corporations in which one corporation transfers all its assets to the other, which continues to exist. In effect, one corporation absorbs the other, but the shareholders of the absorbed company receive shares of the surviving corporation. Compare consolidation.

minutes In business, the written record of meetings, particularly of boards of directors or shareholders of corporations, kept by the secretary of the corporation or organization.

misappropriation The intentional, illegal use of the property or funds of another person as if they are one’s own or for another unauthorized purpose, particularly by a public official or a fiduciary (e.g., trustee, executor).

misfeasance In business, committing an error of management, with unfortunate results, by making a mistake or being careless, but without criminal intent or violation of law (e.g., genuine mistakes made by an accountant). Misfeasance is distinct from “maifeasance,” which is intentional conduct in violation of the law.

misrepresentation see false pretenses.

monopoly An industry that has only one supplier. In more general terms, an industry that is controlled by one company, which produces a sufficient proportion of the total output effectively to control supply, and therefore price. Business practices, combinations and acquisitions that tend to create a monopoly may be in violation of various federal statutes and antitrust laws prohibiting restraint of trade.

moral rights In copyright law, rights guaranteed by the Berne Convention that are considered personal to the author and therefore cannot be bought,
sold or transferred. Moral rights include the right to be recognized as the author of a work, or to disclaim it, or to object to modification or other use of the work that the author considers injurious to her or his reputation. Moral rights are claimed on the copyright pages of books in a phrase such as “John Jones has asserted his right to be identified as the author of this work.” The U.S. Copyright Office and the courts do not recognize moral rights as such, holding that the individual statutes of U.S. laws offer adequate protection; however, U.S. authors can assert their moral rights in other countries.

**moratorium** The grant of an extended period in which to repay a loan, or a period during which a repayment schedule is suspended. In bankruptcy, a halt to the right to collect a debt, perhaps because of a general economic crisis or a natural disaster.

**naked option** An opportunity to buy shares (at a fixed price) in which the seller of the option does not already own the shares. The seller hopes to buy back the option before it is exercised and so avoid having to supply the shares. If the buyer wants to exercise the option, the seller must purchase the shares at their market price to make good on the offer. If the market price has risen since the option was bought, the seller sustains a loss.

**National Labor Relations Board (NLRB)** A five-member independent commission created in 1935 by the National Labor Relations Act (Wagner Act) that is charged with regulating the process of collective bargaining, protecting employees’ rights to unionize, preventing abuses by employers or unions, and overseeing union elections. Members are appointed for five-year terms by the President, with the approval of the Senate.

**natural person** A real human being, as distinguished from a corporation, which is often treated in law as a fictitious person.

**negotiable instrument** A written document (i.e., instrument) that absolutely promises payment to its owner of a specific sum of money at a specific time or on demand. Negotiable instruments include checks, bills of exchange, securities and promissory notes. In broad terms, they are substitutes for money that can pass through the financial system.

**negotiation** In finance, the transfer of a check, promissory note, bill of exchange or other negotiable instrument from one party to another for money, goods, services or other benefit.

**net** The amount of money or other value that remains after all charges, costs, losses, taxes, depreciations, expenses and deductions have been paid and/or subtracted. Commonly used terms are net assets, net profit, net income, net loss, net worth and net estate.

**NLRB** see National Labor Relations Board.

**nominee** A person or entity who is requested or named to act for another, such as an agent or trustee.

**noncompete** see noncompetition agreement.

**noncompetition agreement** A provision in an employment contract or a contract for the sale of a business, under which one party agrees not to compete with the other party for a specific period and/or within a particular area. A salesperson or a literary agent might sign an agreement preventing
her or him from using the contacts of one employer to benefit another employer. In the sale of a business, such an agreement is usually given a value in the sale price. Some states will not enforce a noncompetition agreement unless the restrictions are very narrow.

**nondischargeable debts** Debts that are not erased by filing for bankruptcy. In Chapter 7 bankruptcy, such debts remain when the case is over; in Chapter 13 bankruptcy, such debts have to be paid in full as part of the payment plan or remain as a balance at the end of the case. Nondischargeable debts include alimony and child support, most income tax debts, many student loans, and debts for personal injury. Compare dischargeable debts.

**nondisclosure agreement** A legally binding contract under which a party promises to treat specific information as a trade secret and not to disclose it to others unless authorized to do so. A business may need to reveal a trade secret to another person or business for such purposes as development, marketing or raising money; such a situation requires a nondisclosure agreement. Such an agreement may be implied by the nature of the business relationship, so that a company that conducts patent searches may be assumed to be bound by nondisclosure agreements.

**nonexempt property** Property that is at risk of being lost to creditors when an individual files for Chapter 7 bankruptcy or when a creditor sues and wins a judgment against a debtor. Such property includes valuables and most of the equity in the debtor's house. Compare exempt property.

**nonfeasance** The failure of an agent (e.g., an employee) to perform a task he or she agreed to do for his or her principal (e.g., employer), as distinguished from misfeasance (i.e., performing poorly) or "malfeasance" (i.e., performing illegally or wrongly).

**nonobviousness** In patent law, a requirement for the issuing of a patent. An invention is nonobvious if it would be viewed by a skilled practitioner in the field as a real step forward and an unexpected development. Inventions that merely extend prior art developments “lack nonobviousness” and are not patentable.

**nonprofit corporation** An organization that is incorporated under state laws and approved by both the state’s Secretary of State and its taxing authority as operating for educational, charitable, social, religious, civic or humanitarian purposes—either to benefit members of an organization (e.g., a club or mutual benefit society) or for some public purpose (e.g., a hospital, environmental organization, or literary society). A nonprofit corporation has a board of directors and officers (who are normally shielded from personal liability for the organization’s debts). A nonprofit corporation can make a profit, but it cannot be designed primarily for profit-making purposes, and the profits must be used for the benefit of the organization or the purpose it was set up to help. Upon dissolution of a nonprofit corporation, any remaining assets must be distributed to another nonprofit corporation, not to the directors. For contributions to the corporation to be deductible as charitable gifts on federal income tax forms, the corporation must submit a detailed application (with a substantial fee) and obtain an Internal Revenue Service ruling that it is established for one of the specific nonprofit purposes spelled out in the Internal Revenue Code. See charity.

**no-par stock** Shares in a corporation that are issued without a price per
share stated on the stock certificate. Such shares are valued at the current stock market price.

**not-for-profit corporation** see nonprofit corporation.

**novation** The agreement of parties to a contract to substitute a new contract for the old one. It is often used when the parties find that the terms of the original agreement cannot be met or that one of the parties will be forced to default or go into bankruptcy unless the deal is restructured. See accord and satisfaction.

**novel** Having novelty: a requirement for obtaining a patent. To be novel, an invention must differ physically in some way from all prior inventions.

**occupational disease** An illness that results from long-term employment in a particular industry or type of work, such as cancer among asbestos installers or repetitive strain injury among data entry operatives. If the likelihood of suffering from such an ailment is significantly higher than the average in the population, a former employee may receive benefits from Social Security or workers’ compensation.

**occupational hazard** A risk that is inherent in certain types of employment or places of work, such as cutting timber, using pesticides, working on oil rigs or high-rise steel construction, and working in many factories. The risk factor may limit insurance coverage for death or injury while at work.

**Occupational Safety and Health Act (OSHA)** The main federal law that establishes safety standards in the workplace. In general, OSHA requires employers to provide a safe workplace, to inform employees about potential hazards, to train them to deal with such hazards, and to record workplace injuries.

**offer** A specific proposal to enter into an agreement with another person. An offer must include some essential items—especially the price and subject matter of the agreement—and must be communicated by the person making the offer. An offer is essential to the formation of an enforceable contract and, when accepted, creates the contract. The person or entity who makes the offer is the “offeror;” the person or entity to whom the offer is made is the “offeree.” See firm offer.

**officer** In business, a high-level management official (e.g., a president, vice-president, secretary, financial officer or chief executive officer [CEO]) of a corporation or other business who is hired by the board of directors of a corporation, the manager of a limited liability company, or the owner of a business. Officers, though in effect hired employees, manage the day-to-day operations of the business and have the authority to make contracts and other commitments on its behalf.

**offset** see setoff.

**offshore corporation** A corporation that is chartered under the laws of a country other than the United States. Some countries (particularly in the Caribbean) are often used as places of incorporation because they have little corporate regulation and low tax rates. Professional trustees and nominal officials in the country of incorporation deal with the necessary contacts with the local government but are not active in the management of the business. Offshore corporations may be useful in a number of areas, such as
tax avoidance, easier international operations, and reduced state and banking regulations.

**Older Workers Benefit Protection Act** A federal law that makes it illegal for an employer to use an employee’s age as the basis for discrimination in benefits or to target older workers for layoffs. The law also requires that an employer give an employee at least 21 days to consider a waiver not to sue that is offered by an employer in return for early retirement benefits. See Age Discrimination in Employment Act.

**on account** see payment on account.

**on demand** In a promissory note, a requirement that the amount due must be paid when the person to whom the funds are owed demands payment (rather than on a certain date or by installments). Such a note is called a demand note.

**on or before** A phrase in a contract or promissory note that requires performance or payment by a particular date, but that may be done before that date.

**one-year rule** The rule that requires that a patent application on an invention be filed within one year of the following: any public use of the invention by the inventor; a sale of or offer to sell the invention; or any description of the invention by the inventor in a published document. If the inventor fails to file a patent application within a year, the invention passes into the public domain and is no longer eligible for a patent.

**option** A right to purchase property or require another to perform upon agreed-upon terms. An option is paid for as part of a contract but must be “exercised” (acted upon) in order for the property to be purchased or the performance of the other party to be required. The “exercise” of an option normally requires notice and payment of a contract price. For example, a potential buyer of a building plot offered for sale at $300,000 might pay $4,000 for the option to buy, which gives her or him time to decide whether she or he wishes to proceed (effectively taking the property off the market during that period). If the time to exercise the option expires, then the option terminates. The amount paid for the option itself is not refundable, because it was the option that was being bought, whether it was exercised or not. An option can also be the right to renew something, such as a lease, the employment contract of an athlete, or some other existing business relationship.

**oral contract** An agreement that is made with spoken words and is not confirmed in writing or is only partially written. An oral contract has the same validity as a written one, but its terms are much more difficult to prove in the event of a dispute. An oral contract can often be proved on a basis similar to an implied contract: when the actions of one or both parties are obviously reliant on the existence of a contract. The other main difference between oral and written contracts is that, in many states, the statute of limitations (i.e., the time after which a lawsuit for breach of contract can no longer be brought) is shorter for an oral contract than for a written contract.

**original work of authorship** Under copyright laws, any expression that is independently conceived by its creator, including sheet music, films, records, tape recordings, video disk productions, computer software, laser disk games, cartoons, designs, magazines, poems and books. Categories that are not
considered original expressions include the titles of books, films, and songs; compilations of facts; and works consisting of information that is in the public domain.

**OSHA** see Occupational Safety and Health Act.

**ostensible agent** A person who has been given the appearance of being an employee or agent acting for another (i.e., a principal), when the appearance would make someone dealing with the ostensible agent reasonably believe he or she was an employee or agent. This could occur if the ostensible agent has stationery or forms from the company, uses a company vehicle or uniform, or has a desk in the company office. Actions by an ostensible agent can leave a business liable for contractual commitments or for damages. See apparent authority.

**out-of-pocket expenses** Money that is paid directly for necessary items by an employee, contractor, trustee, executor or any other responsible person to cover expenses that are not specifically detailed by agreement.

**output contract** An agreement in which a producer agrees to sell its entire production to a buyer, who in turn agrees to purchase the entire output—such as might exist between a farmer and a supermarket chain.

**owe** To have a legal obligation to pay funds to another, regardless of whether the sum owed is yet payable.

**owners’ agreement** see buy-sell agreement.

**par** The face value of a share or bond, printed on the certificate, indicating the amount the original purchaser paid to the issuing corporation. Most common stock certificates, however, are issued as no-par stock, without a stated price per share, and the value instead reflects the current market rate for the stock. Preferred stocks state a par value (i.e., fixed rate) upon which dividends are calculated, and the par value of bonds establishes the predetermined payoff amount at a set date (i.e., on maturity) in the future.

**parent company** A company that owns or partly owns and, more importantly, controls another, known as a subsidiary company.

**partial breach** The failure to meet a term of a contract that is not significant enough to cause the contract to fail entirely or to justify the nonbreaching party breaking its part of the contract. A partial breach can often be remedied by a reduction in payment or adjustment to the schedule. See breach of contract.

**partial disability** In employment law, the result of a work-related injury that permanently limits a person’s ability to function, while still allowing some working and other activities. Injured workers are often assessed at a percentage of permanent partial disability, which entitles them to a money settlement. The percentage is usually based on a medical assessment of what proportion of the person’s normal functioning has been lost.

**partner** One of the co-owners or investors in a partnership, an ongoing business enterprise entered into for profit. See general partner; limited partner.

**partnership** An ongoing business enterprise entered into for profit that is owned by more than one person, each of whom is a partner. A partnership
can be created by a formal written agreement (the best idea) or based on an **oral agreement or a handshake**. Each partner contributes money, property or labor in return for a percentage of ownership and is personally liable for all the debts and contracts of the partnership, even when another partner creates the debt or enters into the contract. Each partner has a share in management decisions and shares in profits and losses according to the percentage of his or her total ownership. A partner cannot take for himself or herself a corporate opportunity that by rights belongs to the partnership. Registration with a governmental agency is not necessary to create a partnership, although tax registration and other requirements of conducting a business (e.g., filing a doing business as statement) may still apply. Partnerships do not pay federal or state income taxes; rather, profits and losses are passed through to the individual partners, who report the information on their personal returns. A partnership differs from a joint venture, which is an enterprise formed for a particular project, with the aim of a prompt division of profits. See general partner; limited liability partnership; limited partnership; silent partner.

**party** In contract law, a person or entity involved in an agreement, particularly a signatory.

**party of the first part** A reference in a written contract that identifies one of the people or entities entering into the agreement: "John Jones (hereinafter called the Party of the First Part)." It is clearer to identify the parties either by a short form of their name or by their role in the contract (e.g., Buyer, Seller, Owner, Publisher, Trustee).

**patent** A legal monopoly; that is, an exclusive right to the benefits of an invention or improvement granted by the U.S. Patent Office, for a specific period, on the basis that it is novel (i.e., not previously known or described in a publication), nonobvious (as judged by a skilled practitioner in the field), and useful. A utility patent, on a useful device, process, machine, manufactured product or compound (e.g., a chemical formula), lasts for 20 years from the patent application filing date. A design patent, on a product that is novel for aesthetic reasons, lasts for 14 years from the date issued. A plant patent, on a new strain of a cultivated asexually reproducing plant, lasts for 17 years from the date issued. Patent law specialists conduct patent searches to determine whether the proposed invention is genuinely unique; if they are satisfied that it is, they can file an application, accompanied by detailed drawings and specifications. While the application is being considered, products or designs should be marked patent pending or "pat. pending."

**Patent and Trademark Office (PTO)** An administrative branch of the U.S. Department of Commerce that was established to oversee and implement the federal laws of patent and trademark. The PTO examines and issues all patents and trademarks in the United States.

**patent claim** A statement included in a patent application that describes the invention in exact terms, using an established formal style and precise terminology. Patent claims allow the Patent and Trademark Office to determine whether an invention should be patented, and give courts a way to determine whether there has been an infringement of a patent. In effect, a patent claim indicates the boundaries of the patent in the way that a deed marks the boundaries of a property.

**patent deed** The official document sent to an inventor by the U.S. Patent and Trademark Office when that office has issued a patent for the inventor’s
patent drawing Visual representations of an invention that are part of a patent application, showing all the features described in the application, especially those that distinguish it from prior art. All patent applications require drawings unless the nature of the invention (e.g., the formula for a new substance) makes them irrelevant.

patent infringement see infringement.

patent pending The status of an invention between the time a patent application is filed with the U.S. Patent and Trademark Office and the time it is granted or rejected. Marking a product “patent pending” or “pat. pending” may deter potential competitors from claiming or copying the invention.

patent search A search for documents and records that will determine whether a particular invention is novel and nonobvious, and thus whether it may qualify for a patent. The search usually starts with the examination of previously issued patents and extends to include other documents (e.g., journal articles, scientific papers) that describe unpatented inventions.

payable Due to be paid. A debt may be owed, but not be payable until a certain date or event.

payable on demand A debt on a promissory note or bill of exchange that must be paid when demanded by the individual to whom the debt is owed (i.e., the payee).

payables The short-term liabilities (debts) of a business.

payee The individual or company named on a bill of exchange, check or promissory note to receive payment.

payment in full The giving of all funds due. This phrase is often inserted on the back of a check above the endorsement to prove that the payee accepts the payment as complete.

payment on account Part payment of an outstanding debt, usually coupled with an agreement to repay the balance at a specified date.

payor The individual or company who must make payment on a bill of exchange or promissory note.

payroll A list of people employed (usually full-time) by a company and the amount that each is paid for his or her work.

pecuniary Relating to money; monetary.

peer review In employment law, an assessment of the performance of a professional or skilled worker by a committee of people in the same occupation or with similar skills. A peer review may be needed to determine whether a person has been legitimately discharged, denied promotion, or otherwise penalized by an employer. It may also be used to decide whether someone has failed to meet minimum standards in the field and is potentially liable to a damages claim for professional negligence.

penalty clause A provision in a contract stating that if one party breaks the
contract (e.g., by failing to deliver goods), that party will be required to pay a penalty, usually in money.

**pension** A regular payment, made weekly, monthly or annually, after an employee retires from full-time employment, usually for the rest of

the pensioner’s life. Nongovernmental pensions come from an employee retirement fund paid for or contributed to by the employer as part of the employee’s compensation.

**per diem** (Latin: by the day) An allowance or charge made on a daily basis. Also a phrase used for the payment of the daily expenses and/or fees of an employee or agent.

**performance** The fulfillment of a party’s obligations as required by a contract. Specific performance of a contract may be demanded in a lawsuit. If a contract involves a series of acts or deliveries with payment for each, a suit can be brought for what has been performed or delivered even if there is not full performance.

**permanent disability** In employment law, the result of an injury that impairs the physical and/or mental ability of a person to perform his or her normal work, apparently for the remainder of the person’s life. Under workers' compensation laws (covering on-the-job injuries), when the condition has become stable, the degree of permanent disability is established by medical assessment and compensation is determined.

**personal property** All property that is not real estate (i.e., all property other than land and the fixtures that are permanently attached to it). Cars, bank accounts, shares, wages, a small business, furniture, insurance policies, jewelry and patents are examples of personal property. Also known as personal effects, movable property, goods and chattels, and personalty.

**personal services** In contract law, the talents of a person that are special or unique and cannot be performed exactly the same by another. These can include the talents of a performer, writer or professional. Someone who has contracted to provide personal services and withdraws (e.g., an actor who fails to show up) is liable for damages based on the difficulty of replacing her or him.

**picketing** Standing or marching near a business or office, usually with protest signs or banners, as part of a labor dispute or political controversy. Picketing is constitutionally guaranteed as free speech, but may be limited by court order to prevent violence or to allow free access to a business.

**piercing the veil** A judicial doctrine that allows a plaintiff to hold otherwise immune corporate officers and directors personally liable for damages caused by a corporation under their control. The veil (of immunity) is pierced when officers have acted intentionally and illegally, when their actions exceeded the powers authorized by the company’s articles of incorporation, or when the corporation is merely a completely controlled alter ego (i.e., front) for an individual or management group.

**plagiarism** Passing off the writings or literary concepts of another as one’s own, regardless of whether the actual words are used or only the creative ideas and structure. Plagiarism may involve infringement of copyright if proper permission has not been obtained. An author can bring a lawsuit
against the plagiarist and recover the profits made by the plagiarist from the infringement.

**plaintiff** A person, corporation or other legal entity that brings a suit or complaint against another. In some states and for some types of lawsuits, the term petitioner is used.

**plant patent** A patent issued for a strain of cultivated asexually reproducing plants. Such patents last for 17 years from the date the patent is issued.

**poison pill** A strategy used by companies that are facing a hostile takeover that is intended to make their shares as unattractive or inaccessible as possible. Stock may be diluted by offering low-price shares to current shareholders in order to make it more expensive for another company to buy them out, or the articles of incorporation may be changed to require the approval of a greater proportion of the shareholders for the takeover.

**post** In accounting, the term for recording a payment.

**postdate** To write a future date on a document, usually a check, thereby preventing transactions concerning the document before the specified date. A postdated check is legally only a promissory note due at the later date, and if the account concerned is closed or short of funds when the check is presented at the bank, the payee has no rights to demand payment.

**power of acceptance** The authority or ability to accept an offer and thus create a binding contract. See acceptance.

**PPA** see provisional patent application.

**preference** In bankruptcy, the payment of a debt to one creditor rather than division of the assets equally among all those who are owed money, often by making a payment to a favored creditor just before the debtor files a petition to be declared bankrupt. This is illegal, and the favored creditor will be required to pay the money to the bankruptcy trustee. This form of preference differs from that which a bankruptcy court may give to creditors with secured debts over creditors with unsecured debts in distributing available funds or assets.

**preferred dividend** A payment of a corporation’s profits to holders of preferred stock.

**preferred stock** A class of shares in a corporation that gives the holders priority in payment—at a predetermined fixed rate—of dividends (and distribution of assets in the event of the dissolution of the corporation) over owners of common stock. Holders of preferred stock do get the first share of any profits, but they do not participate in higher dividends if the corporation makes large profits, and usually cannot vote for directors.

**price fixing** A criminal violation of federal antitrust laws in which apparently competing businesses conspire to reach a secret agreement to set prices for their products, thus preventing genuine competition and the public benefits that arise from it. Price fixing also includes the secret setting of prices between suppliers and favored manufacturers or distributors to eliminate competition.

**principal** A person who is responsible for the acts done for his or her benefit.
by another appointed by him or her (i.e., an agent), or in more general terms, an employer. In finance, the principal is the original sum invested or loaned, as opposed to any profits or interest it may earn.

**principal place of business** The location of the head office of a business where the accounts, contracts, and other records are kept, and usually where members of senior management work. Corporations must give details of their principal place of business to the Secretary of State in most states.

**Principal Register** The list on which trademarks and service marks approved for federal regulation are placed. Infringements of a mark so listed will be considered willful and may lead to large damages. Compare Supplemental Register.

**prior art** All previous inventions in the field in which a patent is being sought. The concept of prior art is used by the U.S. Patent and Trademark Office to decide whether the invention is novel and nonobvious enough to qualify for patent protection.

**priority** In bankruptcy law, the right to collect before other creditors do so. Priority is given to taxing authorities, judgment holders, secured creditors, bankruptcy trustees, and attorneys. Priority is also given to mortgages, deeds of trusts, or liens, in the order they were recorded at the office of the County Recorder or Recorder of Deeds.

**privity** A direct contractual relationship between parties, such as exists between a consumer and a retailer, but not between a consumer and a wholesaler or manufacturer, who are farther away in the distribution chain. Contract law requires that there be privity for one party to enforce a contract by a lawsuit against the other party. See vertical privity.

**pro forma** (Latin: as a matter of form) An accountant’s projected financial statement for a business, based on the assumption that certain events will occur, such as a particular inflation rate.

**pro forma invoice** An invoice that is submitted before goods are dispatched, to confirm the details of an order; it usually requires payment before the goods will be delivered.

**pro rata** (Latin: in proportion) A description of a share to be received or an amount to be paid based on the fractional or proportional share of ownership or usage. For example, an heir who receives one-quarter of an estate may be responsible for one-quarter of the estate taxes as his or her pro rata share, or a shareholder may receive a dividend pro rata to his or her holding in a company.

**product liability** The responsibility of manufacturers, distributors and sellers of products to the public to ensure that these products are free of defects that can cause harm, and to fulfill that responsibility either by replacing defective products or by compensating anyone harmed by them. The key legal element in product liability cases is that a person who suffers harm need prove only the failure of the product to make the seller, distributor and/or manufacturer liable for damages. An injured person usually need sue only the seller, with whom the injured party was in most direct contact (privity), and let the seller bring the manufacturer or distributor into the lawsuit or settlement.

**professional corporation** A corporation that is formed to conduct a
profession that requires a license to practice (e.g., attorneys, doctors, dentists, certified public accountants, architects, real estate brokers). Unlike a regular corporation, a professional corporation does not protect a professional person against liability for his or her own negligence or malpractice. Unlike general partners, however, the owners of a professional corporation are not personally liable for the malpractice of other owners. In some states, limited liability partnerships offer this same benefit.

**profit and loss statement** A statement of profits or losses on a company’s sales, based on current operations. Losses may show up on this statement based on costs that are creating assets, to be shown on future balance sheets.

**promissory note** A document that states that a person (usually called the maker or payor) promises to pay a specific amount of money to another (usually called the payee) on a specific date. Promissory notes often specify the amount of interest payments to be made on unpaid amounts. The time of payment may be on demand, on a specific date, or in installments, with or without interest included in each installment. The note may contain other terms and conditions, such as the right of the payee to order that payment be made to another person or penalties for late payments. A promissory note is normally held by the party to whom the money is owed; when the amount due on the note is paid, the note must be cancelled and given to the person(s) who signed it.

**promoter** An entrepreneur, especially a person involved in the initial financing and launch of a business. In general, the promoter is the principal shareholder or one of the managers of the business and justifies the shareholding (i.e., promotional stock) on the basis of his or her efforts in the launch. The federal Securities and Exchange Act and most states limit the amount of promotional stock in a business because it is supported only by effort and not by assets or cash.

**promotional stock** Shares that are issued in a newly formed corporation and given to a promoter of the corporation in payment for his or her entrepreneurial efforts in organizing the company and locating other shareholders, investors or alternate sources of funds. The federal Securities and Exchange Act and most states limit the amount of promotional stock in a business because it is supported only by effort and not by assets or cash.

**property** see personal property; real estate.

**proprietary rights** The rights that go with the ownership of a business or real estate.

**proprietor** In general, the owner of anything, but more specifically, the owner-operator of a business.

**prospectus** A document that describes a proposal; more specifically, a document that is issued to prospective shareholders by a corporation that intends to make a public issue of shares. The prospectus provides details of the corporation’s past and present performance, and of its prospects. A prospectus includes details on the financial position, the officers, the plans, any contingent obligations (e.g., lawsuits), and other information about the corporation so that potential investors or advisers can evaluate it. The Federal Securities Act requires that a prospectus be filed with the Securities and Exchange Commission (SEC) and that the SEC grant approval before any
major share issue occurs. State laws generally require similar documentation.

**provision** A term or condition in a contract; also known as proviso.

**provisional patent application (PPA)** An interim patent application that provides the inventor with an early filing date for the invention. It does not replace a regular patent application, but it does confer patent pending status on the invention and may help the inventor to find a potential manufacturer.

**proxy** Someone who is authorized to serve in another's place at a meeting, particularly with the right to vote; also the written authority allowing this. A proxy is commonly given to cast a shareholder’s votes at a shareholders’ meeting.

**PTO** see Patent and Trademark Office.

**public domain** The right of anyone to use a creative work, invention or logo without permission from its owner. This usually occurs after patent, trademark or copyright protection has expired.

**puffing** The exaggeration of the usefulness or value of a product or anything else for sale. Salesmanship is part of a salesman’s job, but outright lies or exaggerations can result in a lawsuit for the rescission of a contract or for fraud.

**Racketeer Influenced Corrupt Organization (RICO) statute** A federal law that makes it a crime for organized criminal conspiracies to operate legitimate businesses.

**real estate** Land and the structures or fixtures that are permanently attached to it, including buildings, houses, stationary mobile homes, fences and trees. Also known as real property or realty.

**reasonable reliance** Particularly in contracts, facts or claims that a prudent person would believe and feel secure in acting upon. A person typically is promised something to his or her benefit, takes steps in reliance on the promise, and then finds that he or she has been misled. Damages can be recovered, or a contract enforced, if the reliance is shown to have been “reasonable.”

**rebate** Money that is returned to a buyer because he or she has paid too much, or because of a discount. A secret rebate given by a subcontractor to a general contractor in return for getting a job is illegal because it cheats the person hiring the contractor.

**receipt** A written acknowledgment stating that money has been paid or that goods have been received.

**receivables** see accounts receivable.

**receiver** An official into whose hands a company in financial difficulties is placed to ensure that, as far as possible, the creditors are paid. Also, a neutral person (often a professional trustee) who is appointed by a judge to take charge of the property and business of one of the parties to a lawsuit—or of a person or business while a bankruptcy is being pursued—and to receive their profits and rents while the rights to the funds are decided or payments to creditors are arranged.
register In corporations, the record of its shareholders and the issuance and transfer of its shares.

registration statement A report filed with the Securities and Exchange Commission by a corporation detailing a proposed issuance of shares to the general public in more than one state (in interstate commerce). The statement must be approved by the SEC before it will allow the share issuance. See prospectus.

reorganization The restructuring of a corporation, which may include share transfers between shareholders of two corporations, leading to a merger. In bankruptcy, a corporation in financial trouble may be given time to reorganize while being protected from creditors by the bankruptcy court, with the view that the reorganized company may be able to pay the creditors.

replevin A type of legal action that gives the right to the owner to recover property that was unlawfully taken or retained. Replevin is commonly used in disputes between buyers and sellers when the buyer has failed to pay for goods.

repossession A seller of goods (as creditor) taking them back because the buyer has breached the contract, usually by failing to make one or more payments on time, and has not attempted to work with the creditor to resolve the problem.

repudiation The act by one party to a contract of informing the other party that the first party does not intend to honor the contract. Repudiation may also involve the denial of the existence of a contract; it is an anticipatory breach. In more general terms, repudiation may refer to the non-repayment of a debt or the termination of any form of agreement.

requirements contract An agreement in which a producer agrees to sell to a buyer all of a particular kind of product that the buyer needs, before the producer looks for other buyers, and the buyer agrees to buy the goods only from the producer. This kind of contract differs from an output contract, in which the buyer agrees to buy everything the supplier produces.

resale Sales to the general public, as distinguished from wholesale, which is sales to retailers. In many states, a “resale license” or “resale number” is required, so that the state can monitor the collection of sales tax on retail sales.

rescission The annulment (by rescinding) of a contract either by agreement or by judicial order, which returns the parties to the relationship they had before the contract was made.

resolution In business, the determination of the policy of a corporation by a vote of its board of directors.

respondeat superior (Latin: let the master answer) A doctrine in the law of agency, which provides that a principal (e.g., an employer) is responsible for the actions of his or her agent (e.g., employee) in the scope of employment. An employee acting on behalf of an employer can bind the employer to contracts or other agreements made by the employee. An employer is also liable for damages from injuries caused by his or her employee while the employee is doing his or her job.
restraint of trade In antitrust law, any activity (e.g., agreements among competitors) that tends to limit trade, sales and competitiveness in interstate commerce. Some state laws also forbid local restraints on competitive business activity.

restrictive endorsement An endorsement that restricts the negotiability of a document. The term usually refers to a check that is endorsed on the back in terms such as “for transfer only to John Jones [signed] Mary Smith.”

retire In finance, to pay off a promissory note and thus “retire” the loan.

RICO see Racketeer Influenced Corrupt Organization statute.

royalty The sum paid to an inventor, originator, author or owner of something from which a product may be sold, and calculated as a proportion of the income received from the sale of the product. See copyright; patent.

S corporation A business term for a profit-making corporation whose shareholders have received subchapter S corporation status from the Internal Revenue Service. Shareholders of an S corporation have limited liability status (as they would in any corporation) but are taxed as a partnership or sole proprietor. Thus, instead of being taxed as a separate entity (as is a C corporation), the profits and losses of an S corporation are passed through to the shareholders and are reported and paid by them on their personal tax returns.

sale The act of transferring goods or services from a buyer to a seller in exchange for money or something else of value. The price paid may be an announced or listed cost, or it may result from negotiation between seller and buyer or bidding at auction.

satisfaction Receiving payment that is due, or under a contract, receiving performance of what is due.

scope of employment The actions of an employee on behalf of the business of the employer rather than on the employee’s personal business (as in going on a frolic). This is relevant in determining damages for injuries caused by an employee while doing her or his job—for which the employer is liable under the doctrine of respondeat superior.

SEC see Securities and Exchange Commission.

secondary boycott An organized refusal to buy from or do business with a company that itself is doing business with another company where the employees are on strike or in a labor dispute. Secondary boycotts are illegal, being prohibited as unfair labor practices under federal and state laws.

secret rebate A kickback of money, particularly by a subcontractor to a general contractor, that is not shown on a job estimate. This is illegal in most states and could lead to a contract being judged invalid or to criminal penalties.

secured debt A debt on which a creditor has a lien. In the event of a default, the creditor can bring an action allowing foreclosure or repossession to take the property identified by the lien (i.e., the collateral or security). Compare unsecured debt.
securities  Financial instruments that are traded on a stock exchange and yield an income. Securities include shares, bonds and debentures issued by corporations. The assets and/or profits of the issuing corporation stand as security for payment. No specific property is pledged as security, however, so securities are dependent on the future profitability of the corporation. Government bonds operate in much the same way as corporate securities.

Securities and Exchange Commission (SEC)  An organization founded in 1934 that regulates the securities market (i.e., brokers and stock exchanges).

security  In loan finance, any property that is pledged as collateral for a loan, or the document that sets out the terms of such collateral.

self-dealing  In the stock market, using “inside” information (not available to the public) that is gained by being an officer of a corporation (or from such an officer) to profit from buying or selling shares before the information (e.g., merger plans, poor profit reports, new product developments) becomes public. Another form of self-dealing occurs when a general partner of a limited partnership does not inform the limited partners of a corporate opportunity that should belong to the partnership. Shareholders can bring a lawsuit for fraud (perhaps a derivative action) against anyone who is self-dealing. See insider trading.

servant  In law, an employee, with duties to and obligations from an employer. Compare independent contractor. See master and servant.

service mark  A word, phrase, logo, symbol or other device used by a business to identify a service and distinguish it from those available from competitors. A mark used to identify a product (rather than a service) is a trademark.

services  Work performed for pay. See personal services.

setoff  In accounting, two parties who have an indebtedness to each other agreeing that one debt has paid all or part of the other. Similarly, in a lawsuit, a defendant may claim that the plaintiff owes the defendant money that should be subtracted from the amount claimed by the plaintiff.

severability clause  A provision in a contract that preserves the remainder of the contract if a portion of it is invalidated by a court. Without such a clause, if a court found that one part of the contract was unenforceable, the entire document would be invalid.

severance pay  Money, often the equivalent of one or two months’ salary, that is offered by employers to employees who are laid off. Severance pay is not a legal requirement, but it must be paid if it was offered in a contract. The term also sometimes refers to extra pay that is offered and made to an employee to encourage him or her to resign, retire or settle a potential claim for discharge.

sexual harassment  Unwanted and unwelcome sexual advances or conduct (e.g., remarks) on the job that create an intimidating, hostile or offensive working environment. Sexual harassing behavior ranges from repeated offensive jokes to a workplace full of pornography to sexual assault. Sexual harassment is a private nuisance, an unfair labor practice, and, in some states, a civil wrong (tort), and is prohibited by the federal Civil Rights Act of 1991 as
well as by state laws. See harassment.

**share** In finance, a portion of ownership of a corporation, represented by a stock certificate that states the number of shares owned.

**shareholder** The owner of one or more shares of a corporation. A shareholder has rights conferred by state law, by the bylaws of the corporation, and if one has been adopted, by a shareholders’ agreement, such as a buy-sell agreement. The rights include being notified of annual shareholders’ meetings, voting for directors (unless the shares are preferred stock), and receiving an appropriate proportion of any dividends. Shareholders of large corporations are usually investors whose shares are held in the name of their broker. In small corporations, a shareholder may also be a director, officer and employee. Also known as a stockholder.

**shareholders’ agreement** An employment agreement that is common among the shareholders of small corporations that permits a shareholder also to have a management position in the corporation without the threat of conflict of interest or self-dealing claims being brought against him or her. The term also sometimes is used to mean the same as a buy-sell agreement.

**shareholders’ derivative action** see derivative action.

**shareholders’ meeting** A meeting, usually held annually, of all shareholders of a corporation (in large corporations, usually only a small percentage attend) to elect the board of directors and hear reports on the company’s business situation. In larger corporations, members of upper management hold the proxies of many of the shareholders, which instruct them how to vote on particular issues.

**sick leave** Time off work for illness. Employers are not legally required to provide this, though most do. Provisions of the Family and Medical Leave Act guarantee workers up to 12 weeks per year of unpaid leave for severe or lasting illnesses.

**silent partner** A nonlegal term for an investor in a business who takes no part in its management and is often unknown to customers or competitors. If the business is a limited partnership, each limited partner is prohibited from taking part in management and has no liability for debts beyond his or her investment—he or she is a true silent partner. If the business is not a limited partnership, however, a “silent partner” is responsible for the debts of the partnership as a general partner.

**SLAPP suit** A Strategic Lawsuit against Public Participation, in which a business sues an organization in an attempt to intimidate it into dropping protests against a corporate plan or proposal. SLAPP suits often involve environmental matters: a residents’ organization opposed to a new shopping mall might be involved in a SLAPP suit for interfering with the developer’s interests. Many states have “anti-SLAPP suit” statutes that protect citizens’ rights.

**small entity** According to the fee structure of the U.S. Patent and Trademark Office, a for-profit company with 500 or fewer employees, a nonprofit corporation, or an independent inventor. The PTO charges small entities half the fee it charges large entities for filing a patent application, and for issuing and maintaining the patent.
sole proprietorship A business that is owned and managed by one person (or, for tax purposes, a married couple), and distinguished from a corporation or partnership. A sole proprietor and the business are one tax entity, so any business profits or losses are reported and taxed on the proprietor’s personal tax return. A sole proprietor is personally liable for all business debts.

solvency The state of a person or company that is cash-positive and able to pay bills when they are due (i.e., has more assets than liabilities). Compare insolvency.

specific performance The right of a party to a contract to demand that a breaching party be ordered in a lawsuit judgment to perform the contract. Specific performance may be ordered instead of (or in addition to) a money payment if the contract can still be performed and money alone is insufficient reward.

specification The narrative portion of a patent application, which includes an account of the purpose, structure, and operation of the invention, as well as a discussion of any relevant prior art. The specification should provide enough information about the invention so that someone knowledgeable in the relevant area of expertise could operate it without exhibiting unusual creativity.

state of domicile In business, the state where a corporation is incorporated, and normally where its headquarters are located.

statutory subject matter Five categories (compositions of matter, manufactures, machines, processes, and new and useful improvements of any of the above), into one of which an invention must fit in order to be granted a utility patent.

stock see share.

stock certificate A printed document verifying the ownership of shares in a corporation. The certificate states the name of the corporation, the state and date of its incorporation, the registered number of the certificate, the number of shares the certificate represents, the name of the shareholder, the date of issue, and the total number of shares in that particular issue of stock. It is signed by the president and secretary of the corporation (usually with facsimile signatures). On the reverse side of the certificate is a form for transferring it to another person. After a transfer, the new owner should register the change of ownership with the corporation. See transfer agent.

stock in trade A collection or inventory of goods or raw materials for sale that is held by a manufacturer or retailer.

stock option The right to purchase shares in a corporation in the future at a price set at the time the option is granted. Options may be bought from a corporation, or they may be given by a corporation as compensation to an employee or investor. To obtain the shares (i.e., to convert the option into shares), the owner of the option must “exercise” it by paying the agreed price. See option.

stockholder see shareholder.

straw man In business, a person to whom a business interest is transferred for the purpose of concealing the true owner. A straw man may be involved
in a situation in which the actual owner is not permitted to act, perhaps for reasons of citizenship or because she or he has a criminal record.

**strike** The organized refusal of employees to remain on the job, as a way of forcing the resolution of an employment conflict, the meeting of demands, or the settling of a grievance.

**subcontractor** A person or business that has a contract (as an independent contractor and not an employee) with a general contractor to provide some portion of the work or a specialized service on a project that the general contractor has agreed to perform. In construction, subcontractors may be plumbers, electricians, roofers, heating engineers, etc. If a subcontractor is not paid by the contractor for his or her work, the subcontractor has the right to enforce a “mechanic’s lien” on the property where the work was done, in order to collect what is due—in other words, the property owner is responsible for ensuring that the general contractor pays all subcontractors on a job.

**subscribe** In finance, to order and agree to pay for an issue of shares or bonds, a partnership interest, or other investment.

**subsidiary company** A company that is wholly or partly owned and controlled by another, known as the parent company.

**sum certain** A specific amount that is stated in a contract or negotiable instrument (e.g., a promissory note) at the time the document is written and is not dependent on a future calculation or a future event. Engaging someone to do a task for a stated fee—as opposed to an hourly rate or a portion of a sale price—is using a sum certain.

**Supplemental Register** The list on which nondistinctive marks (trademarks or service marks) are placed if federal registration is applied for. Descriptive marks, surnames and geographical names are usually placed on this register, which offers some limited protection.

**surcharge** An additional charge that is made because it was omitted in the original calculation, because circumstances have intervened to change the terms, or because a penalty is being applied, such as an extra charge for a late payment.

**syndicate** see consortium; joint venture.

**tangible property** Personal property that can be felt or touched, such as furniture, cars, jewelry, and works of art. Cash and bank accounts are not tangible property. Compare intangible property.

**tender** In contracts, to make another person an unconditional offer.

**tender offer** A public offer to the shareholders of a corporation to buy their shares at a specified price, normally above the current market price. This may be done as part of a takeover, in order to gain a controlling interest in the corporation.

**TILA** see Truth in Lending Act.

**time is of the essence** A phrase often used in contracts that indicates that scheduling or timing (e.g., in making a delivery or completing a project) is the most important aspect of the agreement and any delay may be grounds for
cancellation.

**trade dress** Distinctive packaging or design that sets a product apart in the marketplace, such as the shape of a bottle or other container. Trade dress can be protected under trademark law if it can be shown that the average consumer would be confused if another product appeared in similar dress.

**trade secret** A process, method, plan, formula, pattern, device, idea or other information unique to a manufacturer that gives it a competitive advantage. A business must treat a trade secret in a way that can reasonably be expected to prevent the public or competitors from learning about it. The trade secret may be protected by a court-ordered injunction against use or revelation by an employee, former employee, or someone else who comes into possession of it, but a court will judge how well known the information is inside and outside the business, how carefully it has been protected, how valuable it is to the business, and how hard it would be to duplicate the information independently or to acquire it properly. A trade secret is a business process and not an invention that can be protected by a patent.

**trademark** A word, phrase, logo, symbol, color or other device that is used by a business to identify a product and distinguish it from those that are available from competitors. A mark that is used to identify a service (rather than a product) is called a service mark.

**trademark registration** To be registered with the U.S. Patent and Trademark Office, a mark must be used in interstate commerce and a registration application must be filed. Once a mark is registered, the owner should always place the trademark registration symbol (®) or “Reg. U.S. Pat. Off.” next to it; otherwise, it may be hard to collect damages for infringement.

**transfer agent** A person or company used by a corporation to process the transfer and registration of stock certificates.

**treasury bill** A promissory note that is issued in multiples of $10,000 by the U.S. Treasury and has a maturity date of not more than one year.

**treasury bond** A long-term bond that is issued by the U.S. Treasury.

**treasury note** A promissory note that is issued by the U.S. Treasury for a period of one to five years.

**treasury stock** Shares of a corporation that were issued and then bought back or otherwise reacquired by the corporation. Such shares earn dividends for the corporation, but they do not grant voting rights, such as regular shareholders have.

**Truth in Lending Act (TILA)** A federal law that requires a commercial lender (e.g., bank, savings and loan, mortgage broker, credit card company) to give a prospective borrower exact information on interest rates and due dates and amounts, as well as a three-day period during which the borrower may consider competitive terms and cancel the loan agreement.

**UCC** see Uniform Commercial Code.

**UCC-1** A standard form for a financing agreement in which personal property is used as loan security under the provisions of the Uniform Commercial Code.
ultra vires (Latin: beyond the powers of) A phrase that denotes an act that goes beyond or against a company’s objectives, as defined in its articles of association; in a legal context, conduct by a corporation or its officers that exceeds the powers granted by law.

unconscionability An agreement, bargain or contract in which the terms are one-sided and grossly unfair to one party (usually a buyer), often because that party is acting from ignorance or compulsion. A contract will be terminated if the buyer can prove unconscionability. See adhesion contract.

undercapitalization A situation in which a company does not have enough cash available to carry on its business.

underwrite In insurance, to agree to pay an obligation that may arise from an insurance policy. In finance, to guarantee the purchase of all shares or bonds being issued by a corporation; this includes an agreement by the underwriter to buy all the shares or bonds that are not bought by the public.

underwriter A person or institution that agrees to take up a proportion of the risk of something. An underwriter may buy the shares of an issue that have not been taken up by the public, or may pay compensation for losses under the terms of an insurance policy.

undisclosed principal A person who uses an agent for his or her negotiations with a third party, often with the agent seeming to be acting for himself or herself. This means that in a dispute, the third party may not know who the real principal is.

unfair competition The use of wrongful and fraudulent business methods to confuse the public and gain an unfair advantage over competitors. This includes using untrue or misleading advertising, misleading customers with imitative trademarks or trade dress, falsely disparaging another’s product, and stealing trade secrets. State laws differ, but unfair competition is grounds for a suit for damages and/or an injunction (i.e., court order) to halt the practices of the unfair competitor.

Uniform Commercial Code (UCC) One of several uniform laws drafted by the National Conference of Commissioners of Uniform State Laws. It covers a wide range of commercial transactions and has been adopted, at least in part, by all states. See UCC-1.

union shop A business in which a majority of the workers have voted to name a union as their certified bargaining agent. Compare closed shop.

unissued stock A corporation’s shares that are authorized by its articles of incorporation but have never been issued (i.e., sold) to anyone. They differ from treasury stock, which are shares that were issued and then reacquired by the corporation.

unjust enrichment Improper or unfair gain of property or money, which the recipient is required to return to the rightful owner, even if the property was not obtained illegally.

unsecured debt Money borrowed on the general credit of the borrower with no pledge of specific assets that may be forfeited to the creditor if repayment is not made as promised. The only remedy available to a creditor is
to sue and get a judgment. Compare secured debt.

U.S. Copyright Office see Copyright Office.

U.S. Patent and Trademark Office see Patent and Trademark Office.

usefulness In patent law, the requirement that an invention have some purpose, or in the case of design patents, have aesthetic or ornamental value. The purpose can be for amusement, and the value may be a minor improvement on an existing design.

utility patent A patent issued for an invention (e.g., device, process, machine, manufactured product, formula) that performs a useful function. A utility patent lasts for 20 years from the patent application’s filing date.

vertical privity A legal relationship between companies in the chain of distribution of a product that creates certain responsibilities, including liability for defects in the product. For example, vertical privity exists between an automobile manufacturer and the dealership that sells an individual car made by the manufacturer in that both the dealer and the manufacturer are liable for defects in the cars sold. See privity.

voidable Capable of being made void. For example, a contract in which one of the parties is a minor (i.e., younger than 18 years of age) is voidable when she or he reaches the age of majority, but the contract may also be affirmed at that time. Voidable is not the same as “void,” which in law means to be deemed never to have existed.

voting trust A trust that seeks the vote proxies of shareholders of a corporation in an election of a board of directors or votes on other matters at a shareholders’ meeting. Such a trust is usually operated by a company’s current directors to ensure their continuing control, but sometimes a voting trust represents an individual or group that is trying to gain control of the corporation.

warranty A written statement as to the good quality of a product or that a fact stated in a contract is true. See guaranty.

warranty of fitness see implied warranty.

warranty of merchantability see implied warranty.

watered stock Shares of a corporation that were issued at a price greater than their true current value, as indicated in the accounts of the corporation. Often the individual shares have become a smaller percentage of the total share capital, because of subsequent share issues.

white-collar crime The term for crimes that involve commercial fraud, swindles, insider trading on the stock market and other dishonest business practices, such as are committed by business executives rather than by “blue collar” workers.

winding up The process that occurs just before a corporation or partnership ceases to exist, which involves liquidating the assets, paying bills, distributing any remaining assets to the shareholders or partners, and then dissolving the business. Winding up a nonprofit corporation requires a plan for distributing its assets to another charitable or nonprofit entity. See liquidate.
words of art  Specialized language or jargon with a meaning peculiar to a particular profession, art, science or other field.

work for hire  see work made for hire.

work made for hire  For copyright purposes, a work that is created by an employee within the scope of employment, or a work that is created by an independent author on commission under a written contract. The owner of a work made for hire is considered the author of the work, and is therefore the copyright owner. If a company commissions a technical writer to produce a manual as a work made for hire, the company is considered to be the author and owns the copyright in the manual.

workers’ compensation  Rights that are found in various Workers’ Compensation Acts, state statutes that establish the liability of employers for injuries to workers that are sustained on the job or illnesses that result from their employment, and that require employer insurance to protect the workers. Workers’ compensation is not based on employer negligence, but is absolute liability for medical coverage, a percentage of lost wages or salary, costs of rehabilitation and retraining, and payment for any permanent injury (usually based on a medical evaluation). If compensation is granted, it becomes the only remedy against an employer and prevents workers or their dependents from suing the employer for injury or death. Some injured workers waive workers’ compensation and sue the employer for damages caused by the employer’s negligence. If a third party contributed to the damages, the injured worker may sue that party for damages even though he or she receives workers’ compensation. Formerly known as workmen’s compensation.

wrongful termination  The discharge from a job that a court rules is illegal. An employee has the right to sue her or his employer for wrongful dismissal and to seek damages for loss of wages and benefits, as well as, in certain circumstances, punitive damages. For such a suit to succeed, the termination must have been without “cause,” and the employee must have had either a written contract specifying continued employment or an implied contract offering legitimate reasons to believe the employment would be permanent; there must have been a violation of laws prohibiting discrimination; or the discharge must have been contrary to “public policy,” such as being in retribution for exposing dishonest acts of the employer.

yellow-dog contract  An employment contract in which the employer forbids the employee to join a labor union. Such contracts are not legally enforceable.