

Business Law Insight

When Is a **Business Agreement** Legally Binding?

 February 22, 2026

 READING TIME **5 MINUTE READ**

Why This Matters

Business owners often treat negotiations as informal discussions until the final agreement is signed. However, a contract can be binding before the final “formal” agreement is signed, especially if the parties have agreed on the main terms and are acting like the deal is done.

That creates the risk that one party will walk away without realizing a binding contract has been formed, leaving them exposed to litigation for breach of contract.

1. The Common Problem We See in Practice

These disputes usually follow a familiar pattern:

- The parties agree on key points (price, what is being sold, timing).
- They plan to “paper it later” and ask lawyers to draft documents.
- One party then backs out, often because of a better offer or a change in market conditions.

- The remaining party says: “You already agreed. You can’t walk away.”
- The court must decide: Was there already a binding deal?

Common triggers include:

- emails or texts saying “agreed” or “we have a deal”;
- a term sheet or LOI that is unclear about what is binding;
- starting performance before final signing.

2. A Real Case: What Happened in Court

Ruparell v J.H. Cochrane Investments Inc., 2021 ONCA 880

The situation

A buyer negotiated to purchase a car dealership. Negotiations ran for months, and the parties reached agreement on a number of terms. The seller’s advisor left a voicemail saying “we have a deal”. The sellers then accepted a higher offer from a third party. The original buyer sued for breach of contract and sought specific performance.

The court’s decision

The Court of Appeal upheld the trial judge’s finding that a binding contract existed, even though the terms were later to be put into a formal written agreement. The Court confirmed that it is “not unusual” for contracts to be formed when parties agree on the essential terms, with the details later incorporated into formal agreements, what matters is the parties’ intention in the circumstances.

Why the sellers lost the “no signed deal” argument

Key points the Court relied on included:

- There was an earlier non-binding letter of intent, but after its exclusivity period expired, the parties moved into a “new deal” phase.
- The trial judge found the essential terms of the new transaction were agreed
- The parties behaved as if they had a deal

3. Why This Happened

These disputes happen when business habits collide with contract law.

Typical catalysts include:

- The parties never clearly say: “Nothing is binding until a final agreement is signed.”
- Loose language in emails (words like “deal,” “agreed,” and “confirmed”) read like acceptance.
- Conduct signals commitment. If the parties act like they have a deal, the paper trail can support that view.

4. How It Could Have Been Prevented (Litigation-Informed Drafting)

Prevention is mainly about clarity and discipline.

Control the language used in negotiations

To prevent negotiations from accidentally formalizing a contract, avoid closing language like “we have a deal”. Use clear language like “This is not binding. No contract exists unless and until a definitive agreement is signed by both parties.”

Separate “process terms” from “deal terms”

If you use an LOI/term sheet, make it obvious which parts are binding (often: confidentiality, exclusivity, deposit mechanics) and which parts are not (the actual purchase agreement terms).

5. Practical Checklist (Use This Internally)

- ① If desired, put “no deal until a formal contract is signed” in writing in the LOI/term sheet.
- ② In emails, use consistent phrasing (e.g., “subject to definitive agreement”).
- ③ Do not say “we have a deal” unless you mean “we are legally bound.”
- ④ Avoid starting performance (deposit, integration, announcements) until you are comfortable with the legal risk.
- ⑤ Limit who can commit the business in negotiations (one person, clear authority).
- ⑥ If a better offer appears, get advice before switching. Walking away can trigger serious damages exposure.

7 If speed matters, consider an interim agreement that clearly says what is binding and what is not.

Final Thought

The safest way to avoid “accidental contracts” is to be very clear (on the page and in emails) about when the deal becomes binding. When that clarity is missing, a court may fill the gap based on the parties’ words and conduct, and the financial consequences can be severe.