**Why does the buyer of my business want me to sign a noncompetition agreement?**
**Question:**

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**Answer:**

Noncompetition agreements are a customary part of a business sale. A noncompetition agreement is a contract between you and a buyer that prohibits you from competing with the business you have just sold. The scope and duration are mutually agreed upon between you and the buyer. The agreement may be written as a stand-alone contract or as a clause in the sales contract.

Overly broad noncompetition agreements may be difficult to enforce. To be enforceable, the agreement should:

* Limit the amount of time to which the agreement applies
* Limit the geographic area to which it applies
* Detail the scope of the prohibited activity

By assuring the buyer that you won't compete for business within a mutually agreed-upon area for a specific duration, you may be able to use a noncompetition agreement to secure a future income stream. An agreement can be structured so the buyer pays you a sum of money over a period of time specifically for the purpose of not competing.

Once you sign a noncompetition agreement, you are generally prohibited from starting a similar business or offering your services to a competitor within the scope and duration specified in the agreement. A noncompetition agreement may be more likely to be enforced if you receive a separate payment for it. Courts may reason that you not only received compensation for your business but also received separate consideration for the specific purpose of not competing.

Laws regulate the enforceability of noncompetition agreements in many states. They may be unenforceable in some states, and their enforcement may be limited in others. Consult an attorney to determine whether and to what extent noncompetition agreements are enforceable in your state.