



Business/Marketing Virtual Learning

10-12 grade Business Law

May 22, 2020



Lesson: [May 22, 2020]

Objective/Learning Target:

Legal Purpose and Proper Form

Understand the rules of contract interpretation.

Let's Get Started

Watch These Videos:

- 1) [Rules of Court Interpreting Contracts](#)
- 2) [Parol Evidence Rule](#)
- 3) [Exceptions to the Parol Evidence Rule](#)



How Contracts are Interpreted

At times parties to a written agreement claim that it does not include everything that was agreed upon or is not clear about such terms. In court these claims are settled either by an examination of the agreement itself or by the application of rules such as those that are specifically devoted to the interpretation of contracts.

I. Acknowledgement of Final Agreement - Often, issues develop involving preceding oral agreements not reflected in the ultimate contract. As a consequence writings will include a contract clause stating that both parties agree that the terms in the written contract constitute the entire and final agreement.

II. Specific Rules of Interpretation -

A. Analysis - The first thing a court will do is interpret the contract in terms of the parties' principal objective. By looking at the main objective, courts can see which clauses should prevail over others. Further, if an agreement can be interpreted in two ways, the courts will choose the way that renders the agreement a contract. Interpreting each clause in the light of all other provisions of the contract is another way to follow the parties' principal objective.

How Contracts are Interpreted

- B. Conflicting Terms** - If there is a conflict between a printed-form contract and something typewritten or handwritten thereon, the later writings—not the conflicting typeset print—determine the contract’s meaning. This is because the writing is likely to have occurred after the typesetting. Similarly a typewritten agreement which includes a conflicting handwritten statement or clause will be interpreted based on the handwritten portion.
- C. Words** - The plain and normal meaning of ordinary words will be used to determine the meaning of the contract. Prior relationships of the parties may indicate how the words should be interpreted. Legal and other technical terms are given their technical meaning unless the contract as a whole shows that a different meaning is intended. Where both parties are members of a trade or profession, they are presumed to know the trade custom or practice, and the contract is interpreted in light of that trade custom or practice.

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D. Ambiguities - Courts will interpret ambiguities (things that can be understood in two or more possible ways) against the party who drafted the contract. This is especially true when consumers are asked to accept and sign “take it or leave it” contracts. These are contracts such as credit purchases or life insurance policies. They are prepared by the stronger parties (usually the sellers), with the help of skilled lawyers, who naturally favor the interests of their clients. Generally, the terms of such contracts are not negotiable. The weaker parties (usually the consumers) must “take it or leave it.” In such contracts, courts interpret ambiguity against the author. Statutes in some states now require that the language of consumer contracts be clear, simple, and understandable to the average person.

E. Implied Reasonableness - Contracts often include implied terms as a matter of reasonableness. Thus, a clause requiring “payment in cash” usually may be satisfied by check. Promised services must be performed with reasonable care and skill even when this is not stated. When no time for performance is mentioned, a reasonable time is allowed.

How Contracts are Interpreted

III. Parol Evidence Rule - Contracts often include implied terms as a matter of reasonableness.

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This wise conclusion is supported by the parol evidence rule. This rule makes the final writing the source of evidence about the terms of the contract. Parol evidence consists of words spoken prior to the execution of the final writing or at the time of signing, and generally is inadmissible in court proceedings. For example, if a complete final written agreement for the sale of a house is signed, then a court will not admit oral testimony that, prior to the parties’ signing the written agreement, the seller had said he would paint the exterior before vacating. The rule keeps out preliminary inquiries, initial proposals, negotiations, and other discussions that are not the final agreement.

Exceptions to the Parol Evidence Rule -

1. to clarify ambiguities in the written agreement
2. if the written contract was not intended to be a complete agreement
3. if a condition necessary to the existence of the contract never occurred
4. if fraud, forgery, illegality, mistake, or misrepresentation occurred
5. to show the parties reached another agreement or terminated the contract under consideration after executing the written contract
6. to show that the contract is voidable because a party lacked contractual capacity

ACTIVITY #35

- 1) Explain the parol evidence rule.
- 2) Stan and Laretta attend an open house for a home they are interested in buying. They tell the agent that they would be serious about buying this house if the owner would remove some of the bushes in front of the house. The salesperson says that would not be a problem. Later, they sign a contract to buy the house, but it doesn't mention removing the bushes.
 - a) If the couple later decided to sue to make the homeowners remove the bushes, would they win the case?
 - b) Why or why not?
- 3) Highman bought a new personal computer from Advanced Electronics. She signed the store's usual contract, which contained a clause stating that it was the complete agreement between the parties. Later, Highman alleged that as part of the bargain, the salesperson orally promised that if the list price were reduced within two months, Highman would be refunded the amount of the reduction. The list price was reduced, but Advanced Electronics refused to pay the refund to Highman.
 - a) Can Highman recover the refund?

ACTIVITY #35

- 4) Andy watched an elderly customer fill out a check to purchase one of his original watercolor paintings. They had orally agreed to \$340, but the customer wrote “\$540” and “five hundred forty and no/100” dollars on the check.
 - a) If you were Andy, would you correct the customer if you thought you would never do business with her again?
 - b) Why or why not?

- 5) Under a written contract, Cabrera bought a used sedan from Sharpe’s Previously Owned Cars Inc. The salesperson had knowingly falsely assured her that the car was in “tip-top condition ... with just 45,000 miles driven by only one previous owner.” Later, in checking official registration records, Cabrera discovered that the sedan had three previous owners and that the odometer had been set back from 70,000 miles. In court, Sharpe’s attorney claims that under the parol evidence rule, introduction of the salesperson’s oral statements is barred.
 - a) Is this parol evidence admissible?