

On May 1, an uncle mailed a letter to his adult nephew that stated: "I am thinking of selling my pickup truck, which you have seen and ridden in. I would consider taking \$7,000 for it." On May 3, the nephew mailed the following response: "I will buy your pickup for \$7,000 cash." The uncle received this letter on May 5 and on May 6 mailed a note that stated: "It's a deal." On May 7, before the nephew had received the letter of May 6, he phoned his uncle to report that he no longer wanted to buy the pickup truck because his driver's license had been suspended.

Which of the following statements concerning this exchange is accurate?

- A. There was a contract as of May 3.
- B. There was a contract as of May 5.
- C. There was a contract as of May 6.
- D. There is no contract.

Explanation:

Contract negotiations by mail*

Offeror's actions	Offer	Effective upon receipt
	Revocation of offer	
Offeree's actions	Acceptance (mailbox rule)	Effective upon dispatch Exceptions—effective upon receipt if: improperly stamped/addressed acceptance by mail unreasonable rejection mailed before acceptance (first received is effective) acceptance of option contract offer states acceptance effective only upon receipt
	Rejection/counteroffer	Effective upon receipt

*Applicable under common law & UCC.

Contract formation begins with an **offer** that expresses more than a mere willingness to negotiate. The offer must (1) communicate **definite terms** to the offeree and (2) make an **objectively reasonable** expression of the offeror's **intent** to enter a **binding contract**. Here, the uncle's May 1 letter was *not* an offer since he was merely "thinking" of selling his pickup truck and would "consider" taking \$7,000. In contrast, the nephew's May 3 response was an offer because it expressed definite terms ("\$7,000 cash") and an intent to be bound ("I *will* buy").

Once an offer has been made, a contract will be formed if the offeree **accepts the offer** before it is revoked. Under the **mailbox rule**, acceptance by mail is:

permitted if mail is a **reasonable method** of communicating acceptance—eg, when the offer was communicated by mail *and*

effective upon dispatch—ie, when the acceptance is properly addressed and placed with the postal service with paid postage.

Here, the uncle received the nephew's offer on May 5. The uncle reasonably accepted this offer by mailing a note on May 6 since the parties had been negotiating by mail. As a result, there was a binding contract as of May 6 that prevented the nephew from revoking his offer on May 7 (**Choices A & B**).

(Choice D) Had the subject matter of the offer become illegal prior to acceptance, the offer would have been **terminated by law** and no contract would have been formed. Here, the nephew's suspended license only made it illegal for him to drive the truck—not to purchase it. Therefore, this did not cause the offer to terminate.

Educational objective:

An offer to form a contract must (1) communicate definite terms to the offeree and (2) make an objectively reasonable expression of the offeror's intent to enter a binding contract. Such an offer can then be accepted by mail, and will be effective upon dispatch, if a mailing is a reasonable method of communicating acceptance.

References

Restatement (Second) of Contracts § 24 (Am. Law Inst. 1981) (requirements for an offer).

Restatement (Second) of Contracts § 63 (Am. Law Inst. 1981) (requirements for acceptance).

17A Am. Jur. 2d Contracts § 98 (Am. Law Inst. 2019) (mailbox rule).

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