A buyer purchased a new car from a dealer under a written contract that provided that the price of the car was $20,000 and that the buyer would receive a "trade-in allowance of $7,000 for the buyer's old car." The old car had recently been damaged in an accident. The contract contained a merger clause stating: "This writing constitutes the entire agreement of the parties, and there are no other understandings or agreements not set forth herein." When the buyer took possession of the new car, she delivered the old car to the dealer. At that time, the dealer claimed that the trade-in allowance included an assignment of the buyer's claim against her insurance company for damage to the old car. The buyer refused to provide the assignment. The dealer sued the buyer to recover the insurance payment. The dealer has offered evidence that the parties agreed during their negotiations for the new car that the dealer was entitled to the insurance payment.

Should the court admit this evidence?

A. No, because the dealer's acceptance of the old car bars any additional claim by the dealer.

B. No, because the merger clause bars any evidence of the parties' prior discussions concerning the trade-in allowance.

C. Yes, because a merger clause does not bar evidence of fraud.

D. Yes, because the merger clause does not bar evidence to explain what the parties meant by "trade-in allowance."

Explanation:

Exceptions to parol evidence rule

Evidence of prior or contemporaneous oral or written agreement is admissible to establish:

- whether writing is integrated and, if so, completely or partially
- meaning of ambiguous term
- defense to formation or enforcement (eg, fraud, duress, mistake)
- ground for granting or denying remedy (eg, rescission, reformation)
- subsequent contract modifications
- condition precedent to effectiveness

The **UCC parol evidence rule** generally bars evidence of a prior written agreement (or contemporaneous oral agreement) to contradict the terms of an integrated writing. But the parol evidence rule **does *not* bar** such evidence, and such evidence is always admissible, when it is used to **clarify the meaning** of an **ambiguous contract term**. This is true regardless of whether the contract is completely or partially integrated.

Here, the written contract failed to state whether an assignment of the buyer's insurance claim was included in the term "trade-in allowance." The contract contained a merger clause, which indicates that the contract was completely integrated.* But the merger clause does not bar evidence to explain what the parties meant by "trade-in allowance." Therefore, the court should admit the evidence that the parties agreed during their negotiations for the new car that the dealer was entitled to the insurance payment **(Choice B)**.

*A merger clause is strong, but not conclusive, evidence that a contract is completely integrated.

(Choice A) A buyer's mere acceptance of goods does not waive its potential claims against a seller.

(Choice C) Evidence used to establish a defense to formation or enforceability of a contract (eg, fraud) is excepted from the parol evidence rule. But there is no indication of fraud in this case, so this exception is irrelevant.

Educational objective:

Even when a contract is completely integrated (eg, as evidenced by a merger clause), the parol evidence rule does not bar evidence to clarify the meaning of an ambiguous contract term.

UCC = Uniform Commercial Code

References

- Restatement (Second) of Contracts § 214 (Am. Law Inst. 1981) (exceptions to parol evidence rule).