

A wealthy rancher was drinking at a local bar. The rancher's neighbor walked into the bar, unaware of the rancher's intoxication. On several previous occasions, the neighbor had tried to persuade the rancher to sell his vintage muscle car, but the rancher had refused. Upon seeing the rancher, the neighbor said, "Hey, did you change your mind about selling me that vintage muscle car? I'll increase my offer to \$15,000."

The rancher was annoyed and decided to play a joke on the neighbor. The rancher had no intention of selling his car but said, "Fine, I will sell you the car." The rancher then grabbed a napkin and wrote: "You finally bugged me enough! I will sell you my vintage muscle car for \$15,000." The rancher signed the napkin and handed it to the neighbor. The neighbor happily walked away, believing that they had formed a binding agreement.

The following day, the neighbor approached the rancher to consummate the sale. The rancher refused to part with the car, claiming that he was intoxicated and merely joking when he wrote the note on the napkin.

If the neighbor sues the rancher for breach of contract, will the neighbor be likely to prevail?

- A. No, because the rancher was joking when he wrote the note, so there was no meeting of the minds.
- B. No, because the rancher wrote the note while he was intoxicated, which renders the contract voidable.
- C. Yes, because the rancher's oral statement and written note were objective manifestations of his intent to enter a contract.
- D. Yes, because the written note estops the rancher from asserting any defense based on incapacity to contract.

Explanation:

Contract formation requires **mutual assent** (ie, offer and acceptance). During the negotiation process, the parties are entitled to rely on a reasonable interpretation of each other's words and actions since they cannot know each other's subjective intent. This means that a contract is formed when both parties ***objectively express*** their **assent to enter a binding agreement**. Once formed, the contract cannot be rescinded because of one party's secret intent not to be bound.

Here, the neighbor offered to buy the rancher's muscle car for \$15,000. This was an objective expression of his intent to enter a contract, particularly since he had tried to buy the car on several previous occasions. The rancher orally accepted this offer and wrote the agreement on a napkin (objective assent), without giving any indication that he was joking (secret intent). Therefore, a contract was formed, and the neighbor is likely to prevail in his breach-of-contract suit.

(Choice A) At common law, contract formation required a *subjective* "meeting of the minds." The modern rule, however, looks to the parties' *objective* expressions of assent. Therefore, it is irrelevant that the rancher was subjectively joking and that there was no actual meeting of the minds.

(Choice B) A contract entered while intoxicated is voidable by the intoxicated party if (1) that party was too intoxicated to reasonably understand the nature or consequences of the contract and (2) the other party had reason to know about the intoxication. Here, there is no indication that the rancher was intoxicated to this extent. And since the neighbor had just walked into the bar, he had no reason to know that the rancher was intoxicated.

(Choice D) Both oral and written contracts are voidable by a party who **lacked capacity** at the time of formation. Therefore, the written note does not estop (ie, prevent) the rancher from asserting an incapacity defense.

Educational objective:

Contract formation requires mutual assent, which occurs when both parties *objectively* convey their assent to enter a binding agreement. The resulting contract cannot be rescinded due to one party's secret intent not to be bound.

References

Lucy v. Zehmer, 196 Va. 493, 503 (1954) (finding a binding contract for the sale of a farm even though the seller was drinking and possibly joking when he signed the agreement).

Objective theory of contracts

