

A written construction contract began with the following recital: "This Agreement, between a real estate company (hereafter called the 'owner'), and a construction company and the construction company's president (hereafter called the 'contractor'), witnesseth:" The signatures to the contract appeared in the following format: Real estate company By /s/ President; Construction company By /s/ Vice President and /s/ President, as representatives of Construction company.

The construction company became insolvent and defaulted. The real estate company sued the president of the construction company individually for the breach, and at the trial the president offered evidence from the pre-contract negotiations that only the construction company was to be legally responsible for performing the contract.

If the court finds the contract to be completely integrated, is the president's offered evidence admissible?

- A. No, because of the application of the "four corners" rule, under which the meaning of a completely integrated contract must be ascertained solely from its own terms.
- B. No, because the legal effect of the president's signature cannot be altered by evidence of prior understandings.
- C. Yes, because the evidence would contradict neither the recital nor the form of the president's signature.
- D. Yes, because the writing is ambiguous as to whether or not the president was intended individually to be a contracting party.

## 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 **parol evidence rule** generally bars evidence of prior or contemporaneous oral or written agreements—or other evidence outside the "four corners" of the contract—to modify or 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 recital indicates that the construction company *and* its president are parties to the contract (together, "the contractor"), while the signature lines show the president signing merely as a representative of the company. This shows that the writing is ambiguous as to whether the president was intended individually to be a contracting party. Therefore, evidence from the parties' pre-contract negotiations *is* admissible to clarify the terms of the written contract.

**(Choice A)** A court does *not* have to rely solely on the "four corners" of a written contract to determine its meaning. Extrinsic evidence such as the parties' pre-contract negotiations can be used to interpret ambiguous terms.

**(Choice B)** The legal effect of the president's signature *can* be altered by evidence of prior understandings because the signature creates ambiguity regarding the contract's terms (eg, whether the president—as an individual—is a contracting party).

**(Choice C)** Evidence that only the construction company was to be legally responsible *would* contradict the recital since the recital identifies both the company and the president as parties. But since the signature lines suggest that the president is not a party, evidence of the parties' pre-contract negotiations is admissible to clarify the ambiguity.

### Educational objective:

The parol evidence rule does not bar evidence of prior or contemporaneous agreements when it is being offered to establish the meaning of an ambiguous term.

### References

- Restatement (Second) of Contracts § 214 (Am. Law Inst. 1981) (prior negotiations are admissible to explain meaning of ambiguous term).

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