



Contract Interpretation

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Konomark
Most rights sharable

based on mostly on California law

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Basic Procedure for the Court

- Contract interpretation is a question of law.
- The interpretation of an unambiguous contract is a question of law.
- Whether the contract is ambiguous is a matter-of-law determination.
- Contractual language is ambiguous if it is susceptible to two reasonable interpretations.
- If contractual language is ambiguous, then the court will admit extrinsic evidence to determine which provision the parties intended. This determination is a fact issue, and may be tried by a jury.

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Principles of Construing Contracts

- The overarching principle of contract interpretation is to give the effect to the parties' intentions.

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- Objectively expressed intent controls over the subjectively understood intent.
- A contract is construed in its entirety, with each part considered in relation to every other part.
- Language is to be interpreted according to its plain, ordinary, generally accepted meaning, unless both parties intended for it to mean something else (industry jargon, etc.).

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Dealing with contradictions:

- Specifics prevail over generalities.
- Handwriting prevails over machine printing.
- Negotiated terms prevail over standard terms.

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Interpretive preferences

- reasonable over unreasonable
- legal over illegal
- valid and effectual over null and ineffectual

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The Parol Evidence Rule

- A substantive doctrine of contract law
- Not a rule of evidence

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The Parol Evidence Rule

- A substantive doctrine of contract law
- Not a rule of evidence
- ALSO: Applies to non-prisoners and has nothing to do with being on parole
 - But it does come from the same Old French root for “word” as in “promise” and related to Latin for “speech”

The Parol Evidence Rule

Blackletter statement of the rule (part 1):

With a partially integrated contract, no evidence of any prior or contemporaneous oral agreement may be used to contradict the written terms of the contract.

The Parol Evidence Rule

Blackletter statement of the rule (part 2):

With a fully integrated contract, no evidence of any prior or contemporaneous oral agreement may be used to contradict or add to the written terms of the contract.

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The Parol Evidence Rule

The integration clause

To make a contract fully integrated, an integration clause (or “merger clause”) is used. The clause states that the writing represents the entire agreement between the parties. It usually works.

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The Parol Evidence Rule

Extrinsic evidence despite integration

The parol evidence rule does not bar the introduction of extrinsic evidence for contract interpretation! Even in an integrated agreement, if it's ambiguous, the court can use extrinsic evidence to determine what the parties meant by what they said (so long as the evidence is not used to contradict the words of the agreement or, if fully integrated, add to its terms). Regardless, extrinsic evidence cannot be used to prove an interpretation that, based on the language, is not reasonable.

Let's do some review questions...

Whose job is it?

Contract interpretation

Whose job is it?

**Interpreting an
unambiguous contract**

Whose job is it?

Deciding whether a contract is ambiguous

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Whose job is it?

Deciding what the parties intended

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More questions ...

**What controls -
subjective intent or
objective language?**

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More questions ...

**What controls - specifics
or generalities?**

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More questions ...

**What controls -
handwriting or machine
printed characters?**

More questions ...

**What controls -
negotiated terms or
standard terms?**

More questions ...

**Can you introduce
extrinsic evidence for the
interpretation of a
written contract?**

More questions ...

**Can you introduce
extrinsic evidence for the
interpretation of a fully
integrated written
contract?**

More questions ...

**Can you introduce
extrinsic evidence to add
to or vary the terms of a
written contract?**

More questions ...

**Can you introduce
extrinsic evidence to add
to or vary the terms of a
fully integrated written
contract?**

More questions ...

Can you introduce
extrinsic evidence to add
to or vary the terms of a
fully integrated written
contract?

No!
Parol evidence
rule!