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Contracts

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CONTRACTS

I. Formation

Although cases involving the basic contract elements of offer, acceptance, and consideration are not frequently litigated at the appellate level, several problems arose during the survey period regarding these basic elements. The main question to be decided was whether or not a contract had been formed.

As a general rule an offer is revocable at any time before it is accepted. If consideration is given to keep the offer open for a set period, then the offer must remain open for that period. However, in the absence of such consideration, the offer is fully revocable.¹

MoManus v. Little² involved a revocable offer and several problems surrounding its revocation. In that case the plaintiff commenced an action against the defendant for personal injury and property damage arising out of an automobile accident. After the accident but before the commencement of the action, the defendant’s insurance company was placed in receivership, thus making the defendant an uninsured motorist. Plaintiff therefore served copies of the summons and complaint on her own insurer, Nationwide, under her uninsured motorist provision. Before trial the plaintiff executed a purported release relinquishing her claim against the defendant in return for the Insurance Commissioner’s promise to recommend that her claim be recognized by the receivership court as a claim on the insurer’s receivership estate instead. Before the recommendation was made the plaintiff notified all parties that she intended to pursue her original claim under the uninsured motorist clause of her own insurance policy with Nationwide. Nationwide and the defendant set up the purported release as an affirmative defense and the plaintiff moved to have the defense stricken. The lower court struck the defense and the appeal followed.

The supreme court found that a valid release had not been completed and affirmed the lower court’s ruling. The court held that the purported release was only an offer of settlement which

¹ But the UCC makes a merchant's signed offer to buy or sell goods irrevocable for a reasonable time not exceeding three months, regardless of consideration, provided the offer contains such an assurance. S.C. Code Ann. § 10.2-205 (1966).
² 251 S.C. 490, 163 S.E.2d 613 (1968).
was revocable until accepted — it was an executory accord. Three authors in the United States. The

3. Id. at 495, 163 S.E.2d at 615. The court defined an executory accord as:
   ... an agreement embodying a promise to accept at some future time a stipulated performance in satisfaction of a present claim or obligation and a corresponding promise to render such performance in satisfaction of such claim or obligation ... [A]s long as the accord is executory, it is revocable at will by either party.

4. Id. See also State ex rel Bayer v. Funk, 105 Or. 134, 209 P. 592 (1921) (cited by the court).

5. See Lucas v. Southern Ry., 156 S.C. 529, 153 S.E. 568 (1930). In that case Southern offered the plaintiff $5,000 in settlement for a personal injury claim. There was a written form which had to be approved before the settlement was complete. Since it was never approved by Southern's agent, the court determined that it was only an offer of settlement by the plaintiff which had never been accepted.


7. This case was similarly disposed of by reference to the earlier case of Loper v. Whitaker, 231 S.C. 219, 98 S.E.2d 266 (1957), involving similar facts. However, the court did restate the South Carolina law with respect to degree of proof of an oral contract to make mutual wills. This law is in general accord with the majority of jurisdictions in the United States. The testimony in a case of this kind must be clear, definite, and convincing. It must more than preponderate. It must be clear and must convince. "Id. at 228, 98 S.E.2d at 271, quoting Stuckey v. Truett, 124 S.C. 122, 127, 192 S.E. 192, 194 (1923).

for property damage only. Relying on this statement, he failed to get anyone to read the agreement to him. When the plaintiff discovered the true content of the release, he brought suit and recovered a judgment for $40,000. The defendant, who had based his defense on the release, appealed.

The supreme court restated the settled rule that one must read and attempt to understand the meaning of a contract that he signs and cannot complain of fraud and misrepresentation of the contents of a written contract when he could have learned the truth by reading it.\(^9\) Exceptions are made in the case of the "ignorant and unwary".\(^{10}\) The plaintiff in this case, however, although illiterate, had considerable business experience and the court found him negligent in putting so much trust in an adverse party that he failed to have the contract read to him. Therefore the release was enforced and the lower court reversed.

II. INTERPRETATION OF CONTRACT LANGUAGE

One task which frequently confronts all courts is the interpretation of contractual language. The purpose of the court is not to rewrite the contract but rather to determine the exact understanding of the parties. Although parol or extrinsic evidence is not admissible to vary the terms of a written contract, such evidence is allowed to aid the court in determining the intentions of the parties.\(^{11}\) Several cases arose during the survey period involving this familiar rule of parol evidence.

In United States v. Fullerton Construction Co.\(^{12}\) the United States Army granted the defendant a contract to construct a central heating and refrigeration plant at Fort Jackson. The defendant-company then took bids on the plumbing work and signed an agreement with Sligh Construction Company for such plumbing work. Sligh's bid was based on two drawings and a

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10. See, e.g., Thomas v. American Workmen, 197 S.C. 178, 14 S.E.2d 886 (1941), involving an illiterate Negro woman who was unable to read or write and who had no business experience. A release had been falsely represented to her and it was determined that she fit into the category of the ignorant and unwary.
reference to a term in the main contract dealing with “plumbing”. Neither the drawings nor the main contract required Sligh to lay a water main in the street. When Sligh completed its work without laying the main, Fullerton refused payment.

In ordering payment the court found that the agreement between Fullerton and Sligh was vague enough to permit the use of parol evidence to determine the true intention of the parties. The court referred to the drawings, the “plumbing” section of the main contract, and the general understanding in the plumbing business to determine that the parties could not have intended that Sligh lay the water main. Therefore, Sligh had fully performed and was entitled to payment.

In Diamond Swimming Pool Co. v. Broome the plaintiff contracted to build a swimming pool for the defendant. The defendant later gave the plaintiff’s agent a landscape drawing for the whole patio and instructed him to make the pool fit into this overall building plan. The pool as built was smaller than called for in the original contract but conformed to the landscape drawing. The court determined that the written contract had been later modified by the drawing so that the plaintiff had successfully performed the contract.

A supplier of lumber to a contractor required a written guarantee of payment from the owner and the contractor in Gantt v. Van der Hoek. The owner signed a paper as follows:

March 12, 1966
Mr. D.W. Baxter
Atlas Lumber Co., Inc.
Atlas Road, Columbia

I, William A. Gantt, agrees (sic) with the above named Corporation to pay at completion of contract [emphasis added] a part of the total sum to Atlas Lumber Co., Inc., and Van’s Builders Inc. jointly for the amount of Six Thousand Dollars ($6000.00).

William A. Gantt
/s/William A. Gantt

15. Extrinsic evidence such as the landscape drawings would not be admissible to show a prior or contemporaneous agreement which varied the terms of a written contract. However, such evidence can be used to show a subsequent agreement since such agreements do not fall within the parol evidence rule.
Atlas Lumber quit supplying when it did not receive periodic payments and obtained a mechanic's lien on the work done. The owner sued to have the mechanic’s lien dissolved.

The supreme court found that the plaintiff-owner’s understanding was simply that Atlas wanted the assurance that the check for payment of the work would be made jointly to itself and Van Builders. The court further found that the plaintiff understood that the house was to be completed before payment. Atlas’ officers, believing this document to contain a promise to make periodic payments, had accepted the paper without reading it. The court held that Gantt’s liability under the contract could not be enlarged upon simply because Atlas misunderstood its terms. Since Gantt’s condition for payment — completion of his house — never arose, no liability attached.

In Shealy v. Southern Ry., Southern had leased a site near its tracks to Shealy Furniture Company for a warehouse. In the lease was an indemnity agreement which provided that Shealy would be responsible for any damage to Southern’s property resulting from the proximity of the building to the railroad tracks. There was an exception clause in the agreement, however, which absolved Shealy of liability in the event of an accident in which only Southern was negligent. Extensive damage was done to Shealy’s warehouse when a railroad car derailed and ran into it. Shealy instituted suit and Southern set up the indemnity agreement as a defense. Shealy moved to strike this defense.

The district court interpreted the agreement to mean that if the damage done was in any way attributable either to the mere presence of the warehouse or to Shealy’s negligence, then the indemnity agreement would be a defense. However, the court also stated that if the damages were in no way attributable to the presence of the warehouse or the negligence of Shealy’s agents then the indemnity agreement would be no defense to the

18. “[T]he Licensee [Shealy] shall not be held responsible for any [damage] accruing from [Southern’s] own negligence, without fault of the Licensee, his servants or employees.” Id. at 714.
19. Id. at 714. Although an indemnity agreement is normally thought of as a sword with which the indemnitee recovers his loss, the court in this case found no reason why it could not serve as a shield against suit by the indemnitor. The language of the agreement seems to support this view: “[Shealy] covenants ... to protect ... [Southern] and save it wholly harmless from ... damage ... attributable ... to the presence of [Shealy’s] property ... upon said premises of [Southern].” Id. (emphasis added).
suit by Shealy.\textsuperscript{20} Since the indemnity agreement would otherwise constitute a valid defense, Shealy's motion to strike was denied.

### III. Conditions

At common law, when one party must perform his part of the contract before the other party is required to perform his, there is a dependent condition which must be met to make the contract enforceable. This was true in \textit{Gantt v. Van der Hoek},\textsuperscript{21} \textit{supra}, where the defendant had to complete the building of a house before the plaintiff was required to pay.

At common law the "perfect tender" rule required a party to tender complete performance complying exactly with the terms of the contract before the other party was required to perform.\textsuperscript{22} This rule has been modified in most jurisdictions including South Carolina. The new rule is that if one party has substantially performed his obligation the other party is bound to perform.\textsuperscript{23} The court must determine from the facts of each case what constitutes a substantial performance. When substantial performance is found in construction contracts a setoff is allowed the owner for the amount that it will cost to complete the contract as written.

In \textit{Diamond Swimming Pool Co. v. Broome}\textsuperscript{24} the supreme court found that a pool built by the plaintiff conformed closely enough to the required contract measurement to constitute substantial performance.\textsuperscript{25} A problem with regard to the amount of setoff is discussed below.

\begin{itemize}
\item \textsuperscript{20} \textit{Id.} at 715-16. In interpreting this particular indemnity agreement, the court relied heavily on the case of \textit{Southern Ry. v. Coca Cola Bottling Co.}, 145 F.2d 304 (4th Cir. 1944), involving a similar agreement. The court also applied the principle that in the absence of an unequivocal expression of intent to the contrary, an indemnity clause will not indemnify an indemnitee for loss resulting from his own negligent acts. \textit{See} 41 Am. Jur. 2d Indemnity § 15 (1963).
\item \textsuperscript{21} 251 S.C. 307, 162 S.E.2d 267 (1968).
\item \textsuperscript{22} The UCG abridges this "perfect tender" branch of the rule in the sale of goods by permitting an imperfect tender to be "cured." S.C. Code Ann. §§ 10.2-601 and 10.2-508 (1966).
\item \textsuperscript{23} \textit{See}, e.g., \textit{Leonard v. Peoples Tobacco Warehouse Co.}, 128 S.C. 155, 122 S.E. 678 (1924); 17A C.J.S. \textit{Contracts} § 508(a) (1963).
\item \textsuperscript{24} 166 S.E.2d 303 (S.C. 1969).
\item \textsuperscript{25} The court found that the original contract had been modified by a landscape drawing which called for a pool containing 924 square feet. The court noted that the outside coping around a pool is generally included in measuring the size of the pool. In this case if the outside coping was included, the pool as constructed would contain 946 square feet. Without including the coping, the pool would measure 788 square feet.
\end{itemize}
IV. Remedies

Specific performance is a remedy which is given only in equity and generally only when the contract concerns "unique things" such as land.26

When a person who is mentally competent to contract gives a deed which is "fair, just and equitable"27 then the contract will be specifically enforced in equity. The general rule, as in most jurisdictions, is that mere inadequacy of consideration is not enough to deny specific performance.28 However, when to inadequacy of consideration is added other circumstances such as fraud or "overreaching", enforcement of the contract may be denied. Such overreaching or "undue influence" often arises from a confidential or family relationship between the contracting parties,29 such as lawyer-client, brother-sister, or doctor-patient.

Hodge v. Shee30 was the first South Carolina case to apply such principles to the doctor-patient relationship. In that case the plaintiff-doctor induced the defendant to sell him twenty acres of land at a fraction of its actual value.31 The doctor took advantage of the defendant, who was suffering from both physical and mental diseases growing out of his extensive use of alcohol, by offering a new Cadillac Coup DeVille, defendant's special weakness for which was well known, and $4,000.00 for the land. The doctor also knew that a tax lien of $250,000 had been filed against the defendant and that his son-in-law had been negotiating the sale of the land in question to satisfy the tax claims. These facts along with the confidential relationship provided enough evidence of overreaching to deny specific performance of the contract. The court further justified its decision by drawing an analogy between the doctor-patient re-

26. But see S.C. Code Ann. § 10.2-716 (1966) which is a section of the Uniform Commercial Code allowing specific performance of a contract for the sale of goods "in other proper circumstances." These "circumstances" deal mostly with output and requirements contracts in which a buyer would be severely damaged if his source of supply refused to provide his needed raw materials.
31. The land in this tract had an uncontested market value of $1200 per acre while Dr. Hodge claimed the right to buy 20 acres of it for a consideration amounting to $361.72 per acre.
lationship and other confidential relationships which had arisen in earlier cases.\textsuperscript{32}

In \textit{Humble Oil \& Refining Co. v. DeLoache} \textsuperscript{33} the defendant's intestate had given the plaintiff an option to lease a tract of land as a filling station site. After the death of the intestate the plaintiff sought to exercise its option but the defendant refused to honor the agreement. Several grounds were raised by the defendant for denial of specific performance of the contract, only one of which merits discussion.\textsuperscript{34} \textit{Mutuality of remedy} was a common law rule which held that both parties must have had equal remedies for breach of contract before the contract was valid.\textsuperscript{35} In the \textit{Humble Oil} case the defendant pleaded a want of mutuality of remedy as grounds for denial of specific performance. Humble had the right on thirty days notice and upon payment of one year's rent to cancel the lease. Since the defendant had no similar right, he contended that the contract was void.

The problem facing the federal district court was said to be one of novel impression in South Carolina. Therefore the court

\begin{itemize}
\item 32. \textit{See, e.g.,} Devlin \textit{v. Devlin}, 89 S.C. 268, 71 S.E. 966 (1911); Zeigler \textit{v. Shuler}, 87 S.C. 1, 68 S.E. 817 (1910); Wille \textit{v. Wille}, 57 S.C. 413, 35 S.E. 804 (1900).
\item 34. The other grounds raised for denial of specific performance should be noted:
\item 1. \textit{Mental incompetency} — The district court found that the intestate met the test set forth in DuBose \textit{v. Kell}, 90 S.C. 196, 71 S.E. 371 (1911), and was therefore competent to contract. That test measures a party's ability to understand the subject matter of the contract and to comprehend its consequences. If a party can adequately do that then he is competent to contract. In this case the intestate had negotiated several important contracts and the contract under contention was reasonable enough to make the court decide that the intestate fully understood what he was doing.
\item 2. \textit{Failure to make tender of payment} — After the defendant refused to perform the option, the plaintiff did not tender rent but began the suit for specific performance. The court held that when the vendor repudiates the contract or where it is evident that a tender would be unavailing, equity will not deny specific performance to the vendee due to his failure to make tender. \textit{Accord} Shannon \textit{v. Freeman}, 117 S.C. 480, 109 S.E. 406 (1921).
\item 35. The doctrine arose in England in the early 19th century and was accepted in America at about the same time. It became known as the Fry rule after the publication of \textit{Fry on Specific Performance} in 1858. Exceptions began to appear from the beginning until they almost swallowed the rule. This caused many courts to abandon it and today the rule is unpopular in those few states that have retained it. For a more detailed discussion of the development and status of the rule \textit{see Annot.}, 22 A.L.R. 2d 503 (1952).
\end{itemize}
surveyed other jurisdictions for help in reaching its decision. In a very comprehensive opinion, the court ruled that the mutuality rule had been riddled with so many exceptions that it was no longer a valid rule. In ordering specific performance, the court noted that the plaintiff did not have the right to cancel the lease at will, so there was no inequity. The court reasoned that to deny specific performance to a party simply because he could cancel the lease after reasonable notice would create an unreasonable result.

The court's opinion and the decision reached in this case are interesting for several reasons. Since the rule, in form at least, is still well-established in the United States that mutuality of remedy must be present before specific performance will be granted, it would appear that the district court in Humble moved in a progressive direction.

On closer examination it appears that the general rule is more of form than substance and is seldom given force or effect. An examination of the several pages of cases cited by the court in Humble will reveal to the reader that there was much precedent in the United States for the decision the court reached. The court dismissed the only South Carolina case which made any reference to the problem of mutuality of remedy. In that case the court had referred to an "original want of mutuality" as a bar to specific performance; and the Humble court interpreted this statement as a reference to a lack of consideration rather than a lack of mutual remedies. A closer examination of the Columbia Water Power case makes this interpretation somewhat questionable, but it is in this respect that the court did in effect take a progressive step. Instead of following an antiquated rule which created more inequities than it prevented, the court admirably chose to go with the progressive tide.

36. See Epstein v. Gluckin, 233 N.Y. 490, 135 N.E. 861 (1922), in which Mr. Justice Cardozo noted that the rule "has been so qualified by exceptions that, viewed as a precept of general validity it has ceased to be a rule today." 297 F. Supp. at 657.
38. Id. at 660.
39. See, e.g., 11 WILLISTON ON CONTRACTS § 1440 (3d ed. 1968); RESTATEMENT OF CONTRACTS § 372(1) (f) (1932).
Set-off. In *Diamond Swimming Pool Co. v. Broome* the lower court, affirming the master's report, ordered a set-off of $1275 instead of the defendant's requested $3400. The defendants had the burden of proving the exact amount of damages in not having the pool constructed to specifications. Although the only witness on the cost of completion testified that the damages were $3400, his failure to itemize these damages vitiated the defendant's proof. The supreme court affirmed judgment for the plaintiff.

V. COMMERCIAL TRANSACTIONS

The problem of when title passes to specific goods which come from a larger stock confronted many courts before the passage of the UCC. It was generally held that title to specific goods in a deliverable state passed at the time the contract was formed. However, the intention of the parties controlled; and if they expressed an intent that title was to pass at some later time, then title did not pass until this time. When goods were to come from a larger stock then title did not pass until these goods were separated, tagged, or set aside in some way from the larger stock.

These principles were applied in *In re Colonial Distributing Company*. Several liquor store owners purchased large quantities of wines and liquors from the Colonial Distributing Company. These goods were to remain in Colonial's warehouse and were to be delivered upon demand to the purchasers. The wines and liquors were not marked or set aside in any way. When the purchasers later learned of Colonial's bankruptcy, they sought, but were denied, delivery of the goods. The purchasers then obtained the goods through claim and delivery proceedings. The trustee in bankruptcy for Colonial sought to have the delivery voided as a preference. If title to the goods had passed

43. 166 S.E.2d 308 (S.C. 1969). Other aspects of this case are discussed supra.
44. Although the UCC contains several specific provisions aimed at reducing substantially the importance of the title concept, it does set forth general rules which continue to govern formal passage of title. S.C. Code Ann. § 10.2-401 (1966). (The UCC was not in effect in South Carolina when the present case arose.)
45. *See* 77 C.J.S. *Sales* § 246 (1952).
46. *Id.* § 253(1). *See also* S.C. Code Ann. § 10.2-401 (1966) which requires that the goods be "identified" before title will pass.
48. *See* 11 U.S.C. § 96 (a) (1) (1968). A preference, briefly, is the payment of an antecedent debt within four months of the beginning of bankruptcy...
at the time the purchase price was paid then the purchasers would not have received a voidable preference — since the payment of this purchase price had not occurred within four months of the bankruptcy proceedings. However, the special master in bankruptcy determined that title had not passed at that time since the goods were not set aside in any way. Therefore, the purchasers had received a voidable preference and had to pay for the liquors that they had taken. The United States District Court for the District of South Carolina accepted the report of the master and ordered the purchasers to pay.

VI. LEGISLATION

Two statutes were passed during the past legislative session dealing with interest rates on contracts for money loans. The first40 amended Section 8-3 of the 1962 Code by raising the interest rate ceiling on written contracts for loans from seven to eight per cent. The maximum interest rate absent an express agreement remains at six per cent.

The second,60 now Section 8-8.1 of the South Carolina Code, states that Sections 8-2, 8-3, 8-5, 8-7, and 8-9 of the South Carolina Code (the usury laws) do not apply to loans of fifty thousand dollars or more. A ten per cent interest rate may be charged on loans between fifty and one hundred thousand dollars and a twelve per cent rate is allowed on loans between one hundred and five hundred thousand dollars, according to the statute.

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