

Contract Fundamentals A to Z: Contract Formation

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Contract Formation - Topics of Discussion

- Offer & Acceptance
- Consideration
- Capacity

Offer & Acceptance – Key Minnesota Cases

- **Bobcat of Duluth, Inc. v. Clark Equipment Co.**, No. 16-1007 (PAM/LIB), 2018 WL 559531 (D. Minn. Jan. 25, 2018)
- **Lefkowitz v. Great Minneapolis Surplus Supply Store**, 86 N.W. 2d 689 (Minn. 1957)
- “An offer must be clear, definite and explicit...leaving nothing open for negotiation.”

Offer & Acceptance – Key Minnesota Cases

- **Lee v. Fresenius Medical Care, Inc.**, 741 N.W.2d 117 (Minn. 2007)

Holding: employee manual was an employment contract

Offer & Acceptance – Key Minnesota Cases

- **Blad v. Parris**, No. A09-908, 2010 WL 1850240 (Minn. Ct. App. May 11, 2010).

Holding: Contract was found absent a written document, or an oral agreement. The party's lack of conduct was enough to form a contract.

Offer & Acceptance – Key Minnesota Cases

- **SCI Minnesota Funeral Services, Inc. v. Washburn-McReavy Funeral Corp.**, 795 N.W. 2d 855 (Minn. 2010).

Holding: a court will not allow rescission unless a mutual mistake is about the essential terms of a contract or a unilateral mistake is coupled with fraud or deceit.

Consideration – Every Contract Needs It!

Review:

- What is consideration?
- Consideration is something of value exchanged for a performance or promise of performance. *In re MJK Clearing, Inc.*, 408 F.3rd 512, 515 (8th Cir. 2005) (citing *Baebr v. Penn-O-Tex Oil Corp.*, 258 Minn. 533, 104 N.W.2d 661, 665 (1960)).

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- When is consideration adequate?
 - Consideration must be the result of a bargain, a voluntary assumption of an obligation by one party upon conditioning of an act or forbearance by another. See *Cederstrand v. Lutheran Brotherhood*, 263 Minn. 520, 530, 117 N.W.2d 213, 220 (1962).

- How definite must consideration be?
 - Consideration insures that the promise enforced as a contract is not accidental, casual, or gratuitous, but has been uttered intentionally as the result of some deliberation, manifested by reciprocal bargaining or negotiation. *Baehr v. Penn-O-Tex Oil Corp.*, 258 Minn. 533, 538-39, 104 N.W.2d 661, 665 (1960).
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- What if there is a lack of consideration?
- Lack of consideration is a defect in the formation of a contract, where the contract itself does not require a party to provide consideration. Such a contract is void and its execution has no legal effect. *Cameo Quality Homes of Woodbury, Inc. v. Thuringer*, Civil No. 07-340 (JNE/JJG), 2007 WL 1425490 at *8 n. 5 (D. Minn. May 11, 2007).

Key Cases:

- *Johnson v. Homeownership Preservation Foundation*, 2009 WL 6067018, (D. Minn., Dec. 18, 2009)
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Key Cases:

- *Guidant Sales Corporation v. Baer*, 2009 WL 490052 (D. Minn., Feb. 26, 2009)

Key Cases:

- *Sanborn Mfg. Co. v. Currie*, 500 N.W.2d 161 (Minn. Ct. App. 1993)

Summary:

- Courts continue to scrutinize the adequacy of consideration in determining whether or not to enforce all types of contracts.
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Capacity to Contract

Capacity in General

- The doctrine of capacity applies to protect certain individuals deemed by the law to be unfit to enter into contracts.
- There are two types of individuals protected by public policy when making contracts:
 - Minors; and
 - Otherwise mentally incompetent individuals.
- These protections are rooted in early Minnesota case law.

Mental Incompetence – Generally
Timm v. Schneider, 279 N.W. 754 (Minn. 1938)

FACTS:

- This was a life insurance contract lawsuit – the brother and sister of decedent sued decedent’s husband to recover the \$749 the husband had received from his late wife’s policy.
 - The wife had initially named her siblings as beneficiaries, but after her marriage she named her husband instead.
- Brother and sister claim decedent was incompetent:
 - She had had a nervous breakdown and suffered from delusions.
 - She spent time at a hospital for psychiatric treatment.

Mental Incompetence – Generally

Timm v. Schneider, 279 N.W. 754 (Minn. 1938)

HOLDING:

- “Mere mental weakness does not incapacitate a person from contracting. It is sufficient if he has enough mental capacity to understand, to a reasonable extent, the nature and effect of what he is doing.”
- The court agreed with the husband (and the trial court) that the wife was competent at the time of modification, and upheld the policy.
 - Lack of evidence was key here; the court found the hospitalization and delusions, as well as notes made by decedent on the policy itself, to tip the balance toward competency.

Mental Incompetence – Generally

Timm v. Schneider, 279 N.W. 754 (Minn. 1938)

COMMENTS:

- Competency is presumed under MN law.
- As seen in *Timm*, factual circumstances are crucial for this doctrine, giving courts (and juries) much discretion.
- Quick aside: the formerly incompetent, who later become competent, must disaffirm their contracts within a reasonable time period or risk ratifying them by silent assent.

Mental Incompetence – Generally Related Cases

- Contractor found competent:
 - Low IQ score (*Fisher v. Schefers* (Minn. Ct. App. 2003)).
 - Brain injury (*Mann v. Allied Property & Cas. Ins. Co.* (Minn. Ct. App. 2003)).
- Contractor found incompetent:
 - Elderly with evidence of senility (*Krueger v. Zoch* (Minn. 1969); *State Bank of Cologne v. Shrupp*, (Minn. Ct. App. 1985)).
 - Critically ill patient who is brought documents while hospitalized (*In re Estate of Nordorf* (Minn. Ct. App. 1985)).
 - Physically ill individuals, if required medication sufficiently alters memory and judgment (*Blattner v. Blattner* (Minn. Ct. App. 1987)).

Mental Incompetence – Knowledge

Wood v. Newell, 182 N.W. 965 (Minn. 1921)

FACTS:

- Defendant buyer purchased a piece of land from plaintiff via the plaintiff's agents.
- Defendant then sold the land a week later at a profit.
- Plaintiff sued, claiming he was incompetent at the time of sale.
 - Plaintiff was actually in the hospital when the land was sold, but he did approve the contract drawn up by his agents.

Mental Incompetence – Knowledge

Wood v. Newell, 182 N.W. 965 (Minn. 1921)

HOLDING:

- “[A] contract with a person of unsound mind will not be set aside or annulled . . . after recovery from his disability where it appears that it was entered into in **good faith**, for a **fair consideration**, and **without notice to the other party of facts or circumstances sufficient to put a prudent person upon inquiry as to such mental incapacity**, and no inequitable advantage derived therefrom.”

Mental Incompetence – Knowledge

Wood v. Newell, 182 N.W. 965 (Minn. 1921)

HOLDING:

- The court, due to the lack of knowledge that the defendant had of plaintiff's mental competency, as well as the unquestionable fairness of the sale, upheld the contract.
 - They did so even though the trial court found the plaintiff to be incompetent at the time of the sale.

Mental Incompetence – Knowledge

Wood v. Newell, 182 N.W. 965 (Minn. 1921)

COMMENT:

- This case operates as an **exception** to the general rule against allowing incompetents to contract.
- Lack of knowledge, coupled with good faith and fair consideration, may render enforceable an otherwise void contract with an incompetent party.
 - If the other party does have knowledge of incompetence, the contract is then voidable (*In re Guardianship of Dawson*, (Minn. Ct. App. 1993)).

Mental Incompetence – Knowledge

In re Guardianship of O'Brien, 847 N.W.2d 710 (Minn. Ct. App. 2014)

FACTS:

- Adult ward, living in group home, petitioned for a declaration that he had a right to marry his girlfriend.
- His guardians disputed that he had the requisite capacity to marry, citing his behavioral problems, cognitive functioning, and mental-health diagnoses.

Mental Incompetence – Knowledge

In re Guardianship of O'Brien, 847 N.W.2d 710 (Minn. Ct. App. 2014)

HOLDING:

- A ward retains the constitutional right to marry, and the district court should begin its evaluation with the presumption that the ward is competent to marry.
 - The district court's declaratory judgment that the ward lacked the mental capacity was improper because the court didn't make sufficient findings to establish that the ward lacked **the capacity to understand the meaning, rights, and obligations of marriage.**
- Any limitations on the ward's right to marry must be supported by findings focused specifically on whether a person clearly is incapacity with respect to choosing a spouse.

Minors – In General

Conrad v. Lane, 4 N.W. 695 (Minn. 1880)

FACTS:

- Seller files a breach of contract suit against buyer (minor) who fails to pay the remaining \$131.81 owed on the merchandise.
- Buyer had told the seller that he was an adult when he made the purchase.
 - Buyer came of age in 1877; he bought the merchandise in 1874.
- Seller now wants to use this fraudulent misrepresentation to estop the buyer from claiming infancy (minor status) as a defense to the suit.

Minors – In General

Conrad v. Lane, 4 N.W. 695 (Minn. 1880)

HOLDING:

- The court followed the general common law rule – minors cannot bind themselves via contract.
- To uphold contracts formed on the basis of fraud by a minor would violate the core principle behind this rule – “[t]o protect the infant from being drawn into such contracts which it is not necessary for him to make, and of which he is not capable of judging.”
- The court therefore allowed the minor to claim infancy, in spite of his fraud.

Minors – In General

Conrad v. Lane, 4 N.W. 695 (Minn. 1880)

Comment:

- This doctrine has been a longtime tenet of the common law.
 - Courts have reasoned that the immaturity and inexperience of minors means they are unable to comprehend the consequences of their actions, and are therefore unfit to contract.
- While *Conrad* even protects those minors who choose to lie in order to enter contracts, courts have upheld tort suits against minors who purchase, damage, and then attempt to return property (see *Steigewalt v. Woodhead Co.* (Minn. 1932)).

Minors – In General

Related Cases / Statutes

- **Statutory Definition:** The age of majority is defined as 18 in Minnesota. MINN. STAT. § 645.45(14).
- **Agent:** A contract entered into by an agent on behalf of a minor is voidable. *Course v. Weyerhauser* (Minn. 1897).
- **Three or more parties:** Joining a minor to a multi-party contract renders the entire contract voidable. *Terrell v. Kopp* (Minn. 1926).
- **Tort suits:** Plaintiffs can sue minors to recover tort damages, such as depreciation of returned property. *Steigerwalt v. Woodhead Co.* (Minn. 1932).
- **Necessaries:** If the contract is for necessities, it may be enforced against the minor's parents. *Lufkin v. Harvey* (Minn. 1915).

Minors – Emancipation

FACTS: *In re Fiihr*, 184 N.W.2d 22 (Minn. 1971)

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- Minnesota county sought to avoid paying welfare benefits to a single unwed mother by claiming she was ineligible for benefits as a minor.
 - The young mother claimed she had emancipated herself and therefore was eligible for benefits.
 - She had left her parents in South Dakota and moved on her own to Minnesota.
 - She now lived with her brother in Shakopee.
 - She became pregnant and had her child while living in Minnesota.

Minors – Emancipation

In re Fiihr, 184 N.W.2d 22 (Minn. 1971)

HOLDING:

- Emancipation is traditionally rare under the common law; typically a parent must “surrender . . . The right to the services of the minor child.”
 - Can be proven through written or oral agreement, or through conduct of the parents and child.
- The court found that the young woman had emancipated herself by moving to another state and living on her own for so long, and was therefore eligible for welfare benefits.

Minors – Emancipation

In re Fiihr, 184 N.W.2d 22 (Minn. 1971)

Comment:

- This case is a good example of the fact-intensive inquiry courts use in determining emancipation (unless, of course, there is some form of express agreement already reached).
- Emancipation can also be demonstrated through marriage, legally available to those sixteen and older in Minnesota. *See Lundstrom v. Mample* (Minn. 1939); MINN. STAT. § 517.02.
- There is a nationwide trend to recognize the increasing precociousness of minors and ease the emancipation process.

Minors – Emancipation Related Cases / Statutes

- Child who merely lived at home and worked for a year before going to college was not emancipated like the young woman in *Fuhr. Cummins v. Redman* (Minn. 1977).
- Emancipation can be partial, time limited, or conditional. *In re Sonnenberg* (Minn. 1959).
- Minors living apart from their parents or guardians can contract for health services. MINN. STAT. § 144.34.
 - This is also true if they have married or given birth. MINN. STAT. § 144.342.

Minors – Disaffirmance

Kelly v. Furlong, 261 N.W. 460 (Minn. 1935)

FACTS:

- Minor buys shares of stock from stockbroker, and later sells them back to the broker for a loss of \$452.18.
 - There is no evidence of overreaching or fraud by the stockbroker here.
- The minor (now adult) sued the stockbroker in an attempt to disaffirm the contract, void the purchase, and recover his losses.
 - The minor waited until he was over seven months removed from his 18th birthday to file suit.

Minors – Disaffirmance

HOLDING: *Kelly v. Furlong*, 261 N.W. 460 (Minn. 1935)

- “Where a contract, voidable by the infant, is fully executed, as here, the infant must disaffirm the same within a reasonable time after reaching his majority, or not at all.”
- The issue here was whether seven months was within a “reasonable time” after the plaintiff’s 18th birthday; the court opined that a reasonable time will depend on the unique circumstances of each case.
 - The plaintiff here argued that “reasonable time” should extend six years beyond his reaching majority.
- The court found seven months to be unreasonably long, and did not allow the plaintiff to disaffirm the stock purchase.

Minors – Disaffirmance

COMMENT: *Kelly v. Furlong*, 261 N.W. 460 (Minn. 1935)

- Disaffirmance is another mechanism that protects minors, but (as seen in *Kelly*) it is subject to some limitations.
- Minors must disaffirm the contract within that “reasonable time” after reaching adulthood, or else they are considered to have silently ratified the contract.
- The court in *Kelly* also found ignorance of the disaffirmance mechanism to not be an excuse for failing to use it in time; this is interesting in light of the protection the law traditionally gives minors specifically due to their lack of knowledge.
- Courts do refuse to allow minors to disaffirm contracts for necessities, and may not allow disaffirmance of an executed contract unless the received consideration is returned.

Minors – Disaffirmance Related Cases

- Minors generally must disaffirm either the entire contract, or none of it. *Lake v. Lund*, (Minn. 1904).
- Minors must restore what was received in order to disaffirm an executed contract. *Berglund v. Am. Multigraph Sales Co.* (Minn. 1916).
- Contracts for necessaries generally cannot be disaffirmed. *Lufkin v. Harvey* (Minn. 1915).
 - The burden of proving what is “necessary” within a contract is on the non-minor party. *Miller v. Smith* (Minn. 1879).