Dickinson
Contracts II
Spring 1988

Question 1 (80 minutes)

Cellar Custom Car Company is a very old manufacturer of custom coaches, one of only three left in the United States. It manufactures about ten coaches a year. The average sales price of a Cellar custom railway coach is $1,000,000, Thus, after deducting direct costs of $800,000, and overhead of $125,000, Cellar's net profit on each car is $75,000. For many year after the second world war, the custom rail car business was in decline as many wealthy people sought the convenience and speed of a custom airplane. In recent years style has become important again, and the number of orders for custom coaches has increased to the point that Cellar's plant is running three full shifts, day and night, and on weekends.

On June 1st Henry Beyer signed a contract with Cellar for the purchase of a custom-designed, hand-made railway coach. The car was to include separate living, dining, and sleeping quarters for Mr. Beyer on his numerous cross country business trips. The contract had attached a final plan for the car, but specified that the "finishing details, including paneling, moldings, wall coverings, furniture and accessories, fabrics, carpets, hardware, and fixtures, shall be of top quality only and aesthetically coordinated." The contract price was $1,000,000 (the fair market value of such a coach at the time), and the delivery date was December 15th.

On August 15th, Cellar sent Beyer samples of the materials and furnishings to be used in the coach. Beyer was disappointed by the crciality of the samples. He wrote Cellar that, in his opinion, thev were "coarse," "common," "cheap," and "tawdry." He therefore demanded that the coach be finished with "first-class" accessories, as required by their contract. On September 1st, Beyer received a letter from Cellar disagreeing with his opinion on the quality of the materials and furnishings, and refusing to improve or change any of them, but offering to deliver the car "in the rough" (that is, without anyfinishing details) for $900,000. On the same day he sent Cellar a telegram "calling off" the contract "in view of your stubbornness." At the time, Cellar had expended 60% (or about $480,000) of the total direct costs under the contract. Also since the demand for custom rail cars had been rising, the fair market value of the Beyer coach when completed was $1,150,000.

Cellar modified the design of the coach and, on November 15th, delivered it to Mr. and Mrs. Horace Snodgrass. The Snodgrass contract had been entered into on August 1st but construction had not yet begun when the September 1st argument occurred. The Snodgrass contract price was $1,200,000. The fair market value of the coach at the time it was delivered to Snodgrass was $950,000.

Beyer waited until December 15th to buy his custom coach. On that date he purchased a completed car from the Riverside Car Company, that happened to maintain a small stock of custom coaches for sale or long-term rental. Beyer paid $1,150,000 f the car, although it included some things not included in the Cellar-designed car under his contract with it. The car Beyer purchased would have had a fair market value of $900,000 had those extras been removed, which reflected the lessening of demand for custom rail cars that occurred during the fall.

The argument between Cellar and Beyer is not over, of course. During the following January, each filed a Complaint against the other alleging breach or contract.

a. Who will win and why? Explain fully.

b. Assuming that Cellar wins its suit, what damages? Give a specific amount and explain fully.

c. Assuming that Beyer wins his suit, what damages? Give a specific amount and explain fully.

Question 2 (40 minutes)

On January 10, 1987, Axelrod Service Station Supply Company entered into a contract with the Robbins Rubber Products Company for 100 gross (14,400) fan belts, in various sizes, for a total cost of $75,000, delivery to be on or before March 1st. The contract merely described the product as "first-quality fan belts."

On March 1st, Robbins' trucks arrived with 100 gross of "Atlas" fan belts. "Atlas" is, of course, a tradename of the Standard Oil Company for use on tires and batteries, but not fan belts. Because of the name, Axelrod refused the delivery and demanded that Robbins supply either "generic" fan belts or those with another name. Robbins responded that the "Atlas" belts were not only as good as "generic," but actually worth much more. They were available only because the manufacturer had an oversupply and offered Robbins a "good deal." Nevertheless, Axelrod's employees refused to accept the delivery.

It seems that Axelrod had a contract, dated December 15, 1986, with Bentau Oil Company, the owner/operator of fifty-six Shell Oil stations in twelve counties in southwestern Ohio, for the delivery of 100 gross fan belts for a total price of $100,000. Apparently , Axelrod refused to accept the "Atlas" belts because their customer would not accept belts bearing the tradename of a competitor. The existence of the Bentau resale contract was unknown to Robbins, however, at the time of making the contract with Axelrod.

Axelrod tried unsuccessfully to buy other fan belts and then notified Bentau that no delivery would be forthcoming. Bentau then purchased an equal number fan belts from Templehoffer Automotive Company for $130,000. The reason for the high price was that Templehoffer had the only supply available for immediate delivery and, thus, could command a premium price.

Robbins tried unsuccessfully to sell the Atlas fan belts to other service stations and auto supply stores. It finally sold the entire lot to Hurtz Rent-a-car Company for $55,000.

Bentau filed an action against Axelrod for breach of contract. Axelrod in turn implead Robbins alleging breach of their contract. Finally, Robbins counterclaimed against Axelrod.

Who will win, how much, and why? Explain fully.

THIS CONCLUDES THE EXAM