

CONTRACTS FINAL  
PROFESSOR AIONA  
August 19, 2013

### QUESTION ONE

On January 2, So Sew Supplies wrote to Threader, a distributor of WX sewing machines: “We offer a large quantity of needles for WX machines at \$1200 per hundred. Payment terms on one thousand or more: one half upon delivery, balance in four equal monthly payments.”

On January 4, Threader responded: “Can you give me ‘til May 15 on your offer of January 2? If you do, I’ll cancel my other orders and you can supply all my WX needles for the entire year. As you know, we sell a lot of WX’s.”

On January 8, So Sew wrote to Threader: “Re yours of January 4, you may have until May 15 to accept.”

On February 15, Threader decided to accept an offer to distribute JC machines instead of WX machines, and wrote to So Sew: “I guess I won’t have need of the WX needles. Do you sell JC needles?” He did not receive a reply.

On February 25, Threader sold his entire WX business to Ashton and started a new business exclusively selling JC machines. In the contract of sale he wrote: “I hereby assign to Ashton my rights to buy WX needles from So Sew Supplies as per attached correspondence of January 2.” Threader had a good credit rating in Dun & Bradstreet, a publication that gives national credit ratings on existing companies. Although Ashton’s credit was fine, he was not listed in such publication.

On April 10, Ashton wrote to So Sew of Threader’s assignment and ordered one thousand WX needles from So Sew.

On April 12, So Sew wrote Ashton: “You have no deal with me on WX needles.”

On April 30 Ashton decided to get out of the business and sold the business to Bobbin Inc., a national sewing store chain that sells WX machines all over the country. Bobbin, Inc. is listed in Dun & Bradstreet as having an excellent credit rating. Ashton also assigned all rights to buy WX needles from So Sew, and attached all the correspondences, including the January 2 correspondence and the April 10 order. Upon reviewing the correspondences, and seeing the low price on the needles, Bobbin, Inc. immediately ordered an additional ten thousand needles, “for immediate delivery.” After reading the April 12 letter from So Sew, they sent the matter over to their attorney.

Discuss the various transactions and the rights of the parties.

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## QUESTION TWO

Citadel, a dealer in the goods of both American and National, was in financial difficulty. American's relationship with Citadel had been a profitable one for American which American wanted to preserve. Therefore, American undertook to make various commitments to or on behalf of Citadel, as shown below.

Citadel was in debt to General. American orally said to Citadel, "Don't worry about what you owe to General. We will pay it if you can't and you can repay us later."

Citadel was also in arrears on its rent on the lease of its business premises, which lease had 2 years to run. With Citadel's approval, American called Citadel's landlord, Lanco, and told him orally, "Don't worry about Citadel's past due rents. If necessary, we will lend Citadel the money to pay the rent it now owes you."

Citadel was indebted to National on a promissory note given to National by Citadel for a loan by National to Citadel. The note was past due. With Citadel's approval, American wrote National a signed note, as follows: "If you will agree to give Citadel additional time to pay its note, we will guarantee payment." To this National replied by signed note as follows: "In consideration of your guarantee, we promise to hold Citadel's note until such time as we want payment."

To provide Citadel with operating funds, American purchased from Citadel, by instrument in writing signed by both parties, various accounts receivable held by Citadel. American immediately gave each of the account debtors written notice of purchase of the account. One of the accounts purchased was for American goods sold by Citadel to Debco, which goods proved to be defective and worthless. At the time of the purchase of the accounts, American was not aware of the defective nature of the goods, although Debco had complained to Citadel.

Another account assigned was a debt owed by Armco also involving the sale of American goods. These goods were not defective in any way. However, in a completely unrelated matter and not disclosed by Citadel, Armco claims a Citadel driver recently damaged Armco's warehouse in an amount far in excess of any amounts it owes Citadel. It seeks an offset and full payment for all damages.

Despite American's efforts, Citadel failed financially in about 2 months after the foregoing events took place.

What liability has American incurred to 1) General 2) Lanco (3) National? Discuss.

What are American's rights to recover from Debco and Armco on the assigned accounts receivable? From Citadel? What are Armco's rights against American? Discuss.