ST. MARY'S UNIVERSITY
SCHOOL OF LAW

Fall 2007
Exam No. __________

FINAL EXAMINATION
CONTRACTS I
PROFESSOR G. FLINT

ESSAY
PLEASE READ CAREFULLY

ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS PROVIDED WITH THIS EXAM. BE SURE TO NUMBER EACH RESPONSE.

There are three questions (time and percent indicated). The Time for completing the examination is three hours.

1. This examination is "closed book". You may not use any materials other than the blue books and writing implements. Use of cleansed laptops only is permitted.

2. **Be sure to answer the specific question that is asked. No question asks for a general recitation about a topic from your notes.** Information supplied relating to general material from you notes or some unasked question will not increase your score and consumes your time needed to answer the asked questions.

3. If additional facts are necessary to resolve an issue, specify what additional facts you believe to be necessary and why they are significant. You may not make an assumption that changes or contradicts the stated facts.

4. Quality, not quantity, is desired. Think through and briefly outline your answer before you begin to write.

5. Write legibly. Be sure to formulate your answers in complete sentences and paragraphs with proper grammar. Failure to do so will result in an appropriately lower score.

6. Do not seek an interpretation of language in the question from anyone. If you sense ambiguity or typographical error, correct the shortcoming by shaping the question in a reasonable way and by recording your editorial correction in your answer.

Under the Honor Code, when you turn in this examination, you affirm that you have neither given, received, nor obtained aid in connection with this examination, nor have you known of any one so doing. If you cannot make this affirmation, you shall note such fact on your examination and must immediately advise the Dean of the reason therefore.

I. (33 1/3 %--1 hour)

Otha Gasaway signed an application for a credit card without a lending limit from Draper Voshell Credit Co., Inc., on May 1. On May 15 Draper Voshell Credit Co., Inc., sent a credit card with a written enclosure. The enclosure has a clause stating "Draper Voshell Credit Co., Inc., reserved the right to unilaterally amend the terms specified in this flyer." One of those terms stated that the interest to be charged on each extension of credit was 10 % compounded annually. It also stated that "In the event of a dispute between customer and Draper Voshell Credit Co., Inc., damages are limited to interest and fees charged with respect to the specific credit extended." Otha Gasaway activated the card by calling the number as directed on the enclosed flyer.

On October 1 Draper Voshell Credit Co., Inc., sent Otha Gasaway a notice changing the interest rate from 10% to 20% due to the sub-prime lending crisis effective on November 1. At that time Otha Gasaway was indebted on the credit card in the amount of $20,000, on which he expected to pay $1000 in interest, which he felt he could pay the principal and interest within one year. But due to the change in interest, Otha Gasaway took two years to pay off this debt and paid $3000 in interest on this prior debt. The inability to pay off this credit timely resulted in a lower credit rating. So when Otha Gasaway went to purchase a new car for $30,000, the George Christian National Bank charged Otha Gasaway 10 % interest rather than the 7% that George Christian National Bank would have charged under Otha Gasaway's prior credit rating. This will result in Otha Gasaway paying $10,000 in additional interest over the life of the bank loan.

Angered about these increased costs, Otha Gasaway has entered your office at Suem and Stickem, P.C., to determine if he has any recourse against Draper Voshell Credit Co., Inc., to reduce these costs. What is your advice? Be sure to include your support.

II. (33 1/3 % --1 hour)

Davis Flint called Arunah Hubbell Air Conditioning Co. on the telephone to determine the cost for 1000 air conditioning units for a low income housing project that Davis Flint was bidding on for Moses Sweetman Housing Inc. Arunah Hubbell, president of Arunah Hubbell Air Conditioning Co. replied that Arunah Hubbell Air Conditioning Co. would charge $100,000 for 1000 air conditioning units. Arunah Hubbell wrote on the letter head note pad "1000 @ $100,000 for Davis Flint". Davis Flint uses this in his bid and is awarded the contract by Moses Sweetman Housing Inc. Davis Flint calls Arunah Hubbell Air Conditioning Co. to inform them that Davis Flint has obtained the contract and to send the air conditioning units. Due to a supply shortage, Arunah Hubbell Air Conditioning Co. was only able to send 500 air conditioning units. Davis Flint was unable to obtain alternate supplies at a price near the $100,000; however, one supplier would have supplied them for $150,000. Davis Flint felt he had to cancel the contract with Moses Sweetman, losing his projected profit of $100,000.

Davis Flint, upset over this turn of events, has entered your office at the Blue Stocking Law Firm, P.C., to find out whether he has a remedy against Arunah Hubbell Air Conditioning Co. What is your advice? Be sure to include your support.

III. (33 1/3 % --1 hour)

Francis Burpee Retailers Inc. to encourage its employees to work more productively offered its employees a stock bonus plan. Under the plan the employee would purchase stock in Francis Burpee Retailers Inc. at the price set each year determined as the book value of the Francis Burpee Retailers Inc. as determined by its independent auditors. Joseph Thomas Lee worked as a branch manager in San Antonio. Joseph Thomas Lee purchased each year 1000 shares in Francis Burpee Retailers Inc. at a cost of $10 per share the first year, $20 per share the second year, and $30 per share the third year. For each issuance of shares the certificates contained a restriction on the reverse side that said "Francis Burpee Retailers Inc. has the right to repurchase the shares represented by this certificate at cost if the holder hereof is terminated by Francis Burpee Retailers Inc." During the beginning of the fourth year, for which the auditors established a price of $40 per share, Francis Burpee Retailers Inc. restructured and terminated Joseph Thomas Lee. One month later Francis Burpee Retailers Inc. sent a letter to Joseph Thomas Lee demanding to repurchase the shares held by Joseph Thomas Lee for $60,000. Joseph Thomas Lee refused and was told by Francis Burpee Retailers Inc. that his shares had been cancelled and reduced to a claim for $60,000, for which Francis Burpee Retailers Inc. was sending him a check.

Joseph Thomas Lee, thoroughly disgusted, has entered your office at Shootem and Killem, P.C. seeking to recover the stock wealth he once thought he had from Francis Burpee Retailers Inc.. What is your advice? Be sure to include your support.