On May 4, a widow and a car dealership both signed a single document evidencing a contract for the sale by the dealership to the widow, "as a wedding gift for the widow's son, a new luxury sedan, with all available equipment, for $180,000 cash on delivery not later than June 1." On May 5, the widow handed her son a carbon copy of this document. In reliance on the prospective gift, the son on May 20 sold his nearly new sports car to a dealer at a "bargain" price of $50,000 and immediately informed the widow and the dealership that he had done so.

On May 25, however, the widow and the car dealership by mutual agreement rescinded in a signed writing "any and all agreements heretofore made between the undersigned parties for the sale-and-purchase of a new luxury sedan." Later that day, the dealership sold for $190,000 cash to another buyer the only new luxury sedan that it had in stock or could readily obtain elsewhere. On June 1, the son tendered $180,000 in cash to the car dealership and demanded delivery to him "within a reasonable time" of a new luxury sedan with all available equipment.

The dealership rejected the tender and denied any obligation.

If the son sues the dealership for breach of contract, which of the following will the court probably decide?

A. The dealership wins, because it reasonably and prejudicially relied on its contract of mutual rescission with the widow by selling the only readily available new luxury sedan to another buyer.

B. The dealership wins, because the son, if an intended beneficiary at all of the widow-dealership contract, was only a donee beneficiary.

C. The son wins, because his rights as an assignee for value of the May 4 widow-dealership contract cannot be cut off by agreement between the original parties.

D. The son wins, because his rights as a third-party intended beneficiary became vested by his prejudicial reliance in selling his sports car on May 20.

Explanation:

Intended third-party beneficiaries' recovery for breach

<table>
<tr><th>Type of beneficiary</th><th>Versus party obligated to pay for benefit</th><th>Versus party obligated to confer benefit</th></tr>
<tr><td>Donee
(recipient of gift)</td><td>Cannot recover unless detrimental reliance satisfied</td><td rowspan="2">Can recover if rights vested through:
• detrimental reliance
• manifestation of assent OR
• lawsuit</td></tr>
<tr><td>Creditor
(satisfaction of debt)</td><td>Can recover</td></tr>
</table>

A contract formed for the primary purpose of benefitting a third party can be modified or rescinded until the rights of the third party (ie, **intended beneficiary**) have vested. **Vesting** occurs when the beneficiary:

- **detrimentally relies** on the **rights created**
- manifests assent to the contract at one party's request *or*
- files a lawsuit to enforce the contract.

Vested rights **cannot be modified** without the beneficiary's consent, and vesting allows the beneficiary to **recover for breach** from the **party obligated to confer the benefit**.

Here, the widow contracted with the dealership to buy a luxury sedan for her son—the intended beneficiary of the contract. On May 20, the son prejudicially (ie, detrimentally) relied on this prospective gift by selling his sports car at a bargain price. The son's rights vested at that time, so the widow and the dealership could not rescind the contract on May 25 without his consent. And because the dealership sold the sedan to another buyer, the son will probably win his breach-of-contract suit.

(Choice A) It was *unreasonable* for the dealership to rely on its contract of mutual rescission since the son had already informed the dealership about the sale of his sports car in reliance on the prospective gift.

(Choice B) The son *was* a donee beneficiary because the luxury sedan was a gift. But his vested rights could not be modified without his consent, regardless of whether he was a donee or creditor beneficiary.

(Choice C) Although contract rights can be assigned (ie, transferred) for value, the son was an intended third-party beneficiary (not an assignee) since his gift was the primary purpose of the contract.

Educational objective:

An intended beneficiary's contractual rights vest when the beneficiary (1) detrimentally relies on the rights created, (2) manifests assent to the contract, or (3) sues to enforce it. Once vesting occurs, the contracting parties cannot modify the beneficiary's rights without the beneficiary's consent.

References

- Restatement (Second) of Contracts § 311 (Am. Law Inst. 1981) (variation of a duty to a beneficiary).