

FINAL EXAMINATION
SECURED TRANSACTIONS
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 two questions of equal time and percent. The time for completing the examination is three hours.

1. This examination is "open book". You may use your casebook, statutory supplement, and class notes. Use of calculators and cleansed laptops 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 your notes or some unasked question will not increase your score and consumes you 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. (50 %--1 ½ hours)

You are in house counsel for Otha Gasaway Finance Company, an entity experienced in providing financing secured by inventory. One of the account officers has brought into your office documents relating a loan to Garrett Voshell Manufacturing, Inc., a manufacturer of solar panels in Bexar County, Texas, to enable Garrett Voshell Manufacturing, Inc., to acquire additional materials to expand its operations. Andrew Melvin, the account officer at Otha Gasaway Finance Company, wants to know what additional work he needs to do for the closing, the moment in time when the loan money will be released to Garrett Voshell Manufacturing, Inc., to insure repayment of the loan. Andrew Melvin also wants to know how effective any security interests you might propose will be. What are your recommendations with respect to the loan to the Garrett Voshell Manufacturing, Inc.? Be sure to support your recommendations with support, including Code sections and relevant case law. The following is a recitation of the information regarding the \$200,000 loan (the "Loan") to Garrett Voshell Manufacturing, Inc., that the account officer has provided.

Garrett Voshell Manufacturing, Inc., has a loan from Arunah Hubbell National Bank used to purchase the land in the city's development zone and construct the manufacturing plant, secured by mortgages on that land and appurtenances filed in the deed office of Bexar County where the land is located. Garrett Voshell Manufacturing, Inc., also has a loan from Francis Burpee Equipment, Inc., used to purchase the manufacturing equipment, secured by the equipment purchased for which there is a UCC-1 filing with the Secretary of State of Texas on "goods". Garrett Voshell Manufacturing also has a few motor vehicles purchased from Carl Flint Motor Company for which the title certificates issued by the Texas Motor Vehicle Department denote Carl Flint Motor Company as lienholder.

II. (50--1 ½ hours)

THIS SECOND PROBLEM HAS NO RELATION TO THE FIRST PROBLEM ABOVE.

You are the Bankruptcy Trustee for Davis Flint (the “Bankrupt”), who operated a manufacturing company as a sole proprietorship. The bankruptcy filing occurred on November 10, 2004. You are liquidating the Bankrupt. The only non-exempt assets of the Bankrupt are those of the manufacturing company. You have received all the claims of various creditors. You are ready to determine the rights of various creditors to the Bankrupt’s estate. You are now preparing your report. What priorities would you give the various creditors? Be sure to support your priorities with support, including Code sections and relevant case law. The following is a recitation of the information regarding the Bankrupt’s creditors gleaned from the claims.

Davis Flint manufactured solar panels. The Bankrupt’s assets consisted of a lease of the manufacturing premises, lease of equipment, a certificate of deposit described below, and completed solar panels. These assets of the Bankrupt’s business were sold for \$55,000.

Davis Flint leased the equipment to make the solar panels from Ruth Hubbell Leasing Company. The fair market value of the equipment at the time the lease was executed was \$30,000. The lease term was three years, expiring on September 1, 2007. The rental was \$1000 per month. At the end of the term the lease provided for a purchase option of \$15,000 and an extension term for an additional 3 years at a rent of \$100 per month. The equipment had a useful life of 5 years. The lease also had a “hell or high water” provision requiring Davis Flint to continue to make payments throughout the primary term of the lease in the event the equipment was destroyed.

The Mary Peltier National Bank provided the operational financing, lending \$50,000 secured by all equipment and inventory, and filed a financing statement on “all assets” on September 1, 2004. Davis Flint’s business maintained a certificate of deposit at Mary Peltier National Bank of \$1,000, which was sold as part of the business.

Rachel Jewell Realty Company owned the manufacturing premises and leased them to Davis Flint. On November 10, Rachel Jewell Realty Company was owed rents of \$1,000.

Davis Flint manufactured solar panels by attaching glass and copper plates to a wood frame, glued together and painted. These components, except the wood, were supplied to Davis Flint on credit by retaining title until full payment. Lucy Holmes Copper Company supplied the copper plates, valued at \$10,000, and filed a financing statement on “inventory” on September 20, 2004. Sarah Davis Glass Company supplied the glass, valued at \$5,000, and filed a financing statement on “inventory” on September 25, 2004. Christian Reade Chemical Company supplied the glue and paint, valued at \$1,000 for which Christian Reade Chemical Company delivered on October 5, 2004, and filed a financing statement on “inventory” dated October 1, 2004, after having notified Lucy Holmes Copper Company and Sarah Davis Glass Company. Labor costs in

producing the panels was \$5,000. All the glass, copper, wood, glue, and paint was consumed in manufacturing the solar panels. The fair market value of the solar panels at the liquidation time was \$18,000.