

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)

Davis Flint, President of Davis Flint Aeromotive Inc., operates a dealership in Bexar County, Texas, to sell and service airplanes. Davis Flint met with Arunah Hubbell, a loan officer of the Joseph Baker National Bank, your law firm's client, to arrange an operational loan. Arunah Hubbell has entered your associate's office at Blue Stocking Law Firm, P.C., to determine what he needs to do legally to complete a loan to Davis Flint Aeromotive Inc. and how effective your legal arrangements will be. What is your advice? Be sure to include support.

Davis Flint Aeromotive Inc. leases an airfield with several hangers and an office, maintains an inventory of 10 airplanes and appropriate parts to service the airplanes previously sold, as a few vehicles to move airplanes and ferry employees around, employees 10 employees both as salesmen and mechanics with sufficient tools to service the airplanes, and has a checking account at Joseph Baker National Bank. Most of the airplanes sold are sold pursuant to an installment contract under which the buyer puts 10% of the price down and pays off the remainder over three years. On one airplane that Davis Flint Aeromotive Inc. repaired for George Lee but remains in one of Davis Flint Aeromotive Inc.'s hangers, Davis Flint recorded a mechanics lien with the appropriate authority; but the former lien-holder on that airplane, the Nicolas Pelletier State Bank, got that same authority to issue title to Nicolas Pelletier State Bank after they decided to keep the airplane in lieu of the debt of George Lee. Davis Flint Aeromotive Inc. also had difficulty paying its taxes for last year, and the Internal Revenue Service filed a tax lien with the clerk of the federal district court for the Western District of Texas against Davis Flint Aeromotive Inc. for \$50,000 on Jan. 15 year before last.

II. (50--1 ½ hours)

[NOTE: The facts listed in Problem I still apply in this Problem II. Whatever you recommended be done in Problem I was not done unless provided for below.]

For whatever reason, Arunah Hubbell did not follow the excellent advice provided under the first question. Instead Arunah Hubbell caused Joseph Baker National Bank to lend to Davis Flint Aeromotive Inc. \$1,000,000. The security agreement grants a security interest in "all assets, including inventory and equipment" of Davis Flint Aeromotive Inc. to Joseph Baker National Bank. All that Arunah Hubbell did was file a financing statement with the Secretary of State of Texas on February 1 of last year on "inventory" and obtained the personal guarantee of Davis Flint, stating that in the event that Davis Flint Aeromotive Inc. was unable to pay off the loan, Davis Flint was liable for the remainder of the loan amount and interest.

Davis Flint Aeromotive Inc. filed for bankruptcy on March 1 of this year. You represent the Bankruptcy Trustee for Davis Flint Aeromotive Inc. Your project for the Bankruptcy Trustee is to determine the amounts payable to the various creditors. The Bankruptcy Trustee expects to liquidate all assets of Davis Flint Aeromotive Inc. for \$550,000. What is your advice? Be sure to provide support.

The Internal Revenue Service has yet to get around to levying on its tax lien. The amount Davis Flint Aeromotive Inc. owed the Internal Revenue Service under their tax filing with interest at the time of the bankruptcy filing was \$100,000. The airplane to which Nicolas Pelletier State Bank has title has a value of \$100,000 and the repair bill for it is \$10,000. The Bankruptcy Trustee has included it in computing the estimated sale price of \$550,000, of which \$400,000 is the value of the airplanes.

After Joseph Baker National Bank made the \$1,000,000 loan Davis Flint Aeromotive Inc. purchased \$100,000 in heavy duty machinery to customize the airplanes from Otha Gasaway Manufacturing Company. Title to the machinery would not transfer until paid. Otha Gasaway Manufacturing Company delivered the machinery on November 1 of last year and filed a financing statement with the Secretary of State on December 1 of last year. When Davis Flint saw there was a financial problem looming, he began to make sure that Davis Flint Aeromotive Inc. began reducing the amount of the loan with Joseph Baker National Bank. Consequently, each month after October of last year Davis Flint Aeromotive Inc. has paid \$100,000 to Joseph Baker National Bank, so that at the filing of the Bankruptcy the outstanding amount on the loan was \$600,000. Davis Flint Aeromotive Inc. also ordered \$300,000 in new airplanes from Daniel Justice Aircraft Company, payable upon delivery. Daniel Justice Aircraft Company delivered the airplanes on February 28 of this year, so naturally Davis Flint Aeromotive Inc. has yet to pay for them. Yet the airplanes remain on the airfield of Davis Flint Aeromotive Inc. Davis Flint Aeromotive Inc. was also unable to pay its last several months of rent in the amount of \$10,000.