

FINAL EXAMINATION  
SECURED TRANSACTIONS  
PROFESSOR G. FLINT

ESSAY  
PLEASE READ CAREFULLY

ALL ANSWERS ARE TO BE WRITTEN ON THE BLUE BOOKS PROVIDED WITH THIS EXAMINATION.

There are two questions of equal value (time and percent indicated). The time for completing the examination is three hours.

1. This examination is "open book." You may use your casebook, statutory supplement, and classnotes. Use of calculators is permitted.
2. Be sure to answer the specific question that is asked. Information supplied relating to 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 so do will result in an appropriately lower score.
6. Do not seek an interpretation of language in the questions 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 corrections 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 therefor.**

I.  
(50%--1 ½ hours)

You are an in-house counsel for The Davis Flint State Bank (the "Bank"). One of the loan officers has brought into your office documents relating to a loan to George Lee, Inc., (the "Company"). Francis Burpee, the loan officer, wants to know what additional work he needs to do in order for the closing when the loan money will be released to the Company. Francis Burpee also wants to know how effective his security interests will be. What are your recommendations with respect to the loan to the company? 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 loan (the "Loan") to the Company that the loan officer has provided.

The Loan is in the amount of \$70,000,000 to be used for operations. The Company operates the NBA franchise in Houston. Its assets consist of a franchise from the NBA, numerous player contracts, sports equipment of which some is firmly attached the real estate at the Summit, where the NBA games are played, the team logo which is registered with the appropriate government office, a real estate lease for the summit, advertising contracts permitting the use of various company logos on the jerseys of team members, uncertificated stock in a cable company that transmits the team's games on television, motor vehicles subject to a bank loan used to acquire the vehicles, various items used by a division of the Company that manufactures team logo items for sale to the public, and a bank account that receives Company funds, including moneys from ticket sales. Texas has a motor vehicle registration act.

II.  
(50%--1½ hours)

You are bankruptcy trustee for George Lee, Inc. (the "Bankrupt"), the company in the first problem. You are liquidating the Bankrupt. 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.

You have located a buyer for the team at \$70,000,000. The bankruptcy filing occurred on August 10, 1999.

The Bankrupt was unable to pay its federal income taxes for the year 1996, and on August 20, 1998, the Internal Revenue Service assessed a deficiency for those income taxes in the amount of \$1,000,000. The Internal Revenue Service filed its tax lien in the District Court of the Eastern District of Texas on September 10, 1998.

The Bankrupt purchased various items for its team logo manufacturing on April 3, 1999, and granted a security interest to the suppliers in the amount of \$100,000. They filed financing statements for this security interest on April 10, 1999. These items have a fair market value of \$200,000.

The outstanding loan on the motor vehicles is in the amount of \$50,000. The vehicles have a fair market value of \$60,000. On July 2, 1999, the Bankrupt paid \$3,000 on these outstanding loans as required by the loan documentation.

On July 5, 1999, the Bankrupt paid its first \$1,000,000 on the bank loan, the subject of problem one, to The Davis Flint State Bank (the "Bank"). The Bank loan had been made and security interest granted on July 5, 1997. The Bank filed a financing statement for its loan on May 5, 1999, listing "the player contracts." The financing statement listing "all assets except the player contracts" was filed on May 14, 1999. The player contracts have a fair market value of \$60,000,000. In December of 1997 the Bankrupt traded several of its major player contracts to other NBA teams at below fair market value. These contracts had a fair market value of \$50,000,000 but were transferred for \$20,000,000.

On July 15, 1999, the Bankrupt obtained a loan from Thomas Gasaway, who took a security interest in the team logo in the amount of \$2,000,000.

The sports equipment fixtures were attached to the real estate back in 1975.

The proceeds received in the last 10 days were \$150,000, with \$50,000 deposited in the bank account at the Bank. The Bank offset the amount of the account, namely \$300,000, against its loan on August 11, 1999.

Other creditors of the Bankrupt include Houston Power & Light, a water company, several suppliers, and other unsecured creditors owed \$40,000,000.