

Anonymous Number: _____

This is a 50-minute exam. When time is up, turn in your exam and your answers. Although your exam must be turned in, any writing on it will not be graded.

Set your Exam 4 exam software to the open + network mode so you can access your computer and the internet. You may also look at any written “hard copy” material during the exam. You may not talk, or otherwise communicate, with anyone except me.

Your word limit on this exam is 1250. You will not earn any points for any words beyond 1250. (To display the word count in Exam4, select the Tools menu at the top of the page and then select “Show Exam Statistics”. The word count will be displayed on the right side of the page.)

Write your Anonymous Number in the space provided above.

This exam consists of three problems, each of which starts with the number of points the problem is worth. Two points are available for timely submitting this exam and your answers with your correct anonymous grading number.

Start your answer for each problem with its number and start your answer for each sub-problem with its letter. When you’re done with a sub-problem, add a couple hard returns (push Enter twice) before starting a new sub-problem so you separate sub-problems from each other with white space. Use even more white space to separate problems.

If you identify an issue on which more than one party has a strong argument, or for which you need more facts, then write the rest of your analysis in the alternative. If-then statements helpfully show issue-spotting and organized reasoning.

References to relevant statutes, case law, and other authority are valuable. Assume that all relevant jurisdictions are in the United States and have adopted the Official Text of the Uniform Commercial Code.

Good luck!

Problem 1
15 points

You have a security interest in your debtor's "inventory, now owned or hereafter acquired."

- a. If everything goes well, what will happen to your collateral?
- b. If your debtor, a corporation, breaches its contract with you, what can you do to collect what you're owed by your debtor?
- c. What determines if you are under-secured?
- d. If you are under-secured and your debtor files for bankruptcy, what can you do?

Problem 2
8 points

All parties in this problem remain outside bankruptcy. Ken, who lives in Kansas, bought furniture at a store in Kansas. Ken paid the store \$2000 and promised to pay an additional \$100 for each of the next 36 months. Ken's promise to pay was evidenced by a signed writing in which Ken granted the store a security interest in the furniture he purchased from the store.

Before the events of the previous paragraph, the store granted Bank a security interest in several types of collateral.

- a. Which type of collateral (name one only) would put Bank in the best position with respect to Ken's transactions with the store?
- b. If Bank's security agreement covers the collateral you named in subproblem a, and the store breaches its contract with Bank, what can Bank do with respect to Ken and his property if Ken performs all his duties?
- c. How does your answer to b change if Ken breaches one of his relevant duties?

Problem 3
5 points

Finance Co. (FC) is Drain, LLC's (Drain's) only secured creditor. Drain defaulted to FC last month. Yesterday FC repossessed Drain's most important piece of equipment, a robot, which FC now possesses. Drain filed for Chapter 11 bankruptcy today, and strongly argues the robot is necessary for Drain's effective reorganization in bankruptcy.

When Drain defaulted to FC last month, the robot was worth a million dollars in the sense that an ordinary sale of this used robot to another business in Drain's industry would likely be for a price around a million dollars.

When Drain defaulted to FC last month, Drain owed \$900,000 to FC. Nevertheless, as this Chapter 11 bankruptcy case proceeds, all value in the robot may well go to FC, leaving none left for Drain or any of its other creditors. Explain at least three and no more than five plausible contributing reasons why this might well occur. Number them.