<u>Proceeds/Name Change Review Problems</u>

1) For several years, First Bank ("Bank") has lent money to a computer dealership operated as a sole proprietorship run by Al Smith and doing business under the name "Computer USA." The loans by First Bank are secured by a Security Agreement affecting "all current and after-acquired inventory and proceeds therefrom," and a financing statement filed in the Illinois Secretary of State's office on August 5, 2009. The financing statement also describes the collateral as "all current and after-acquired inventory and all proceeds therefrom." Both the Security Agreement and the financing statement identify the "debtor" as Al Smith d/b/a Computer USA.

On September 10, 2011, Al Smith incorporated the sole proprietorship as an Illinois corporation under the name "Computer Center USA, Inc." All assets and obligations of the sole proprietorship were duly transferred to and assumed by Computer Center USA, Inc. On October 10, 2011, Al Smith notified Bank of the incorporation. At that time, Bank was no longer loaning money to Al Smith's computer dealership, but Al Smith d/b/a Computer USA was indebted to Bank for prior unpaid loans in the amount of $300,000.

In December 2011, ABC Credit ("ABC") made a $500,000 loan to Computer Center USA, Inc. Prior to making the loan, ABC researched the UCC records, and determined that no financing statements had been filed against Computer Center USA, Inc. However, the loan application signed by Al Smith noted the existence of a corporate debt to Bank and a discussion of the pre-September 2011 business structure.

The loan by ABC to Computer Center USA, Inc. is secured by a Security Agreement and financing statement covering various types of property, including inventory. Both the Security Agreement and financing statement identify the "debtor" as Computer Center USA, Inc. ABC filed the financing statement on December 15, 2011 in the Illinois Secretary of State's office.

In early 2012, Computer Center USA, Inc. entered into a contract with a hospital to supply computers to a medical office building. Computer Center USA, Inc. used computers from its existing inventory to supply computers under the contract; however, neither Bank nor ABC provided Computer Center USA, Inc. with funds to obtain these computers. Computer Center USA, Inc. established an account at Bank to deposit the proceeds of the hospital contract. In March 2012, $200,000 from the hospital contract was deposited in the account at Bank. No other funds were ever deposited into the account.

It is now July 2012, and Computer Center USA, Inc. is in default under its loans to both Bank and ABC.

Answer the following questions:

A. Does Bank have a valid, enforceable, and perfected security interest in the inventory of Computer Center USA, Inc.?

B. What actions, if any, should Bank have taken when it learned of the incorporation of Computer Center USA, Inc.?

C. Did ABC have a perfected security interest in the $200,000 deposited by Computer Center USA, Inc. in the account at Bank?

2) ABC Co. (“ABC”) is an Illinois corporation that owns and operates a supply store in Chicago. The store and the land on which it is situated are owned by ABC. ABC sells and leases various types of office products. To finance its operations, ABC obtains loans from First Bank (“Bank”) under a $500,000 line of credit. That line of credit is secured by a Security Agreement executed in 2011 by ABC in favor of Bank, affecting all “accounts, inventory and fixtures, whether now owned or hereafter acquired by ABC.” The Security Agreement describes the secured indebtedness as “all indebtedness of ABC to Bank that may exist now or arise in the future under the $500,000 line of credit.” Bank filed in 2011 with the Illinois Secretary of State's office a UCC-1 Financing Statement correctly identifying the debtor and creditor and listing the collateral exactly as described in the security agreement.

It is now July 2014, and ABC is in default under the $500,000 line of credit. In a meeting with Bank, you are informed that: (1) ABC changed its name on April 15, 2013, to Big Store Supply, Inc. (“Big Store”); (2) on August 15, 2013, the largest account debtor of ABC (now Big Store) paid in cash all amounts then owed to ABC; and (3) ABC, upon collecting that cash payment from its largest account debtor, used that cash to purchase a Miró painting valued at $350,000, which painting is on display at the Chicago supply store.

Advise Bank as to whether Bank has a continuously perfected security interest in the Miró painting?