

Acme Violins LLC (Acme) is in the business of buying, restoring, and selling rare violins. Acme frequently sells violins for prices well in excess of \$100,000. In addition to restoring violins for resale, Acme also repairs and restores violins for their owners. In most repair transactions, Acme requires payment in cash when the violin is picked up by the customer. It does, however, allow some of its repeat customers to obtain repairs on credit, with full payment due 30 days after completion of the repair. In those cases, the payment obligation is not secured by any collateral and the payment terms are handwritten on the receipt.

Acme owns a variety of tools used in restoration work, including a machine called a “Gambretti plane,” which is used to shape the body of a violin precisely.

Six months ago, Acme borrowed \$1 million from Bank. The loan agreement, which was signed by Acme, grants Bank a security interest in all of Acme’s “inventory and accounts, as those terms are defined in the Uniform Commercial Code.” On the same day, Bank filed a properly completed financing statement in the appropriate state filing office. The financing statement indicated the collateral as “inventory” and “accounts.”

Last week, Acme sold the most valuable violin in its inventory, the famed “Red Rosa,” to a violinist for \$200,000 (the appraised value of the instrument), which the violinist paid in cash. The sale was made by Acme in accordance with its usual practices. The violinist, who has done business with Acme for many years, was aware that Acme regularly borrows money from Bank and that Bank had a security interest in Acme’s entire inventory. The violinist did not, however, know anything about the terms of Acme’s agreement with Bank.

Acme is 15 days late in making the payment currently due on its loan from Bank. Bank’s loan officer, who is worried about Bank’s possible inability to collect the debt owed by Acme, has asked whether the following items of property are collateral that can be reached by Bank as possible sources of payment:

- (1) Acme’s rights to payment from customers for repair services obtained on credit
- (2) Used violins for sale in Acme’s store
- (3) Violins in Acme’s possession that Acme is repairing for their owners
- (4) The Gambretti plane, used by Acme in violin restoration
- (5) The Red Rosa violin that was sold to the violinist
- (6) The \$200,000 in cash paid by the violinist for the Red Rosa violin, now on deposit in Acme’s bank account maintained at a bank other than Bank

Yesterday, a creditor of Acme obtained a judicial lien on all of Acme’s personal property.

- 1. In which, if any, of the items listed above does Bank have an enforceable security interest?**
- 2. For the items in which Bank has an enforceable security interest, is Bank’s claim superior to that of the judicial lien creditor?**