Final Review Problems

1. On May 1, Warren started a business as a sole proprietor and leased a $5,000 computer system from Leasco. The written lease, which was the only document generated in the transaction, provided for monthly payments for five years, with the right to purchase the system at the end of the term for $1.00.

On June 1, Warren borrowed $10,000 from Bank, with the understanding that $3,000 of the loan proceeds were to be used to purchase telephone equipment and $7,000 were to be used for working capital. Warren signed a promissory note to Bank payable on December 1. To secure the note, Warren executed a security agreement giving Bank a security interest in all of his office equipment now owned or thereafter acquired. Bank promptly perfected its security interest by filing a financing statement on June 3.

On June 2, Warren purchased and installed the telephone equipment.

On November 30, Warren purchased business video equipment for $2,000 on credit from A-1 Video Co. ("A- 1") and signed a promissory note payable to A-1 in twelve monthly installments. Warren executed a security agreement giving A-1 a security interest in the video equipment to secure the installment payments and took possession of the equipment on November 30.

Warren was unable to pay the Bank note when it became due on December 1. On December 5, Warren persuaded Bank to extend the note's payment for thirty days. To induce the Bank to do so, Warren gave Bank a stock certificate he owned for 100 shares of Dotcom Computer as additional collateral. Bank took immediate possession of the certificate.

On December 12, Warren filed a petition in bankruptcy for liquidation under Chapter 7 of the Bankruptcy Code.

On December 13, having learned of Warren's bankruptcy filing, A-1 quickly filed a financing statement with the intent of perfecting its security interest in the video equipment.

Which party among Leasco, Bank, A-1, and the Bankruptcy Trustee has the superior interest in the

a. Computer system?

b. Telephone equipment?

c. Video equipment?

d. 100 shares of Dotcom stock?

2. On April 1, Debtor authenticates a security agreement granting to A security interest in all of Debtor's existing and after-acquired inventory. That same day A files a financing statement covering the inventory. On May 1, Debtor authenticates a Security Agreement granting B a security interest in all of Debtor's existing and future accounts. That same day B files a financing statement covering the accounts. On June 1, Debtor sells inventory to a customer on 30-day unsecured credit basis.

Which secured party, A or B, has a first priority security interest in the amount owed the Debtor by the purchaser of inventory?

3. 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 three years ago 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." Immediately after execution of this agreement, Bank filed 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.

Today, ABC is in default under the $500,000 line of credit. In a meeting with Bank, you are informed that: (1) six months ago, ABC changed its name to Big Store Supply, Inc. ("Big Store"); (2) five months ago, 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.

Does Bank have a continuously perfected security interest in the Miró painting?