

COMMERCIAL FINANCE

FINAL EXAM

PROFESSOR BERNHARDT

MAY 5, 2006

GENERAL INSTRUCTIONS

1. You have **three (3) hours** to complete this exam.
2. This entire exam is **open book**; all books and papers of any sort are permitted.
3. **Part One** consists of 36 multiple choice questions on secured transactions that commence on the next page; this part will count for **two-thirds (2/3)** of the grade. Other Part One details:
 - a. Generally assume that all steps were properly taken (e.g. documents were properly signed, security interests were properly perfected, lawsuits were properly filed, repossessions were made peacefully, sales were conducted in a commercially reasonable manner, etc.) except for any problem or defect specifically mentioned in the question; i.e. do not derive your answer from an assumption that somebody did something wrong which was not mentioned in the problem.
 - b. Also assume that all related necessary steps occurred, i.e., if we say Sparky had a security interest in Deborah's goods, you should assume that Deborah owned goods, that Sparky loaned money to Deborah, that Deborah signed a note to pay it back, that the parties executed a security agreement, and that it was appropriately perfected, etc., etc., unless we indicate explicitly that one of these steps was missing.
 - c. No question is intended to be ambiguous; each answer is intended to be unconditionally right or wrong. Therefore you should write comments alongside your answers only if necessary. Indicate on the first page of the multiple-choice questions the number of any question where there are any comments you want me to read.
 - d. There are certain characters in these questions whose role is constant:
 - **Deborah** the debtor;
 - **Sparky** the secured creditor;
 - **Jerry** the junior secured creditor;
 - **Ursula** the unsecured creditor;

- **Beulah** a buyer from Deborah.
 - Other characters appear for only a question or two and may be thereafter forgotten about.
4. **Part Two** consists of one essay question, which you should take home and return by email by midnight tonight to NChung@ggu.edu.
 - 5.
 6. Correct multiple-choice answers are to be marked on the ParSCORE answer sheet form provided using pen or pencil and following the instructions on that form. If you change your answer, place an **X** through the wrong answer and mark the correct answer. A machine will score the exam and any ambiguities will be counted as a wrong answer. If two answers are true, you should select only the best answer.
 7. Write your exam number on your exam envelope **and** at the top of this page, and the top of each page of questions, each blue book and on your ParSCORE answer form. **Do not** use your name, student ID number or Social Security Number on any exam materials.
 8. At the conclusion of the exam, return all exam materials to the exam envelope and submit it to the proctor. **Do not** seal the envelope. **Students who do not return all exam materials at the end of the exam will not be graded.**

Good luck!

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PART TWO, ESSAY QUESTION

1. This part constitutes one third of the exam and consists of one essay question. Take it home and email it to NChung@GGU.Edu by midnight tonight.
2. Read the facts carefully. Answers based on incorrect facts are treated as incorrect answers. If you think that important facts are missing or ambiguously stated, make reasonable and explicit assumptions about them; do not make assumptions that make the entire problem vanish. Do resolve the issues; don't just discuss them

for a while and then drop them without any conclusion. **Write legibly. I do not read illegible answers.**

Magnificent Monitors (MM) manufactures sells and installs computer monitors. It has three departments: 1) the consumer division (ConDiv), that sells portable pocket size monitors that hook up to pocket computers and cell phones for individuals on the go to use in their cars; 2) the merchant division (MerchDiv), that sells large monitors to businesses that offering supplementary viewing of their central business accounts in other departments of the business; 3) the industrial division (IndDiv) that builds very large monitors into the walls of factory type operations to give their users better control over the machinery operating on the premises.

MM gets most of its general financing from Inverness Lending (IL) who has had a properly executed and filed security interest in all present and after-acquired inventory since 2001. Since it sells and installs many of its products on credit, it also has had an arrangement with Acton Loans (AL) to finance all of its receivables for 90% of their face amount; AL has had a properly executed and filed security interest in all present and after acquired accounts, notes, and chattel paper since 2002. Finally, MM also purchases the screens that go into its monitors from SilverScreenWorks (SSW), who has had a properly executed and filed security interest in all screens that it has sold or will sell to MM since 2003; SSW, however, has been careful to always send timely and proper notices to IL and AL before making any shipments to MM.

MM's various divisions all handle sales separately. Each division has its customers properly execute conditional sales contracts which it keeps in its own safe until that obligation is paid. (A few documents representing very large obligations are turned over directly to AL, who thereafter handles the accounting and collecting of them.) ConDiv does not utilize financing statements, but both MerchDiv and IndDiv do. MerchDiv files its properly executed financing statements with the Secretary of State, while IndDiv records its properly executed financing statements with the County Recorder as fixture filings.

MM has just filed under Chapter 11 and has retained your firm to propose a plan of reorganization that will satisfy its various creditors and the bankruptcy court. MM's auditors report that it has the following assets:

- 1) Inventory consisting of a large number of monitors: many of these include SilverScreens, but others contain non-SSW screens that MM itself makes. In addition, MM also has 1,000 freestanding SilverScreens that it was preparing to install in its monitors but had not yet done so. Finally, MM has a large supply of used computer parts that it has taken in trade or as returns, which it holds out for sale.
- 2) Cash. Each MM division deposits all cash received from sales and from payments on accounts into a special deposit maintained by it, which is held there until the first of the month when it is used to pay creditors. Those amounts are currently quite large.

- 2) Paper. As mentioned, each of the divisions currently holds large amounts of conditional sales contract, although some have been turned over to AL.

As far as creditors go, in addition to the creditors abovementioned, there are also some suppliers who have not been paid: a) The Class A suppliers, who have obtained judgments, and in some cases sought to levy execution on MM's assets, and b) The Class B suppliers, who have not yet filed suit. In addition, certain banks holding mortgages on the real estate owned by some of MM's industrial customers (where the monitors were installed), have written requesting that they be kept informed of all proceedings.

Draft a proposed plan that will, if necessary liquidate MM's assets in an orderly and profitable way and give to each creditor what it is entitled to claim. You don't need to employ any special bankruptcy concepts, but do explain your reasoning behind the plan, trying to keep it all under 1,500 words.

END OF EXAM