Assume for all purposes that the current version of UCC Article 9 applies, regardless of the dates in the question.

Q1. Your client, Smith, is a farm equipment dealer in Cobb County, Georgia. On August 16, 2001, Smith sold a combine (used to harvest wheat and other grains) to Edwards, a resident of Shelby County, Tennessee, for $5,000 cash down and $95,000 payable in 120 monthly installments of $1,000 each (including interest), commencing September 1, 2001. To secure payment of the outstanding debt, Edwards signed a security agreement granting Smith a security interest in the combine.

A. Assuming that Smith took whatever steps were necessary to perfect his security interest in the combine no later than September 1, 2001, suppose that, on July 24, 2002, still owing Smith $84,000 (in other words, Edwards was current on her payments), Edwards traded the combine to another farm equipment dealer, Jones, located in Cherokee County, Georgia for a $75,000 tractor to use on Edwards’s “weekend farm” there. What would be Smith’s collateral as of August 1, 2002? Please explain.

B. Assuming that Smith took whatever steps were necessary to perfect his security interest in the combine no later than September 1, 2001 and that Edwards was current on her payments through July 1, 2002, suppose instead that, on July 24, 2002, Edwards sold the combine for $75,000 cash and deposited the cash in a bank account with a prior balance of $15,000. Suppose, further, that on July 30, 2002, Edwards purchased a tractor from Jones for $60,000, to use on Edwards’s “weekend farm” in Cherokee County. Edwards wrote Jones a check in the amount of $30,000, drawn on the aforementioned bank account, and agreed to pay Jones the balance due in installments of $1,000 per month for 36 months, giving Jones a security interest in the tractor to secure Edwards’s obligation to make the installment payments. Assume that Jones properly perfected her security interest in the tractor on July 31, 2002.

1. What is Smith’s collateral as of August 1, 2002? Please explain.

2. Suppose that Edwards defaults on her debt to Jones after August 1, 2002, and Jones forecloses on the tractor. If Jones sells the tractor for $50,000 at the foreclosure sale, what would be Smith’s rights, if any, with respect to the proceeds of the foreclosure sale and/or the tractor following the foreclosure sale? Please explain.
3. Suppose, instead, that Edwards defaults on her debt to Jones after August 1, 2002, and Jones elects to strictly foreclose, what right(s), if any, does Article 9 grant Smith before Jones can accept the tractor in partial or full satisfaction of Edwards’s outstanding debt? Please explain.

Q2. Nevada Consumer Computers (NCC) is a Nevada corporation specializing in the retail distribution of personal computers to consumers. Established in 1998, NCC initially opened outlets only in California. Computer Systems Inc. (CSI) is a wholesale distributor of personal computers to customers in all parts of the United States. Until late 2001, CSI also distributed computers through its own retail outlets in Arizona, California, and Utah.

On September 3, 2001, CSI agreed to sell NCC all of CSI’s retail outlets, including each outlet’s entire inventory, for $3.2 million, payable in 60 monthly installments, beginning October 1, 2001. NCC signed an installment note in this amount, and a security agreement granting CSI a security interest in NCC’s “present and future computer inventory and proceeds from the sale thereof.” CSI promptly filed in the Nevada Secretary of State’s office a financing statement setting out the names and addresses of the parties and describing the collateral as “computer inventory and accounts.”

The September 3, 2001 contract also committed NCC to purchase from CSI a percentage of CSI’s future inventory of personal computers, as calculated according to a carefully drafted formula. The parties agreed that CSI would send these computers to a warehouse owned by an independent warehouse company in Parhump, Nevada. NCC would then direct the warehouse operator to forward the computers to the relevant outlets.

On July 1, 2002, NCC defaulted on its payments to CSI. On July 15, 2002, NCC voluntarily turned over to CSI all its accounts receivable and the inventory in all of NCC’s retail outlets. CSI immediately notified all of NCC’s account debtors to make future payments to CSI. On July 22, 2002, NCC filed a voluntary bankruptcy petition to initiate a Chapter 7 proceeding, listing among its assets:

- Computer inventory $1,400,000
- Accounts receivable $600,000

The bankruptcy trustee has hired you to evaluate whether she may avoid any security interest that CSI might have in NCC’s computer inventory and accounts. Ignoring the issue of preferences under Bankruptcy Code § 547, advise the trustee. Please explain.