

BUSINESS LAW 420

FALL 2007

STUDY GUIDE: EXAM II

EXAM DATE: October 8, 2007

DIRECTIONS: The following two FACT SITUATIONS will be the basis for the ESSAY question or TRUE-FALSE questions on the Exam II. When preparing the essay be sure to define/explain all pivotal terms and legal principles and identify the legal capacity (e.g., drawer, maker, blank indorser, etc.) of each of the parties involved. Explain the legal and factual basis for any opinion that you give. **You may bring a 3" x 5" card with notes to the exam.**

NOTE: The mark /s/ indicates that the name that follows is a signature.

FACT SITUATIONS:

- A. InCeption, Inc. was encountering financial difficulties and one of the corporation's more persistent creditors, Martin Ramison. Ramison demanded a check for the amount owed to him on an overdue account. InCeption's president, Paul Ford, said that the corporation could not pay Ramison because its checking account was already overdrawn. However, Ford indicated that he would be willing to draw on funds owed by one of the corporation's customers. He drafted and presented to Ramison the following instrument:

March 2, 2007

TO: Master Manufacturing Corp.
3285 University Avenue
Morgantown, WV 26505

Pay to the order of InCeption, Inc.,
TWENTY-THREE THOUSAND and no/100's dollars (\$2,300.00)
Payable 90 days after acceptance
For value received in connection with January 8, 2007 shipment of machine parts.

Inception, Inc.
BY: /s/ Paul Ford, President
323 Oak Tree Avenue
Pittsburg, PA

ACCEPTED BY: _____
ON: _____, 2007

Paul Ford indorsed the instrument on the back as follows:

“Pay to the order of M. Ramison,
InCeption, Inc.
/s/ **Paul Ford, Pres.**”

On March 31, 2007, M. Ramison sold the instrument to Financial Friends Incorporated for the discounted amount of \$2,000,000. Ramison indorsed the instrument in the following manner and delivered it to Financial Friends:

“Without recourse,
/s/ **Martin Ramison**”

Questions:

1. Is the above instrument commercial paper? Explain.
2. Indicate the legal and potential liability of each party to the instrument.
3. Is Financial Friends a HDC? Explain.
4. Identify the type of indorsement used by InCeption, Inc.? By Ramison?
5. Who is the proper party to accept the above instrument? What legal effect will such acceptance have? If the party refuses to accept, will the instrument be dishonored? Explain.
6. If Financial Friends presents the instrument to Master Manufacturing Corp. and Master dishonors it, from whom, if anyone, can Financial Friends recover? Explain.

- B. Modern Interiors Corp.(hereafter Modern) is engaged in the furniture manufacturing business. Modern Interiors followed a policy of paying its employees every two weeks. In accordance with this policy, Modern issued \$1,400 paycheck to the order of George Burns, one of its employees. The check was drawn on the First State Bank. Burns indorsed the check “Without Recourse, /s/ George Burns” and negotiated it to Sam Goldwin in partial repayment of a loan that Goldwin had previously made to Burns. Goldwin proceeded to raise the amount of the check from \$1,400 to \$14,000, indorsed it in blank, and negotiated it in exchange for 100 shares of Global International stock to Paula Sellers. **Goldwin** was an expert forger and nothing about the check made Sellers at all suspicious. Paula deposited the check in her account at Federal Bank, but when the check was presented through the banking system to First State Bank, it was dishonored by First State due to insufficient funds in Modern’s account. Federal removed the funds it had credited to Paula Sellers’ account and notified her that the check had been dishonored.

Questions:

1. Was Paula Sellers a HDC when she held the check? Explain.
2. Is Federal Bank a HDC? Explain.
3. What recourse, if any, does Paula Sellers have to obtain payment of the check or damages from the other parties involved (Goodwin, Burns, Modern, First State Bank)