<u>QUESTION 5</u> THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK II

Dealer Don ("DD") was a distributor of vehicle parts throughout the state of Michigan. DD anticipated that there would be a great new demand for deep cycle batteries to power hybrid electric cars, electric vehicles, scooters, bikes, and boats. DD has had an open line of credit with Bank A to obtain inventory. There was a duly signed security agreement in place covering "inventory owned, held or hereafter acquired by [DD]." The financing statement was also duly filed.

Subsequently, DD entered into negotiations with ABC Batteries, LLC ("ABC"), and ABC offered to open an account for DD with a $40,000 credit balance. DD purchased $40,000 of deep cycle "A-Type" batteries from ABC. DD received the "A-Type" batteries from ABC and paid for them using $20,000 from its ABC account and $20,000 from cash on hand. Within a week, ABC duly filed a financing statement in regard to "A-Type batteries" and gave proper written notice to Bank A of its expectation to receive a security interest in the "A-Type batteries."

DD soon realized that its competition had also taken an interest in "green" energy and that DD had overextended itself in an unsustainable market. It soon defaulted on its ABC account.

ABC claims a security interest in DD's purchase. (1) Does ABC have a purchase-money security interest in the A-Type batteries? Explain your answer.

(2) Assuming ABC has a purchase-money security interest, is that interest superior to that of Bank A? Explain your answer.

*******THE ANSWER TO THIS QUESTION SHOULD GO IN BLUEBOOK II*******