

**INNS OF COURT**  
**BANKRUPTCY HYPOTHETICAL**  
**FEBRUARY 8<sup>TH</sup>, 2010**

Dartmoor, Inc. is an executive search firm that was founded in 1991 by its 100% shareholder and president Darren Moore. After fourteen years of profitable business, in 2005 Dartmoor lost two of its substantial clients, suffering a loss of \$500,000 in uncollectible debt due to it from them. At the same time, the loss of its two large clients caused a substantial shrinkage in annual revenues and the inability of Dartmoor to meet its operating expenses.

In response to these operating deficits, Dartmoor borrowed \$200,000 from Banc Corp., granting to it a blanket security interest in all of Dartmoor's assets. Dartmoor hoped to attract new customers and hoped to use this cash infusion to cover its operating shortfall until it could build up its cash flow. After two years, when business did not improve, largely as a result of a national recession, Dartmoor began the process of downsizing, and borrowed an additional \$100,000 in funds from Lend Corp. granting to it a subordinate security interest in all of its business assets. Each of the secured claims was personally guaranteed by Mr. Moore.

During the period 2007 through 2009 Dartmoor's payables gradually increased so that by year end of 2009 Dartmoor had accumulated \$500,000 in unsecured debt.

Currently, Dartmoor possesses the following assets: (a) accounts receivable (collectible) - \$150,000, (b) machinery equipment and office furniture - \$25,000, (c) bank accounts - \$20,000, and (d) leasehold improvements - \$30,000.

Without the advice of counsel, Dartmoor and Darren Moore entered into a stipulation with Dartmoor's landlord under which Dartmoor would vacate the premises, enabling it to enter into a less expensive lease for alternative premises, and agreed to repay the sum of \$50,000 by the payment of \$5,000 per month for ten months, which obligation was personally guaranteed. Additionally, the landlord was granted confessions of judgment against each of Darren and Dartmoor to hold as collateral security and in the event of a default, the landlord was authorized to enter same, and to begin immediate collection efforts to obtain payment of the then remaining balance.

The business problems of Dartmoor quite logically affected Darren's marriage. However, Mrs. Moore has not commenced a divorce action as of yet.

Darren owns a house with his wife, having a fair market value of \$425,000 with two mortgages thereagainst totaling \$300,000. Darren also owns in his own name a vacation home in North Carolina which is worth \$300,000 with a \$100,000 mortgage thereagainst. He also is owner of an annuity having a value of \$150,000 and a pension plan having a value of \$400,000. Darren contributed \$25,000 to the annuity in the last 12 months.

In addition to the business debt that he has guaranteed, Darren also has accumulated

\$50,000 in bank lines of credit and charge cards.

Finally, he has accumulated income tax debt for the years 2005 and 2006, in the amounts of \$100,000 for each of the years.

Prior to founding Dartmoor, Darren attended law school, realizing at the end of his second year that it was not for him. Similarly, Mrs. Moore is currently attending law school and is in the middle of the second semester of her second year as well (although neither has had the benefit of a course in bankruptcy).