

# CONTEMPORARY BUSINESS and ONLINE COMMERCE LAW

SIXTH EDITION



Henry R. Cheeseman

# Contemporary Business and Online Commerce Law

Legal, Internet, Ethical, and Global Environments

*Sixth Edition*

**HENRY R. CHEESEMAN**

Clinical Professor of Business Law

Director of the Legal Studies Program

Marshall School of Business

University of Southern California



Upper Saddle River, New Jersey 07458

# Preface

## To The Students

Each semester, as I stand up in front of a new group of business majors in my business law and legal environment classes, I am struck by the thought that, cases and statutes aside, I know two very important things that they have yet to learn. The first is that I draw as much from them as they do from me. Their youth, enthusiasm, questions, and even the doubts a few of them hold about the relevance of law to their futures fuel my teaching. They don't know that every time they open their minds to look at an issue from a new perspective or critically question something they have previously taken for granted, I get a wonderful reward for the work that I do.

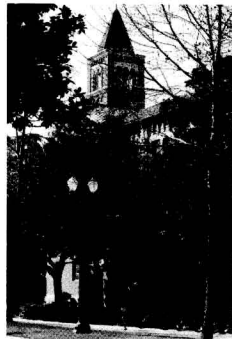
The other thing I know is that both teaching and learning the legal environment are all about stories. These stories come from the legal cases in this book, as well as the important cases and stories that each professor personally brings to the classroom. These stories provide the framework on which students will hang everything they learn about the law in class. It is my hope that long after the specific language of cases or statutes have faded, students will retain that framework. Several years from now, "unintentional torts" may draw only a glimmer of recognition with business managers who learn about them as students in my class this year. However, they will likely recall the story of the woman who sued McDonald's for damages for serving her coffee that was too hot and caused her injuries. The story sticks and gives students the hook on which to hang the concepts.

I remind myself of these two facts every time I sit down to work on writing and revising *Contemporary Business and Online Commerce Law*, as well. My goal is to present business law and ethics in a way that will spur students to ask questions, to go beyond rote memorization.

Business law is an evolving outgrowth of its environment, and the legal environment keeps changing. This new sixth edition of *Contemporary Business and Online Commerce Law* emphasizes coverage of Internet law and electronic commerce as key parts of the legal environment. In addition, this book covers social, ethical, and international issues important to the study of business law.

It is my wish that my commitment to these goals shines through in this labor of love, and I hope you have as much pleasure in using it as I have had in creating it for you.

Henry Cheeseman



## New to the Sixth Edition

### Cases

More than 120 new cases in this book bring modern business law to life. These exciting new cases apply legal concepts in today's business environment. There are more than 210 cases in total in the sixth edition of *Contemporary Business and Online Commerce Law*, including more than 60 U.S. Supreme Court cases. The edited language of the reasoning in each case is in the words of the U.S. Supreme Court justices. The text also retains "Landmark Cases," such as *Brown v. Board of Education*, *Heart of Atlanta Motel v. United States*, and others. Full versions of the cases featured in *Contemporary Business and Online Commerce Law* are available at [www.prenhall.com/cheesemancases](http://www.prenhall.com/cheesemancases).

### Text and Examples

The text of this sixth edition of *Contemporary Business and Online Commerce Law* has been time tested, reviewed by contemporary business law and legal environment professors, and praised for its clarity and understandability by students. More than 700 examples are integrated throughout to help students understand and apply the legal theories and concepts covered in the text. More than 90 "Contemporary Environment" special feature boxes cover modern cases, statutes, and laws that affect managers and businesses today.

### Web-Based Learning

More than 1,100 relevant websites and web exercises engage students to explore business law further by using the Internet as a resource. Websites and web exercises appear after each case in the book. They also appear after special feature boxes and within the text of the sixth edition.

### Cyber Law

Chapter 15, "E-Contracts, Internet Law, and Cyber Crimes," is a newly written chapter that covers important digital laws related to e-contracts, e-commerce, software licensing, domain names, computer law, and cyber crimes. There are 44 "Internet & Technology" special feature boxes that cover Internet law, cyber law, and e-commerce are presented throughout the text. This sixth edition also identifies the changes to the Uniform Commercial Code (UCC) that recognizes digital documents, signatures, and filings that promote e-commerce.

### Business Ethics

Chapter 8, "Ethics of Managers and Social Responsibility of Business," examines the moral theories of business ethics and applies these theories to actual ethical issues confronted by today's managers and businesses. More than 70 "Ethics Spotlight" special feature boxes that address business ethics issues are presented throughout the chapters. The cases and special feature boxes in this sixth edition of *Contemporary Business and Online Commerce Law* are followed by more than 430 ethics questions that relate to the cases and issues. There are more than 100 end-of-chapter "Ethics Issue" cases.

### Special Coverage

The Sarbanes-Oxley Act is covered extensively in Chapter 28, "Corporate Governance and the Sarbanes-Oxley Act," and other chapters of the sixth edition. Chapter 24, "Bankruptcy and Reorganization," has been completely rewritten to incorporate the major changes made by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. Chapter 41, "International and World Trade Law," covers public and private laws that apply to the global business environment. This sixth edition of *Contemporary Business and Online Commerce Law* contains more than 40 "International Law" special feature boxes that discuss international law.



## New Custom Database Option

Do you want to use a book tailored to your course? This new edition of Cheeseman is designed to do so. Now part of the Pearson Custom Database solution, we are making it easier for users and new adopters to make Cheeseman fit their course perfectly. Pick the material that you want, include other material as needed, and order and cover to your choice. All will come produced from our custom database ready for your course. Use the order form in the front of sample copies to learn more about this option, preview, and order. Please contact your local Pearson sales rep for more information or if the form is missing.

## Supplements that Accompany the Sixth Edition

To ensure consistency of style, approach, and coverage among the key print and online supplements, these critical pieces were created by an author team working in conjunction with Henry Cheeseman. Supplements are provided for both instructors and students.

### For Instructors

We offer a variety of both print and electronic supplements to meet the unique teaching needs of each instructor. Electronic versions of the supplements that accompany this text are available for download by instructors only at our Instructor Resource Center, at [www.prenhall.com](http://www.prenhall.com).

**COMPANION WEBSITE** This edition's companion website, accessible at [www.prenhall.com/cheeseman](http://www.prenhall.com/cheeseman), contains an online study guide, including true/false and multiple-choice questions, as well as PowerPoint presentations for each chapter. Also available online at [www.prenhall.com/cheesemancases](http://www.prenhall.com/cheesemancases) are the full-length versions of the cases featured in this sixth edition of *Contemporary Business and Online Commerce Law*.

**INSTRUCTOR'S MANUAL** The Instructor's Manual (978-0-13-601502-4) provides a comprehensive outline of each text chapter. Also included are "teacher-to-teacher dialogues" that offer teaching suggestions for each chapter, as well as key chapter objectives.

**TEST ITEM FILE** The Test Item File (978-0-13-601504-8) is a bank of questions specifically designed to aid in the preparation of tests. Each question includes a corresponding difficulty level, allowing for the creation of tailor-made testing material.

**TESTGEN** TestGen is test management software that contains all the material from the Test Item File. This user-friendly software allows instructors to view, edit, and add test questions with just a few clicks of the mouse.

**POWERPOINT PRESENTATION** A ready-to-use PowerPoint slideshow, designed for classroom presentation, is available. Instructors can use it as-is or edit content to fit particular classroom needs.

**INSTRUCTOR'S RESOURCE CENTER ON CD-ROM** The Instructor's Resource Center (978-0-13-601471-3) is a compilation of instructor's tools, including the Instructor's Manual, PowerPoint presentation, Test Item File, and TestGen.

**VIDEOS** Available in DVD format, 10 videos (978-0-13-601474-4) demonstrate how law works in everyday situations. Scenarios include contracts, product liability, employment discrimination, torts, third-party rights, and more.

### For Students

**STUDY GUIDE** The Study Guide is a student aid designed to facilitate learning by enforcing key concepts. Each chapter contains a chapter overview, a list of objectives, and an explanation of the practical applications of the chapter. Also included are a "helpful hints" section, a sample quiz, and several exercises.

## Acknowledgments

When I first began writing this book, I was a solitary figure, researching cases in the law library and writing text at my desk. As time passed, others entered the scene—editors, research assistants, reviewers, production personnel—and touched the project and made it better. Although my name appears on the cover of this book, the project is no longer mine alone. I humbly thank the following persons for their contributions to this project:

### The Exceptional Supplements Team and Prentice Hall Professionals

Many thanks to Kerri Tomasso, who held the positions of both the project manager and production manager for this book, for shepherding this sixth edition of *Contemporary Business and Online Commerce Law* through the many phases of editing and production at Prentice Hall. I'd also like to thank Heidi Allgair of GGS Book Services, as the editor who skillfully and cheerfully navigated this complex project to publication. Kerri and Heidi have worked on several of my previous books, and I hope that they will each work on my future books.

The supplements package was authored by a remarkable team, with exceptional contributions from Gregory Cermignano of Widener University, Melinda Hickman of Fort Hays State University, and Michael Katz of Delaware State University.

I also appreciate the support of the management at Prentice Hall, including Kierra Kashickey, project manager; Steve Sartori, acquisitions editor; Eric Svendsen, editor-in-chief; Sally Yagan, editorial director; and Jerome Grant, president of Prentice Hall Business Publishing, for their support in the publication of this book.

I would especially like to thank the professionals of the sales staff of Prentice Hall Publishing, including Jodi Bassett, marketing manager, and all the knowledgeable sales representatives without whom the success of this textbook book would be impossible.

## Personal Acknowledgments

### My family

Your family counts the most, no matter how far away they are geographically. My parents—Henry B. and Florence, deceased—who have had a profound effect on me and my ability to be a professor and writer; my brother Gregory and the special bond that exists between us as twins; and to the rest of my family, Gregory's wife Lana, my sister Marcia, my nephew Gregory and niece Nikki, and my great-nieces Lauren and Addison. My entire family lives in Saint Ignace, Michigan, which I will always call "home."

### Students

The students at the Marshall School of Business at the University of Southern California (USC). Their spirit, energy, and joy are contagious, and I love teaching them (and, as importantly, they teaching me). At the end of each semester, I am sad that the students I have come to know are moving on. But each new semester brings another group of students, who it will be a joy to teach. And the cycle continues.

### Research Assistant Ashley Anderson

Ashley is an undergraduate and pre-law student at the Marshall School of Business at USC who has been my research assistant for the past three years. Ashley has done an absolutely excellent job in finding new cases to be used in the sixth edition of *Contemporary Business and Online Commerce Law*. Ashley has also done a superb job working with the editors of

Prentice Hall in the proofreading and production of my business law books. She is president of the pre-law society and a member of USC's moot court team. Next year, she will move on to law school, and I will miss her.

### **Research Assistant Jason Towne**

Jason is an undergraduate and pre-law student at the Marshall School of Business at USC. Jason has been my research assistant for two years, and in that capacity has researched cases, statutes, and current events. Jason has also used his excellent writing ability to create special feature boxes on contemporary law, ethics, and international law for this book. Next year, Jason will also be on to law school, and I will miss him.

### **Colleagues at USC**

There are certain people and colleagues who are enjoyable to work with and who have made my life easier as I have endeavored to write this revision of *Contemporary Business and Online Commerce Law*. I would like to thank Kerry Fields, my colleague professor who teaches other business law courses at USC, who is an excellent professor and wonderful friend. I would also like to thank Helen Pitts, Marilyn Johnson, Terry Lichvar, Debra Jacobs, and Jean Collins at the Marshall School of Business, who are always a joy to work with.

While writing this Preface and Acknowledgment, I have thought about the many hours I have spent researching, writing, and preparing this manuscript. I have loved every minute, and the knowledge gained has been sufficient reward for the endeavor.

I hope this book and its supplementary materials will serve you as well as they have served me.

*With joy and sadness,  
emptiness and fullness,  
honor and humility,  
I surrender the fruits of this labor.*

Henry R. Cheeseman

# Brief Contents

Preface..... xxii

## UNIT 1 Legal, Ethical, and Digital Environment..... 1

1 Legal Heritage and the Information Age..... 2

2 Constitutional Law for Business and E-Commerce ..... 28

3 Court Systems and Jurisdiction ..... 58

4 Judicial, Administrative, Alternative, and Online Dispute Resolution ..... 80

5 Torts and Strict Liability ..... 112

6 Criminal Law and White-Collar Crime ..... 147

7 Intellectual Property and Piracy ..... 181

8 Ethics of Managers and Social Responsibility of Business ..... 216

## UNIT 2 Contracts and E-Commerce ..... 239

9 Nature of Traditional and Online Contracts ..... 240

10 Agreement and Consideration ..... 258

11 Capacity and Legality ..... 291

12 Genuineness of Assent and Statute of Frauds ..... 315

13 Third-Party Rights and Discharge ..... 343

14 Remedies for Breach of Traditional and Online Contracts ..... 364

15 E-Contracts, Internet Law, and Cyber Crimes ..... 388

## UNIT 3 Sales, Leases, and Electronic Contracts ..... 411

16 Formation of Sales, Lease, and E-Contracts ..... 412

17 Performance of Sales, Lease, and E-Contracts ..... 430

18 Remedies for Breach of Sales, Leases, and E-Contracts ..... 446

19 Warranties and Product Liability ..... 468

## UNIT 4 Negotiable Instruments and Electronic Banking ..... 505

20 Negotiability and Transferability ..... 506

21 Holder in Due Course and Liability of Parties ..... 537

22 Checks, Banking System, and E-Money ..... 565

## UNIT 5 Credit, Secured Transactions, and Bankruptcy ..... 591

23 Credit and Secured Transactions ..... 592

24 Bankruptcy and Reorganization ..... 630

## UNIT 6 Business Organizations and Investor Protection ..... 675

25 Agency Relationships ..... 676

26 Sole Proprietorships and General and Limited Partnerships ..... 713

27 Corporate Formation and Financing .. 749

28 Corporate Governance and the Sarbanes-Oxley Act ..... 776

29 Corporate Acquisitions and Multinational Corporations ..... 807

30 Limited Liability Companies and Limited Liability Partnerships ..... 832

31 Franchises and Special Forms of Business ..... 853

32 Investor Protection and Online Securities Transactions ..... 878

## UNIT 7 Government Regulation and Employment Law ..... 911

33 Antitrust Law ..... 912



34	Consumer Protection and Environmental Law . . . . .	946
35	Employment, Worker Protection, and Labor Law . . . . .	978
36	Equal Opportunity in Employment . . . . .	1010
<b>UNIT 8 Property, Insurance, and Estates. . . . .</b>		<b>1039</b>
37	Personal Property, Bailment, and Insurance . . . . .	1040
38	Real Property and Landlord-Tenant Law . . . . .	1076
39	Family Law, Wills, and Trusts. . . . .	1115
<b>UNIT 9 Accounting Profession. . . . .</b>		<b>1157</b>
40	Accountant's Liability . . . . .	1158

<b>UNIT 10 Global Environment. . . . .</b>		<b>1181</b>
41	International and World Trade Law . . . . .	1182
Appendix A	Case Appendix . . . . .	1211
Appendix B	The Constitution of the United States of America . . . . .	1245
Appendix C	Uniform Commerical Code (2000 Official Text), Article 2. . . . .	1253
Appendix D	Sarbanes-Oxley Act of 2002 (Excerpts). . . . .	1272
Glossary		1278
Case Index		1315
Subject Index		1321

# Contents

Preface . . . . .	xxii
-------------------	------

## UNIT 1 Legal, Ethical, and Digital Environment. . . . . 1

### 1 Legal Heritage and the Information Age . . . . . 2

#### What is Law? . . . . . 3

- INTERNET & TECHNOLOGY: Students Plug In to the Internet . . . . . 4

- CASE 1 LANDMARK CASE: Brown v. Board of Education . . . . . 6

#### Schools of Jurisprudential Thought . . . . . 8

- INTERNATIONAL LAW: Immigration to the United States of America . . . . . 9

#### History of American Law . . . . . 10

- INTERNATIONAL LAW: Adoption of English Common Law in America . . . . . 11

- INTERNATIONAL LAW: The Civil Law System . . . . . 11

#### Sources of Law in the United States . . . . . 12

- CONTEMPORARY ENVIRONMENT: Department of Homeland Security . . . . . 14

- CASE 1 U.S. SUPREME COURT: Gratz v. Bollinger and the Regents of the University of Michigan . . . . . 16

- CASE 2 U.S. SUPREME COURT: Grutter v. Bollinger and the University of Michigan Law School . . . . . 17

#### Briefing a Case: The IRAC Method . . . . . 18

#### Chapter Summary . . . . . 24

#### Test Review Terms and Concepts . . . . . 25

#### Case Problems . . . . . 26

#### Ethics Issues . . . . . 26

#### IRAC Writing Assignment . . . . . 27

### 2 Constitutional Law for Business and E-Commerce . . . . . 28

#### Constitution of the United States of America . . . . . 29

#### Supremacy Clause . . . . . 32

- CASE 1 U.S. SUPREME COURT: Engine Manufacturers Association v. South Coast Air Quality Management District . . . . . 33

#### Commerce Clause . . . . . 33

- CASE 2 U.S. SUPREME COURT: Minnesota v. Mille Lacs Bank of Chippewa Indians . . . . . 34

- CONTEMPORARY ENVIRONMENT: Native American Law . . . . . 35

- CASE 3 U.S. SUPREME COURT: Crosby, Secretary of Administration and Finance of Massachusetts v. National Foreign Trade Council . . . . . 36

- CASE 1 LANDMARK CASE: Heart of Atlanta Motel v. United States . . . . . 38

- CASE 4 U.S. SUPREME COURT: Reno, Attorney General of the United States v. Condon, Attorney General of South Carolina . . . . . 39

- CASE 5 U.S. SUPREME COURT: Gonzales, Attorney General of the United States v. Raich . . . . . 40

- CASE 6 U.S. SUPREME COURT: Granholm, Governor of Michigan v. Heald . . . . . 41

#### Bill of Rights . . . . . 42

#### Freedom of Speech . . . . . 43

- CASE 7 U.S. SUPREME COURT: United States v. Playboy Entertainment Group, Inc. . . . . 43

- CASE 8 U.S. SUPREME COURT: Mainstream Marketing Services, Inc. v. Federal Trade Commission and Federal Communications Commission . . . . . 45

- INTERNET & TECHNOLOGY: Commercial Speech: Junk Faxes . . . . . 46

- INTERNET & TECHNOLOGY: Broad Free Speech Rights Granted in Cyberspace . . . . . 47

#### Freedom of Religion . . . . . 47

- CASE 9 U.S. SUPREME COURT: McCreary County, Kentucky v. American Civil Liberties Union of Kentucky . . . . . 48

- CASE 10 U.S. SUPREME COURT: Van Orden v. Perry, Governor of Texas . . . . . 49

#### Equal Protection Clause . . . . . 50

#### Due Process Clause . . . . . 51

#### Privileges and Immunities Clause . . . . . 52

#### Chapter Summary . . . . . 53

#### Test Review Terms and Concepts . . . . . 55

#### Case Problems . . . . . 55

#### Ethics Issues . . . . . 56

#### IRAC Writing Assignment . . . . . 57

### 3 Court Systems and Jurisdiction . . . . . 58

#### State Court Systems . . . . . 59

- CONTEMPORARY ENVIRONMENT: Specialized Courts Hear Commercial Disputes . . . . . 61

#### Federal Court System . . . . . 63

#### United States Supreme Court . . . . . 65

- LANDMARK LAW: The Process of Choosing a Supreme Court Justice . . . . . 66

- CONTEMPORARY ENVIRONMENT: "I'll Take You to the U.S. Supreme Court!" . . . . . 69

#### Jurisdiction of Federal and State Courts . . . . . 69

#### Personal Jurisdiction of Courts . . . . . 70

- CASE 1 LANDMARK CASE: International Shoe Company v. State of Washington . . . . . 71

CASE 1 U.S. SUPREME COURT: Carnival Cruise Lines, Inc. v. Shute . . . . .	74
■ INTERNET & TECHNOLOGY: Obtaining Personal Jurisdiction in Cyberspace . . . . .	75
Chapter Summary . . . . .	75
Test Review Terms and Concepts . . . . .	78
Case Problems. . . . .	78
Ethics Issues . . . . .	79
IRAC Writing Assignment . . . . .	79
<b>4 Judicial, Administrative, Alternative, and Online Dispute Resolution . . . . .</b>	<b>80</b>
Pretrial Litigation Process. . . . .	81
CASE 1 U.S. SUPREME COURT: Swierkiewicz v. Sorema N.A. . . . .	83
CASE 2 Bertram v. Norden, et al. . . . .	85
■ INTERNET & TECHNOLOGY: E-Filings. . . . .	86
CASE 3 Norgart v. The Upjohn Company. . . . .	86
Dismissals and Pretrial Judgments . . . . .	88
CASE 4 Toote v. Canada Dry Bottling Company of New York, Inc. and Pathmark Stores, Inc. . . . .	89
Settlement Conference . . . . .	90
■ CONTEMPORARY ENVIRONMENT: Cost-Benefit Analysis of a Lawsuit. . . . .	90
■ CONTEMPORARY ENVIRONMENT: Ford Settles Lawsuit. . . . .	90
Trial . . . . .	91
CASE 5 Ferlito v. Johnson & Johnson Products, Inc. . . . .	92
Appeal. . . . .	93
CASE 6 U.S. SUPREME COURT: Weisgram v. Marley Company . . . . .	94
■ INTERNATIONAL LAW: Japan's Legal System . . . . .	95
Alternative Dispute Resolution. . . . .	95
■ LANDMARK LAW: Federal Arbitration Act. . . . .	96
CASE 7 U.S. SUPREME COURT: Circuit City Stores, Inc. v. Adams. . . . .	99
■ INTERNET & TECHNOLOGY: Online Dispute Resolution . . . . .	100
Administrative Law. . . . .	100
■ CONTEMPORARY ENVIRONMENT: Federal Administrative Agencies . . . . .	104
Chapter Summary . . . . .	105
Test Review Terms and Concepts . . . . .	107
Case Problems. . . . .	108
Ethics Issues . . . . .	110
IRAC Writing Assignment . . . . .	111
<b>5 Torts and Strict Liability . . . . .</b>	<b>112</b>
Intentional Torts Against Persons . . . . .	113
■ ETHICS SPOTLIGHT: Wal-Mart Liable for False Imprisonment. . . . .	114
■ CONTEMPORARY ENVIRONMENT: Eminem's Rap Song Is Not Slander . . . . .	116
CASE 1 Themed Restaurants, Inc., Doing Business as Lucky Cheng's v. Zagat Survey, LLC . . . . .	117
CASE 2 Roach v. Stern. . . . .	119
Intentional Torts Against Property . . . . .	120
Unintentional Torts (Negligence) . . . . .	121
■ CONTEMPORARY ENVIRONMENT: Ouch! McDonald's Coffee's Is Too Hot! . . . . .	122
CASE 3 Wilhelm v. Flores. . . . .	123
CASE 4 James v. Meow Media, Inc. . . . .	124
CASE 5 Clancy v. Goad . . . . .	125
CASE 1 LANDMARK CASE: Palsgraf v. The Long Island Railroad Company . . . . .	126
CASE 6 Carter v. Indianapolis Power & Light Company and Indiana Bell Telephone Company, Inc. . . . .	127
Special Negligence Doctrines . . . . .	128
CASE 7 Colbert v. Moomba Sports, Inc. and Skier's Choice, Inc. . . . .	129
CASE 8 Matthias v. Accor Economy Lodging, Inc. and Motel 6 Operating L.P. . . . .	132
■ CONTEMPORARY ENVIRONMENT: Federal Tort Claims Act. . . . .	133
CASE 9 U.S. SUPREME COURT: Dolan v. United States Postal Service . . . . .	134
Defenses Against Negligence . . . . .	135
CASE 10 Lilya v. The Greater Gulf State Fair, Inc. . . . .	135
CASE 11 Hurst v. East Coast Hockey League, Inc. and Knoxville Cherokees Hockey, Inc. . . . .	136
Strict Liability . . . . .	138
CASE 12 Cook v. Whitsell-Sherman . . . . .	138
Chapter Summary . . . . .	139
Test Review Terms and Concepts . . . . .	143
Case Problems. . . . .	143
Ethics Issues . . . . .	145
IRAC Writing Assignment . . . . .	146
<b>6 Criminal Law and White-Collar Crime . . . . .</b>	<b>147</b>
Definition of <i>Crime</i> . . . . .	148
■ ETHICS SPOTLIGHT: Martha Stewart Guilty of a Crime . . . . .	151
Criminal Procedure . . . . .	152
CASE 1 U.S. SUPREME COURT: Atwater v. Lago Vista, Texas. . . . .	152
Common Crimes . . . . .	154
CASE 2 State of Ohio v. Wilson . . . . .	157
■ CONTEMPORARY ENVIRONMENT: The Crime of Manslaughter . . . . .	158
White-Collar Crime . . . . .	160
■ INTERNATIONAL LAW: Foreign Corrupt Practices Act. . . . .	161
■ LANDMARK STATUTE: Racketeer Influenced and Corrupt Organizations Act (RICO). . . . .	163

■ ETHICS SPOTLIGHT: Money Laundering. . . . .	164
■ ETHICS SPOTLIGHT: Corporate Criminal Liability . . . . .	164
<b>Protection Against Unreasonable Search and Seizure . . . . .</b>	<b>164</b>
CASE 3 U.S. SUPREME COURT: <i>Kyllo v. United States</i> . . . . .	165
CASE 4 <i>United States of America v. Garcia</i> . . . . .	166
CASE 5 U.S. SUPREME COURT: <i>City of Indianapolis v. Edmond</i> . . . . .	167
CASE 6 U.S. SUPREME COURT: <i>New York v. Burger</i> . . . . .	168
■ CONTEMPORARY ENVIRONMENT: Federal Antiterrorism Act . . . . .	169
<b>Fifth Amendment Privilege Against Self-Incrimination . . . . .</b>	<b>170</b>
<b>Other Constitutional Protections . . . . .</b>	<b>171</b>
■ INTERNATIONAL LAW: International Extortion and Bribery. . . . .	172
<b>Chapter Summary . . . . .</b>	<b>173</b>
<b>Test Review Terms and Concepts . . . . .</b>	<b>177</b>
<b>Case Problems. . . . .</b>	<b>177</b>
<b>Ethics Issues . . . . .</b>	<b>179</b>
<b>IRAC Writing Assignment . . . . .</b>	<b>179</b>
<b>7 Intellectual Property and Piracy . . . . .</b>	<b>181</b>
<b>Trade Secrets. . . . .</b>	<b>182</b>
■ INTERNET & TECHNOLOGY: The Economic Espionage Act . . . . .	183
■ ETHICS SPOTLIGHT: Coca-Cola Worker Convicted of Trying to Sell a Trade Secret to Pepsi-Cola . . . . .	183
<b>Patents . . . . .</b>	<b>184</b>
CASE 1 U.S. SUPREME COURT: <i>J.E.M. Ag Supply, Inc., d.b.a. Farm Advantage, Inc. v. Pioneer Hi-Bred International, Inc.</i> . . . . .	186
■ CONTEMPORARY ENVIRONMENT: The Cost of Protecting a Patent . . . . .	187
■ CONTEMPORARY ENVIRONMENT: Amazon.com Denied Patent . . . . .	188
CASE 2 U.S. SUPREME COURT: <i>Pfaff v. Wells Electronics, Inc.</i> . . . . .	189
■ INTERNET & TECHNOLOGY: Cyber Business Plans are Patentable . . . . .	190
■ ETHICS SPOTLIGHT: Inventor Wipes Ford's and Chrysler's Windshields Clean . . . . .	190
■ ETHICS SPOTLIGHT: Microsoft Slapped with \$1.52 Billion MP3 Verdict. . . . .	191
<b>Copyrights. . . . .</b>	<b>191</b>
■ INTERNET & TECHNOLOGY: Computer Software Copyright Act. . . . .	193
CASE 3 <i>BMG Music v. Gonzalez</i> . . . . .	194
CASE 4 U.S. SUPREME COURT: <i>Metro-Goldwyn-Mayer Studios v. Grokster, Ltd. and StreamCast Networks, Inc.</i> . . . . .	195
CASE 5 <i>Newton v. Beastie Boys</i> . . . . .	196
■ ETHICS SPOTLIGHT: Elvis Presley's Videos Copied . . . . .	197
■ INTERNET & TECHNOLOGY: The NET Act: Criminal Copyright Infringement. . . . .	198
■ INTERNET & TECHNOLOGY: Digital Millennium Copyright Act. . . . .	198
CASE 6 <i>Sony Computer Entertainment America, Inc. v. Filpiak</i> . . . . .	199
<b>Trademarks . . . . .</b>	<b>200</b>
CASE 7 <i>Menashe v. Victoria's Secret Stores, Inc.</i> . . . . .	202
■ ETHICS SPOTLIGHT: Apple Computer Sued for Infringing the "iPhone" Trademark . . . . .	203
CASE 8 U.S. SUPREME COURT: <i>Two Pesos, Inc. v. Taco Cabana, Inc.</i> . . . . .	204
■ INTERNATIONAL LAW: Chinese Courts Uphold Intellectual Property Rights. . . . .	205
CASE 9 <i>Retail Services Inc. v. Freebies Publishing</i> . . . . .	207
■ INTERNATIONAL LAW: International Protection of Intellectual Property Rights. . . . .	209
<b>Chapter Summary . . . . .</b>	<b>210</b>
<b>Test Review Terms and Concepts . . . . .</b>	<b>212</b>
<b>Case Problems. . . . .</b>	<b>213</b>
<b>Ethics Issues . . . . .</b>	<b>214</b>
<b>IRAC Writing Assignment . . . . .</b>	<b>215</b>
<b>8 Ethics of Managers and Social Responsibility of Business . . . . .</b>	<b>216</b>
<b>Ethics and the Law . . . . .</b>	<b>217</b>
<b>Business Ethics . . . . .</b>	<b>218</b>
■ ETHICS SPOTLIGHT: Wal-Mart Pays Big for Meal Break Violations . . . . .	218
■ ETHICS SPOTLIGHT: <i>Qui Tam</i> Lawsuit . . . . .	219
CASE 1 <i>Bradley v. McDonald's Corporation</i> . . . . .	220
■ ETHICS SPOTLIGHT: New York City Bans Trans Fats . . . . .	221
CASE 2 <i>Pizza Hut, Inc. v. Papa John's International, Inc.</i> . . . . .	221
■ ETHICS SPOTLIGHT: Procter & Gamble Wins "Satanism" Lawsuit. . . . .	223
CASE 3 U.S. SUPREME COURT: <i>United States v. Sun-Diamond Growers of California</i> . . . . .	224
■ ETHICS SPOTLIGHT: Disney Losses "Pooh Bear" Lawsuit. . . . .	225
<b>Social Responsibility of Business . . . . .</b>	<b>226</b>
CASE 4 U.S. SUPREME COURT: <i>Wal-Mart Stores, Inc. v. Samara Brothers, Inc.</i> . . . . .	227
■ ETHICS SPOTLIGHT: Student Loan Scandal Comes to Light. . . . .	228
■ ETHICS SPOTLIGHT: Media Giant Pays for Bomb Scare . . . . .	229
■ ETHICS SPOTLIGHT: State Farm: Not Such a Good Neighbor . . . . .	230

■ ETHICS SPOTLIGHT: Sarbanes-Oxley Act Prompts Public Companies to Adopt Codes of Ethics .....	231
■ ETHICS SPOTLIGHT: The Corporate Social Audit .....	233
■ INTERNATIONAL LAW: United Nations Code of Conduct for Transnational Corporations .....	233
Chapter Summary .....	234
Test Review Terms and Concepts .....	235
Case Problems .....	235
Ethics Issues .....	236
IRAC Writing Assignment .....	237

## **UNIT 2 Contracts & E-Commerce ..... 239**

### **9 Nature of Traditional and Online Contracts ..... 240**

Definition of a <i>Contract</i> .....	241
■ CONTEMPORARY ENVIRONMENT: The Evolution of the Modern Law of Contracts ....	243
Sources of Contract Law .....	243
■ INTERNET & TECHNOLOGY: Uniform Computer Information Transactions Act (UCITA) .....	244
CASE 1 City of Everett, Washington v. Mitchell ...	244
CASE 2 Welles v. Academy of Motion Picture Arts and Sciences .....	245
■ INTERNET & TECHNOLOGY: E-Commerce .....	247
Classifications of Contracts .....	247
CASE 3 Wrench LLC v. Taco Bell Corporation ....	248
■ ETHICS SPOTLIGHT: "Scrabble" Owner Held Liable on an Implied-in-Fact Contract .....	249
CASE 4 Powell v. Thompson-Powell .....	250
Equity .....	253
■ ETHICS SPOTLIGHT: Equity Saves Contracting Party .....	253
■ INTERNATIONAL LAW: The United Nations Convention on Contracts for the International Sale of Goods .....	254
Chapter Summary .....	255
Test Review Terms and Concepts .....	256
Case Problems .....	256
Ethics Issues .....	257
IRAC Writing Assignment .....	257

### **10 Agreement and Consideration ..... 258**

Agreement .....	259
Offer .....	259
CASE 1 Marder v. Jennifer Lopez .....	261
■ ETHICS SPOTLIGHT: "A Contract Is a Contract Is a Contract" .....	262
CASE 2 Mesaros v. United States .....	263
CASE 3 Lim v. The TV Corporation International ..	264

Termination of Offers .....	265
CASE 4 Mclaughlin v. Heikkila .....	266

■ CONTEMPORARY ENVIRONMENT: Option Contracts .....	268
--	-----

Acceptance .....	269
------------------	-----

CASE 5 Montgomery v. English .....	269
------------------------------------	-----

CASE 6 Ellefson v. Megadeth, Inc. ....	272
--	-----

■ INTERNET & TECHNOLOGY: Nondisclosure Agreements .....	274
---	-----

Consideration .....	275
---------------------	-----

CASE 7 Alden v. Presley .....	276
-------------------------------	-----

CASE 8 Cooper v. Smith .....	276
------------------------------	-----

■ CONTEMPORARY ENVIRONMENT: When Is Consideration Inadequate? .....	277
---	-----

Contracts Lacking Consideration .....	278
---------------------------------------	-----

CASE 9 In the Matter of Wirth .....	279
-------------------------------------	-----

■ CONTEMPORARY ENVIRONMENT: Special Business Contracts .....	281
--	-----

Promissory Estoppel .....	281
---------------------------	-----

■ INTERNATIONAL LAW: China Adopts New Contract Laws .....	282
---	-----

Chapter Summary .....	283
-----------------------	-----

Test Review Terms and Concepts .....	286
--------------------------------------	-----

Case Problems .....	286
---------------------	-----

Ethics Issues .....	288
---------------------	-----

IRAC Writing Assignment .....	290
-------------------------------	-----

### **11 Capacity and Legality ..... 291**

Minors .....	292
--------------	-----

CASE 1 Jones v. Free Flight Sport Aviation, Inc. ...	295
--	-----

CASE 2 Yale Diagnostic Radiology v. Estate of Fountain .....	296
--	-----

■ CONTEMPORARY ENVIRONMENT: Special Types of Minors' Contracts .....	297
--	-----

Mentally Incompetent Persons .....	297
------------------------------------	-----

CASE 3 Campbell v. Carr .....	298
-------------------------------	-----

Intoxicated Persons .....	299
---------------------------	-----

CASE 4 Smith v. Williamson .....	300
----------------------------------	-----

Legality .....	301
----------------	-----

CASE 5 Flood v. Fidelity & Guaranty Life Insurance Co. ....	302
---	-----

CASE 6 Ryno v. Tyra .....	304
---------------------------	-----

Special Business Contracts .....	304
----------------------------------	-----

■ ETHICS SPOTLIGHT: An Unlicensed Contractor Gets Dunked .....	305
--	-----

CASE 7 Zivich v. Mentor Soccer Club, Inc. ....	306
--	-----

■ CONTEMPORARY ENVIRONMENT: Covenants Not to Compete .....	307
--	-----

Unconscionable Contracts .....	308
--------------------------------	-----

■ ETHICS SPOTLIGHT: Unconscionable Contract ...	309
---	-----

Chapter Summary .....	310
-----------------------	-----

Test Review Terms and Concepts .....	312
--------------------------------------	-----



Case Problems . . . . .	313
Ethics Issues . . . . .	314
IRAC Writing Assignment . . . . .	314
<b>12 Genuineness of Assent and Statute of Frauds . . . . .</b>	<b>315</b>
Mistake . . . . .	316
CASE 1 Wells Fargo Credit Corporation v. Martin . . . . .	317
Fraud . . . . .	318
■ ETHICS SPOTLIGHT: Proving Fraud . . . . .	318
CASE 2 Krysa v. Paine . . . . .	320
CASE 3 Wilson v. Western National Life Insurance Company . . . . .	321
Undue Influence . . . . .	323
■ ETHICS SPOTLIGHT: Undue Influence . . . . .	323
Duress . . . . .	324
■ ETHICS SPOTLIGHT: Economic Duress . . . . .	325
Statute of Frauds . . . . .	326
CASE 4 Sutton v. Warner . . . . .	327
■ ETHICS SPOTLIGHT: An Oral Contract Is Not Worth the Paper It's Written On . . . . .	330
■ ETHICS SPOTLIGHT: Promissory Estoppel . . . . .	330
Formality of the Writing . . . . .	331
Parole Evidence Rule . . . . .	333
■ INTERNATIONAL LAW: Signatures in Foreign Countries . . . . .	333
Chapter Summary . . . . .	334
Test Review Terms and Concepts . . . . .	337
Case Problems . . . . .	337
Ethics Issues . . . . .	341
IRAC Writing Assignment . . . . .	342
<b>13 Third-Party Rights and Discharge . . . . .</b>	<b>343</b>
Assignment of Rights . . . . .	344
CASE 1 Accrued Financial Services, Incorporated v. Prime Retail, Incorporated . . . . .	346
■ ETHICS SPOTLIGHT: Successive Assignments of the Same Right . . . . .	347
Delegation of Duties . . . . .	348
Third-Party Beneficiaries . . . . .	349
CASE 2 Bain v. Gillispie . . . . .	351
Covenants and Conditions . . . . .	352
Discharge of Performance . . . . .	354
CASE 3 Parker v. Arthur Murray, Inc. . . . .	355
■ CONTEMPORARY ENVIRONMENT: Commercial Impracticability . . . . .	356
Chapter Summary . . . . .	358
Test Review Terms and Concepts . . . . .	361
Case Problems . . . . .	361
Ethics Issues . . . . .	362
IRAC Writing Assignment . . . . .	363
<b>14 Remedies for Breach of Traditional and Online Contracts . . . . .</b>	<b>364</b>
Performance and Breach . . . . .	365
CASE 1 Chodos v. West Publishing Company, Inc. . . . .	367
Monetary Damages . . . . .	368
CASE 2 Parker v. Twentieth Century Fox Film Corporation . . . . .	370
CASE 3 Uzan v. 845 UN Limited Partnership . . . . .	371
CASE 4 California and Hawaiian Sugar Co. v. Sun Ship, Inc. . . . .	373
Rescission and Restitution . . . . .	375
CASE 5 Hickman v. Bates . . . . .	375
■ CONTEMPORARY ENVIRONMENT: Must a Wedding Ring Be Returned if the Engagement is Broken Off? . . . . .	377
Equitable Remedies . . . . .	377
CASE 6 Alba v. Kaufmann . . . . .	378
Torts Associated with Contracts . . . . .	380
■ ETHICS SPOTLIGHT: Interference with a Contract . . . . .	380
CASE 7 O'Neill v. Gallant Insurance Company . . . . .	381
Chapter Summary . . . . .	382
Test Review Terms and Concepts . . . . .	384
Case Problems . . . . .	384
Ethics Issues . . . . .	386
IRAC Writing Assignment . . . . .	387
<b>15 E-Contracts, Internet Law, and Cyber Crimes . . . . .</b>	<b>388</b>
The Internet . . . . .	389
■ INTERNET & TECHNOLOGY: Free Speech and the Internet . . . . .	390
CASE 1 John Doe v. GTE Corporation . . . . .	391
Domain Names . . . . .	392
■ INTERNET & TECHNOLOGY: The Anticybersquatting Consumer Protection Act . . . . .	393
CASE 2 E. & J. Gallo Winery v. Spider Webs Ltd. . . . .	394
■ INTERNET & TECHNOLOGY: Armani Outmaneuvered for Domain Name . . . . .	395
■ INTERNET & TECHNOLOGY: Domain Names Sold for Millions . . . . .	395
E-Contracts . . . . .	396
■ INTERNET & TECHNOLOGY: E-Contracts Writing Requirement . . . . .	396
■ INTERNET & TECHNOLOGY: E-Signatures . . . . .	396
Software and E-Licensing . . . . .	397
■ INTERNET & TECHNOLOGY: Click-Wrap Licenses . . . . .	398
■ INTERNET & TECHNOLOGY: Counteroffers Ineffectual Against Electronic Agents . . . . .	398
■ INTERNET & TECHNOLOGY: Consumers Saved from Electronic Errors . . . . .	399

■ INTERNET & TECHNOLOGY: Electronic Self-Help .....	400
CASE 3 M.A. Mortenson Company, Inc. v. Timberline Software Corporation .....	401
Online Privacy .....	402
Cyber Crimes .....	403
■ INTERNET & TECHNOLOGY: Counterfeit Access Device and Computer Fraud and Abuse Act .....	403
■ INTERNET & TECHNOLOGY: Electronic Funds Transfer Act .....	404
■ INTERNET & TECHNOLOGY: Cyber Identity Fraud .....	404
■ INTERNET & TECHNOLOGY: Information Infrastructure Protection Act (IIP Act) .....	404
■ INTERNET & TECHNOLOGY: Computer Hacker Found Guilty of Cyber Crime .....	405
Chapter Summary .....	406
Test Review Terms and Concepts .....	408
Case Problems .....	408
Ethics Issues .....	410
IRAC Writing Assignment .....	410

### **UNIT 3 Sales, Leases, and Electronic Contracts..... 411**

<b>16 Formation of Sales, Lease, and E-Contracts. . . . .</b>	<b>412</b>
Uniform Commercial Code (UCC) . . . . .	413
■ LANDMARK LAW: The Uniform Commercial Code (UCC). . . . .	414
Article 2 (Sales). . . . .	414
CASE 1 Brandt v. Boston Scientific Corporation and Sarah Bush Lincoln Health Center. . . . .	415
Article 2A (Leases) . . . . .	416
■ CONTEMPORARY ENVIRONMENT: Revised Article 2 (Sales) and Revised Article 2A (Leases) . . . . .	418
Formation of Sales, Leases and E-Contracts: Offer . . . . .	418
■ CONTEMPORARY ENVIRONMENT: UCC "Firm Offer" Rule. . . . .	419
Formation of Sales and Lease Contracts: Acceptance . . . . .	420
■ CONTEMPORARY ENVIRONMENT: UCC Permits Additional Terms . . . . .	420
■ CONTEMPORARY ENVIRONMENT: "Battle of the Forms" . . . . .	421
UCC Statute of Frauds. . . . .	421
■ CONTEMPORARY ENVIRONMENT: UCC Written Confirmation Rule . . . . .	422
■ ETHICS SPOTLIGHT: A Chicken Farmer Gets Plucked . . . . .	422
■ INTERNET & TECHNOLOGY: Revised Article 2 (Sales) and Article 2A (Leases) Recognizes the Importance of Electronic Contracting . . . . .	424

■ INTERNATIONAL LAW: Letters of Credit in International Trade .....	424
Chapter Summary .....	425
Test Review Terms and Concepts .....	427
Case Problems .....	427
Ethics Issues .....	429
IRAC Writing Assignment .....	429

### **17 Performance of Sales, Lease, and E-Contracts..... 430**

■ INTERNET & TECHNOLOGY: Revised Article 2 (Sales) and Revised Article 2A (Leases) Establish Rules for Electronic Contracts and Signatures .....	431
Identification and Passage of Title .....	432
Risk of Loss: No Breach of Sales Contract .....	433
■ CONTEMPORARY ENVIRONMENT: Shipping Terms .....	433
Risk of Loss: Conditional Sales .....	434
CASE 1 Prewitt v. Numismatic Funding Corporation .....	435
Risk of Loss: Breach of Sales Contract .....	436
Risk of Loss: Lease Contracts .....	437
■ CONTEMPORARY ENVIRONMENT: Insuring Against Loss of Goods .....	437
Sales by Nonowners .....	437
CASE 2 Lindholm v. Brant .....	438
■ INTERNATIONAL LAW: International Trade Terms .....	440
Chapter Summary .....	440
Test Review Terms and Concepts .....	443
Case Problems .....	443
Ethics Issues .....	445
IRAC Writing Assignment .....	445

### **18 Remedies for Breach of Sales, Lease, and E-Contracts..... 446**

Seller's and Lessor's Performance .....	447
Case 1 Joc Oil USA, Inc. v. Consolidated Edison Company of New York, Inc. ....	450
■ ETHICS SPOTLIGHT: Good Faith and Reasonableness .....	451
Buyer's and Lessee's Performance .....	451
Seller's and Lessor's Remedies .....	453
■ CONTEMPORARY ENVIRONMENT: Lost Volume Seller .....	455
Buyer's and Lessee's Remedies .....	456
■ INTERNET & TECHNOLOGY: Revised Article 2 (Sales) and Revised Article 2A (Leases) Recognize the Formation and Enforcement of Electronic Contracts .....	459
Additional Performance Issues .....	459
■ ETHICS SPOTLIGHT: Unconscionable Contracts .....	460

Chapter Summary . . . . .	461	Types of Negotiable Instruments . . . . .	508
Test Review Terms and Concepts . . . . .	465	Creating a Negotiable Instrument . . . . .	512
Case Problems. . . . .	465	■ CONTEMPORARY ENVIRONMENT: Authorized Representative's Signature . . . . .	513
Ethics Issues . . . . .	467	Unconditional Promise or Order to Pay . . . . .	513
IRAC Writing Assignment . . . . .	467	CASE 1 FFP Marketing Company, Inc. v. Long Lane Master Trust IV . . . . .	515
<b>19 Warranties and Product Liability . . . . .</b>	<b>468</b>	■ CONTEMPORARY ENVIRONMENT: Payable to Order or to Bearer . . . . .	516
Express Warranties . . . . .	469	■ CONTEMPORARY ENVIRONMENT: Variable Interest Rate Loan . . . . .	517
CASE 1 Daughtrey v. Ashe . . . . .	470	CASE 2 Deeks v. United States . . . . .	518
Implied Warranties . . . . .	472	■ INTERNATIONAL LAW: Negotiable Instruments Payable in Foreign Currency . . . . .	520
CASE 2 Denny v. Ford Motor Company . . . . .	472	Nonnegotiable Contracts and Assignment . . . . .	520
CASE 3 Mack Massey Motors, Inc. v. Garnica . . . . .	474	Transfer by Negotiation . . . . .	521
Warranty Disclaimers . . . . .	476	■ CONTEMPORARY ENVIRONMENT: Converting Order and Bearer Paper . . . . .	522
■ INTERNET & TECHNOLOGY: Warranty Disclaimers in Software Licenses. . . . .	476	Indorsement . . . . .	522
■ LANDMARK LAW: Magnuson-Moss Warranty Act Protects Consumers. . . . .	477	■ CONTEMPORARY ENVIRONMENT: Multiple Payee or Indorsees. . . . .	527
CASE 4 Milicevic v. Fletcher Jones Imports, Ltd. and Mercedes-Benz USA . . . . .	477	Chapter Summary . . . . .	527
Product Liability . . . . .	478	Test Review Terms and Concepts . . . . .	532
Strict Liability . . . . .	480	Case Problems. . . . .	533
■ CONTEMPORARY ENVIRONMENT: Strict Liability in the <i>Restatement of Torts</i> . . . . .	481	Ethics Issues . . . . .	535
Defective Products . . . . .	482	IRAC Writing Assignment . . . . .	536
CASE 5 Shoshone Coca-Cola Bottling Company v. Dolinski . . . . .	483	<b>21 Holder in Due Course and Liability of Parties . . . . .</b>	<b>537</b>
CASE 6 Lakin v. Senco Products, Inc. . . . .	484	Holder in Due Course (HDC) . . . . .	538
CASE 7 Higgins v. Intex Recreation Corporation. . . . .	485	Requirements for HDC Status . . . . .	539
■ ETHICS SPOTLIGHT: Design Defect in Pool Equipment . . . . .	486	■ CONTEMPORARY ENVIRONMENT: Shelter Principle . . . . .	541
CASE 8 Karlsson v. Ford Motor Company . . . . .	487	Signature Liability. . . . .	542
CASE 9 Crosswhite v. Jumpking, Inc. . . . .	488	CASE 1 Grand Island Production Credit Assn. v. Humphrey. . . . .	543
CASE 10 Glenn v. Overhead Door Corporation. . . . .	489	■ CONTEMPORARY ENVIRONMENT: Accommodation Party . . . . .	545
CASE 11 Elsroth v. Johnson & Johnson . . . . .	490	CASE 2 S. Mansukhlal & Company v. Husein. . . . .	546
CASE 12 U.S. SUPREME COURT: Philip Morris USA v. Williams. . . . .	492	Forged Indorsement . . . . .	547
Defenses to Product Liability . . . . .	493	■ ETHICS SPOTLIGHT: Imposter Rule . . . . .	548
■ ETHICS SPOTLIGHT: General Motors Liable for Design Defect. . . . .	495	■ ETHICS SPOTLIGHT: Fictitious Payee Rule . . . . .	548
Chapter Summary . . . . .	496	Warranty Liability . . . . .	549
Test Review Terms and Concepts . . . . .	500	Defenses . . . . .	550
Case Problems. . . . .	500	■ LANDMARK LAW: FTC Rule Limits HDC Status. . . . .	554
Ethics Issues . . . . .	502	Discharge . . . . .	554
IRAC Writing Assignment . . . . .	503	Chapter Summary . . . . .	555
<b>UNIT 4 Negotiable Instruments and Electronic Banking . . . . .</b>	<b>505</b>	Test Review Terms and Concepts . . . . .	560
<b>20 Negotiability and Transferability. . . . .</b>	<b>506</b>	Case Problems. . . . .	561
Negotiable Instruments . . . . .	507	Ethics Issues . . . . .	563
■ LANDMARK LAW: Revised Article 3 (Negotiable Instruments) of the UCC. . . . .	508	IRAC Writing Assignment . . . . .	564

<b>22 Checks, Banking System, and E-Money</b> . . . . .	<b>565</b>
The Bank-Customer Relationship . . . . .	566
Ordinary Checks . . . . .	567
■ INTERNET & TECHNOLOGY: Electronic Fund Transfer Systems . . . . .	568
Special Types of Checks . . . . .	568
■ INTERNET & TECHNOLOGY: Bank Debit Cards . . . . .	570
Honoring Checks . . . . .	571
■ CONTEMPORARY ENVIRONMENT: Federal Currency Reporting Law . . . . .	573
Forged Signatures and Altered Checks . . . . .	573
CASE 1 <i>Triffin v. Pomerantz Staffing Services, LLC</i> . . . . .	574
■ CONTEMPORARY ENVIRONMENT: Receipt of Bank Statement . . . . .	575
CASE 2 <i>Spacemakers of America, Inc. v. SunTrust Bank</i> . . . . .	575
The Collection Process . . . . .	577
■ CONTEMPORARY ENVIRONMENT: The Federal Reserve System . . . . .	577
■ CONTEMPORARY ENVIRONMENT: Failure to Examine Bank Statements in a Timely Manner . . . . .	580
CASE 3 <i>State of Tennessee v. Heck</i> . . . . .	580
■ INTERNATIONAL LAW: Hiding Money in Offshore Banks . . . . .	581
Commercial Wire Transfers . . . . .	582
■ INTERNET & TECHNOLOGY: Article 4A (Funds Transfers) . . . . .	582
Chapter Summary . . . . .	583
Test Review Terms and Concepts . . . . .	588
Case Problems . . . . .	588
Ethics Issues . . . . .	590
IRAC Writing Assignment . . . . .	590

## UNIT 5 Credit, Secured Transactions, and Bankruptcy . . . . . 591

<b>23 Credit and Secured Transactions</b> . . . . .	<b>592</b>
Unsecured and Secured Credit . . . . .	593
■ CONTEMPORARY ENVIRONMENT: Unsecured Credit Versus Secured Credit . . . . .	594
Security Interest in Real Property . . . . .	595
CASE 1 <i>Bank of South Palm Beaches v. Stockton, Whatley, Davin &amp; Company</i> . . . . .	597
■ CONTEMPORARY ENVIRONMENT: Mechanic's Lien . . . . .	599
Secured Transactions: Revised Article 9 of the UCC . . . . .	600

■ CONTEMPORARY TREND: Revised Article 9—Secured Transactions . . . . .	600
Creating and Perfecting a Security Interest . . . . .	604
CASE 2 <i>In re Greenbelt Cooperative, Inc.</i> . . . . .	607
CASE 3 <i>In re Phillips</i> . . . . .	608
Priority of Claims . . . . .	610
■ INTERNET & TECHNOLOGY: Revised Article 9 (Secured Transactions) Recognizes the Importance of Electronic Records . . . . .	612
Default and Remedies . . . . .	612
■ CONTEMPORARY ENVIRONMENT: Artisan's Liens . . . . .	614
Surety and Guaranty Arrangements . . . . .	615
CASE 4 <i>General Motors Acceptance Corporation v. Daniels</i> . . . . .	615
Debtor-Protection Law . . . . .	616
CASE 5 U.S. SUPREME COURT: Household Credit Services, Inc. and MBNA America Bank, N.A. v. Pfennig . . . . .	617
■ CONTEMPORARY ENVIRONMENT: Collection Remedies . . . . .	620
Chapter Summary . . . . .	620
Test Review Terms and Concepts . . . . .	625
Case Problems . . . . .	626
Ethics Issues . . . . .	628
IRAC Writing Assignment . . . . .	629
<b>24 Bankruptcy and Reorganization</b> . . . . .	<b>630</b>
Bankruptcy Law . . . . .	631
■ LANDMARK LAW: Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 . . . . .	632
Bankruptcy Procedure . . . . .	634
■ ETHICS SPOTLIGHT: Attorney Certification . . . . .	636
■ CONTEMPORARY ENVIRONMENT: Reaffirmation Agreement . . . . .	638
Bankruptcy Estate . . . . .	639
CASE 1 <i>In re Lebovitz</i> . . . . .	640
CASE 2 U.S. SUPREME COURT: <i>Rousey v. Jacoway</i> . . . . .	641
■ ETHICS SPOTLIGHT: 2005 Act Limits the Homestead Exemption . . . . .	642
■ ETHICS SPOTLIGHT: Fraudulent Transfers Before Bankruptcy . . . . .	644
Chapter 7—Liquidation . . . . .	644
CASE 3 U.S. SUPREME COURT: <i>Kawaauhau v. Geiger</i> . . . . .	651
■ CONTEMPORARY ENVIRONMENT: Discharge of Student Loans . . . . .	652
Chapter 13—Adjustment of Debts of an Individual with Regular Income . . . . .	652
Chapter 11—Reorganization . . . . .	655
■ CONTEMPORARY ENVIRONMENT: UAL Corporation's Chapter 11 Bankruptcy . . . . .	657