AMENDED IN ASSEMBLY MAY 7, 2013

AMENDED IN ASSEMBLY APRIL 1, 2013

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

ASSEMBLY BILL No. 502

Introduced by Assembly Member Wagner

February 20, 2013

An act to amend Section 3343.5 of the Civil Code, to amend Sections 481.207, 481.220, 680.340, 680.350, and 697.530 of the Code of Civil Procedure, to amend Sections 9102, 9105, 9307, 9311, 9316, 9317, 9326, 9406, 9408, 9502, 9503, 9507, 9515, 9516, 9518, 9521, 9607, and 10103 of, and to add Chapter 8 (commencing with Section 9801) to Division 9 of, the Commercial Code, to amend Section 21855 of the Food and Agricultural Code, and to amend Sections 504b and 574 of the Penal Code, relating to secured transactions, and ~~declaring the urgency thereof, to take effect immediately.~~ *making an appropriation therefor.*

LEGISLATIVE COUNSEL'S DIGEST

AB 502, as amended, Wagner. Commercial law: secured transactions.

The Uniform Commercial Code governs security interests in collateral, including personal property and fixtures, as well as certain sales of accounts, contract rights, and chattel paper. ~~Those provisions,~~ *The code*, among other things, ~~specify~~ *specifies* requirements and procedures regarding perfecting a security interest, including the filing of a financing statement with the Secretary of State, amending a financing statement, transferring a security interest, and terminating a security interest. The code also governs the effectiveness of a security interest when a debtor changes locations to another jurisdiction.

This bill would, on and after July 1, ~~2013,~~ *2014,* revise and recast specified provisions governing security interests. Among other things, the revised provisions would (1) define a "public organic record" and revise the definitions of "authenticate," "certificate of title," and "registered organization" for purposes of those provisions, (2) specify an additional requirement for determining whether a secured party has control of electronic chattel paper, (3) specify rules that apply to collateral to which a security interest attaches within 4 months after the debtor changes its location to another jurisdiction, (4) revise the requirements for a record to sufficiently provide the name of a registered organization, a decedent's estate, or an individual, (5) provide for a secured party of record with respect to a financing statement to file an information statement with respect to a record if the secured party believes that the person that filed the record was not entitled to do so, and (6) enact changes relating to the subordination of security interests, the assignment of security interests, and the refusal of a filing office to accept a record for filing.

This bill would implement transitional rules for determining the perfection of a security interest, as specified. The bill would also revise cross-references and make conforming changes to related provisions.

This bill would ~~provide that its provisions~~ become operative on July 1, ~~2013.~~ *2014.*

~~This bill would declare that it is to take effect immediately as an urgency statute.~~

This bill would appropriate $240,000 from the Secretary of State's Business Fees Fund to the Secretary of State to implement this bill, including, but not limited to, promulgating appropriate regulations, modifying automated filing systems and programming, and updating filing forms.

Vote: ~~⅔~~ *majority*. Appropriation: ~~no~~ *yes*. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 3343.5 of the Civil Code is amended to
2 read:
3 3343.5. (a) Any one or more of the following who suffers any
4 damage proximately resulting from one or more acts of unlawful
5 motor vehicle subleasing, as described in Chapter 12.7
6 (commencing with Section 570) of Title 13 of Part 1 of the Penal

Code, may bring an action against the person who has engaged in those acts:

(1) A seller or other secured party under a conditional sale contract or a security agreement.

(2) A lender under a direct loan agreement.

(3) A lessor under a lease contract.

(4) A buyer under a conditional sale contract.

(5) A purchaser under a direct loan agreement, an agreement which provides for a security interest, or an agreement which is equivalent to these types of agreements.

(6) A lessee under a lease contract.

(7) An actual or purported transferee or assignee of any right or interest of a buyer, a purchaser, or a lessee.

(b) The court in an action under subdivision (a) may award actual damages; equitable relief, including, but not limited to, an injunction and restitution of money and property; punitive damages; reasonable attorney's fees and costs; and any other relief which the court deems proper.

(c) As used in this section, the following terms have the following meanings:

(1) "Buyer" has the meaning set forth in subdivision (c) of Section 2981.

(2) "Conditional sale contract" has the meaning set forth in subdivision (a) of Section 2981. Notwithstanding subdivision (k) of Section 2981, "conditional sale contract" includes any contract for the sale or bailment of a motor vehicle between a buyer and a seller primarily for business or commercial purposes.

(3) "Direct loan agreement" means an agreement between a lender and a purchaser whereby the lender has advanced funds pursuant to a loan secured by the motor vehicle which the purchaser has purchased.

(4) "Lease contract" means a lease contract between a lessor and lessee as this term and these parties are defined in Section 2985.7. Notwithstanding subdivision (d) of Section 2985.7, "lease contract" includes a lease for business or commercial purposes.

(5) "Motor vehicle" means any vehicle required to be registered under the Vehicle Code.

(6) "Person" means an individual, company, firm, association, partnership, trust, corporation, limited liability company, or other legal entity.

(7) "Purchaser" has the meaning set forth in paragraph (30) of subdivision (b) of Section 1201 of the Commercial Code.

(8) "Security agreement" and "secured party" have the meanings set forth, respectively, in paragraphs (74) and (73) of subdivision (a) of Section 9102 of the Commercial Code. "Security interest" has the meaning set forth in paragraph (35) of subdivision (b) of Section 1201 of the Commercial Code.

(9) "Seller" has the meaning set forth in subdivision (b) of Section 2981, and includes the present holder of the conditional sale contract.

(d) The rights and remedies provided in this section are in addition to any other rights and remedies provided by law.

SEC. 2. Section 481.207 of the Code of Civil Procedure is amended to read:

481.207. "Secured party" means "secured party" as defined in paragraph (73) of subdivision (a) of Section 9102 of the Commercial Code.

SEC. 3. Section 481.220 of the Code of Civil Procedure is amended to read:

481.220. "Security agreement" means a "security agreement" as defined by paragraph (74) of subdivision (a) of Section 9102 of the Commercial Code.

SEC. 4. Section 680.340 of the Code of Civil Procedure is amended to read:

680.340. "Secured party" means "secured party" as defined in paragraph (73) of subdivision (a) of Section 9102 of the Commercial Code.

SEC. 5. Section 680.350 of the Code of Civil Procedure is amended to read:

680.350. "Security agreement" means "security agreement" as defined in paragraph (74) of subdivision (a) of Section 9102 of the Commercial Code.

SEC. 6. Section 697.530 of the Code of Civil Procedure is amended to read:

697.530. (a) A judgment lien on personal property is a lien on all interests in the following personal property that are subject to enforcement of the money judgment against the judgment debtor pursuant to Article 1 (commencing with Section 695.010) of Chapter 1 at the time when the lien is created if the personal property is, at that time, any of the following:

(1) Accounts receivable, and the judgment debtor is located in this state.

(2) Tangible chattel paper, as defined in paragraph (79) of subdivision (a) of Section 9102 of the Commercial Code, and the judgment debtor is located in this state.

(3) Equipment, located within this state.

(4) Farm products, located within this state.

(5) Inventory, located within this state.

(6) Negotiable documents of title, located within this state.

(b) If any interest in personal property on which a judgment lien could be created under subdivision (a) is acquired after the judgment lien was created, the judgment lien attaches to the interest at the time it is acquired.

(c) To the extent provided by Section 697.620, a judgment lien on personal property continues on the proceeds received upon the sale, collection, or other disposition of the property subject to the judgment lien.

(d) Notwithstanding any other provision of this section, the judgment lien does not attach to:

(1) A vehicle or vessel required to be registered with the Department of Motor Vehicles or a mobilehome or commercial coach required to be registered pursuant to the Health and Safety Code.

(2) As-extracted collateral, as defined in paragraph (6) of subdivision (a) of Section 9102 of the Commercial Code, and timber to be cut.

(3) The inventory of a retail merchant held for sale except to the extent that the inventory of the retail merchant consists of durable goods having a unit retail value of at least five hundred dollars ($500). For the purposes of this paragraph, “retail merchant” does not include either of the following:

(A) A person whose sales for resale exceeded 75 percent in dollar volume of the person’s total sales of all goods during the 12 months preceding the filing of the notice of judgment lien on personal property.

(B) A cooperative association organized pursuant to Chapter 1 (commencing with Section 54001) of Division 20 of the Food and Agricultural Code (agricultural cooperative associations) or Part 3 (commencing with Section 13200) of Division 3 of Title 1 of the Corporations Code (Fish Marketing Act).

(e) If property subject to a lien under this article becomes a fixture, as defined in paragraph (41) of subdivision (a) of Section 9102 of the Commercial Code, the judgment lien on that property is extinguished.

(f) Notwithstanding the filing of a notice of judgment lien, subject to the provisions of Chapter 6 (commencing with Section 708.010), a person obligated on an account receivable or chattel paper is authorized to pay or compromise the amount without notice to or consent of the judgment creditor unless and until there is a levy pursuant to Chapter 3 (commencing with Section 699.010).

(g) For purposes of this section, whether a person is located in this state is determined in accordance with Section 9307 of the Commercial Code, except that the location of a registered organization, as defined in paragraph (71) of subdivision (a) of Section 9102 of the Commercial Code, that is organized under the law of another state is determined without regard to subdivision (e) of Section 9307 of the Commercial Code.

SEC. 7. Section 9102 of the Commercial Code is amended to read:

9102. (a) In this division:

(1) "Accession" means goods that are physically united with other goods in such a manner that the identity of the original goods is not lost.

(2) "Account," except as used in "account for," means a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a state, or person licensed or authorized to operate the game by a state or governmental unit of a state. The term includes health care insurance receivables. The term does not include (i) rights to payment evidenced by chattel paper or an instrument, (ii) commercial tort claims, (iii) deposit accounts, (iv)

investment property, (v) letter-of-credit rights or letters of credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card.

(3) "Account debtor" means a person obligated on an account, chattel paper, or general intangible. The term does not include persons obligated to pay a negotiable instrument, even if the instrument constitutes part of chattel paper.

(4) "Accounting," except as used in "accounting for," means a record that is all of the following:

(A) Authenticated by a secured party.

(B) Indicating the aggregate unpaid secured obligations as of a date not more than 35 days earlier or 35 days later than the date of the record.

(C) Identifying the components of the obligations in reasonable detail.

(5) "Agricultural lien" means an interest in farm products that meets all of the following conditions:

(A) It secures payment or performance of an obligation for either of the following:

(i) Goods or services furnished in connection with a debtor's farming operation.

(ii) Rent on real property leased by a debtor in connection with its farming operation.

(B) It is created by statute in favor of a person that does either of the following:

(i) In the ordinary course of its business furnished goods or services to a debtor in connection with a debtor's farming operation.

(ii) Leased real property to a debtor in connection with the debtor's farming operation.

(C) Its effectiveness does not depend on the person's possession of the personal property.

(6) "As-extracted collateral" means either of the following:

(A) Oil, gas, or other minerals that are subject to a security interest that does both of the following:

(i) Is created by a debtor having an interest in the minerals before extraction.

(ii) Attaches to the minerals as extracted.

(B) Accounts arising out of the sale at the wellhead or minehead of oil, gas, or other minerals in which the debtor had an interest before extraction.

(7) "Authenticate" means to do either of the following:

(A) To sign.

(B) To, with present intent to adopt or accept a record, attach to or logically associate with the record an electronic sound, symbol, or process.

(8) "Bank" means an organization that is engaged in the business of banking. The term includes savings banks, savings and loan associations, credit unions, and trust companies.

(9) "Cash proceeds" means proceeds that are money, checks, deposit accounts, or the like.

(10) "Certificate of title" means a certificate of title with respect to which a statute provides for the security interest in question to be indicated on the certificate as a condition or result of the security interest's obtaining priority over the rights of a lien creditor with respect to the collateral. The term includes another record maintained as an alternative to a certificate of title by the governmental unit that issues certificates of title if a statute permits the security interest in question to be indicated on the record as a condition or result of the security interest's obtaining priority over the rights of a lien creditor with respect to the collateral.

(11) "Chattel paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a security interest in specific goods and license of software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods. The term does not include (i) charters or other contracts involving the use or hire of a vessel or (ii) records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card. If a transaction is evidenced by records that include an instrument or series of instruments, the group of records taken together constitutes chattel paper.

(12) "Collateral" means the property subject to a security interest or agricultural lien. The term includes all of the following:

(A) Proceeds to which a security interest attaches.

(B) Accounts, chattel paper, payment intangibles, and promissory notes that have been sold.

(C) Goods that are the subject of a consignment.

(13) "Commercial tort claim" means a claim arising in tort with respect to which either of the following conditions is satisfied:

(A) The claimant is an organization.

(B) The claimant is an individual and both of the following conditions are satisfied regarding the claim:

(i) It arose in the course of the claimant's business or profession.

(ii) It does not include damages arising out of personal injury to or the death of an individual.

(14) "Commodity account" means an account maintained by a commodity intermediary in which a commodity contract is carried for a commodity customer.

(15) "Commodity contract" means a commodity futures contract, an option on a commodity futures contract, a commodity option, or another contract if the contract or option is either of the following:

(A) Traded on or subject to the rules of a board of trade that has been designated as a contract market for such a contract pursuant to federal commodities laws.

(B) Traded on a foreign commodity board of trade, exchange, or market, and is carried on the books of a commodity intermediary for a commodity customer.

(16) "Commodity customer" means a person for which a commodity intermediary carries a commodity contract on its books.

(17) "Commodity intermediary" means a person that is either of the following:

(A) Is registered as a futures commission merchant under federal commodities law.

(B) In the ordinary course of its business provides clearance or settlement services for a board of trade that has been designated as a contract market pursuant to federal commodities law.

(18) "Communicate" means to do any of the following:

(A) To send a written or other tangible record.

(B) To transmit a record by any means agreed upon by the persons sending and receiving the record.

(C) In the case of transmission of a record to or by a filing office, to transmit a record by any means prescribed by filing-office rule.

(19) "Consignee" means a merchant to which goods are delivered in a consignment.

(20) "Consignment" means a transaction, regardless of its form, in which a person delivers goods to a merchant for the purpose of sale and all of the following conditions are satisfied:

(A) The merchant satisfies all of the following conditions:

(i) He or she deals in goods of that kind under a name other than the name of the person making delivery.

(ii) He or she is not an auctioneer.

(iii) He or she is not generally known by its creditors to be substantially engaged in selling the goods of others.

(B) With respect to each delivery, the aggregate value of the goods is one thousand dollars ($1,000) or more at the time of delivery.

(C) The goods are not consumer goods immediately before delivery.

(D) The transaction does not create a security interest that secures an obligation.

(21) "Consignor" means a person that delivers goods to a consignee in a consignment.

(22) "Consumer debtor" means a debtor in a consumer transaction.

(23) "Consumer goods" means goods that are used or bought for use primarily for personal, family, or household purposes.

(24) "Consumer-goods transaction" means a consumer transaction in which both of the following conditions are satisfied:

(A) An individual incurs an obligation primarily for personal, family, or household purposes.

(B) A security interest in consumer goods secures the obligation.

(25) "Consumer obligor" means an obligor who is an individual and who incurred the obligation as part of a transaction entered into primarily for personal, family, or household purposes.

(26) "Consumer transaction" means a transaction in which (i) an individual incurs an obligation primarily for personal, family, or household purposes, (ii) a security interest secures the obligation, and (iii) the collateral is held or acquired primarily for personal, family, or household purposes. The term includes consumer-goods transactions.

(27) “Continuation statement” means an amendment of a financing statement which does both of the following:

(A) Identifies, by its file number, the initial financing statement to which it relates.

(B) Indicates that it is a continuation statement for, or that it is filed to continue the effectiveness of, the identified financing statement.

(28) “Debtor” means any of the following:

(A) A person having an interest, other than a security interest or other lien, in the collateral, whether or not the person is an obligor.

(B) A seller of accounts, chattel paper, payment intangibles, or promissory notes.

(C) A consignee.

(29) “Deposit account” means a demand, time, savings, passbook, or similar account maintained with a bank. The term does not include investment property or accounts evidenced by an instrument.

(30) “Document” means a document of title or a receipt of the type described in subdivision (b) of Section 7201.

(31) “Electronic chattel paper” means chattel paper evidenced by a record or records consisting of information stored in an electronic medium.

(32) “Encumbrance” means a right, other than an ownership interest, in real property. The term includes mortgages and other liens on real property.

(33) “Equipment” means goods other than inventory, farm products, or consumer goods.

(34) “Farm products” means goods, other than standing timber, with respect to which the debtor is engaged in a farming operation and which are any of the following:

(A) Crops grown, growing, or to be grown, including both of the following:

(i) Crops produced on trees, vines, and bushes.

(ii) Aquatic goods produced in aquacultural operations.

(B) Livestock, born or unborn, including aquatic goods produced in aquacultural operations.

(C) Supplies used or produced in a farming operation.

(D) Products of crops or livestock in their unmanufactured states.

(35) "Farming operation" means raising, cultivating, propagating, fattening, grazing, or any other farming, livestock, or aquacultural operation.

(36) "File number" means the number assigned to an initial financing statement pursuant to subdivision (a) of Section 9519.

(37) "Filing office" means an office designated in Section 9501 as the place to file a financing statement.

(38) "Filing-office rule" means a rule adopted pursuant to Section 9526.

(39) "Financing statement" means a record or records composed of an initial financing statement and any filed record relating to the initial financing statement.

(40) "Fixture filing" means the filing of a financing statement covering goods that are or are to become fixtures and satisfying subdivisions (a) and (b) of Section 9502. The term includes the filing of a financing statement covering goods of a transmitting utility which are or are to become fixtures.

(41) "Fixtures" means goods that have become so related to particular real property that an interest in them arises under real property law.

(42) "General intangible" means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter-of-credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

(43) [Reserved]

(44) "Goods" means all things that are movable when a security interest attaches. The term includes (i) fixtures, (ii) standing timber that is to be cut and removed under a conveyance or contract for sale, (iii) the unborn young of animals, (iv) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, and (v) manufactured homes. The term also includes a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consist solely

of the medium in which the program is embedded. The term also does not include accounts, chattel paper, commercial tort claims, deposit accounts, documents, general intangibles, instruments, investment property, letter-of-credit rights, letters of credit, money, or oil, gas, or other minerals before extraction.

(45) "Governmental unit" means a subdivision, agency, department, county, parish, municipality, or other unit of the government of the United States, a state, or a foreign country. The term includes an organization having a separate corporate existence if the organization is eligible to issue debt on which interest is exempt from income taxation under the laws of the United States.

(46) "Health care insurance receivable" means an interest in or claim under a policy of insurance which is a right to payment of a monetary obligation for health care goods or services provided or to be provided.

(47) "Instrument" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in ordinary course of business is transferred by delivery with any necessary indorsement or assignment. The term does not include (i) investment property, (ii) letters of credit, or (iii) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card.

(48) "Inventory" means goods, other than farm products, which are any of the following:

(A) Leased by a person as lessor.

(B) Held by a person for sale or lease or to be furnished under a contract of service.

(C) Furnished by a person under a contract of service.

(D) Consist of raw materials, work in process, or materials used or consumed in a business.

(49) "Investment property" means a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract, or commodity account.

(50) "Jurisdiction of organization," with respect to a registered organization, means the jurisdiction under whose law the organization is formed or organized.

(51) "Letter-of-credit right" means a right to payment or performance under a letter of credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or

performance. The term does not include the right of a beneficiary to demand payment or performance under a letter of credit.

(52) (A) "Lien creditor" means any of the following:

(i) A creditor that has acquired a lien on the property involved by attachment, levy, or the like.

(ii) An assignee for benefit of creditors from the time of assignment.

(iii) A trustee in bankruptcy from the date of the filing of the petition.

(iv) A receiver in equity from the time of appointment.

(B) "Lien creditor" does not include a creditor who by filing a notice with the Secretary of State has acquired only an attachment or judgment lien on personal property, or both.

(53) "Manufactured home" means a structure, transportable in one or more sections, which, in the traveling mode, is eight body-feet or more in width or 40 body-feet or more in length, or, when erected on site, is 320 or more square feet, and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air-conditioning, and electrical systems contained therein. The term includes any structure that meets all of the requirements of this paragraph except the size requirements and with respect to which the manufacturer voluntarily files a certification required by the United States Secretary of Housing and Urban Development and complies with the standards established under Title 42 of the United States Code.

(54) "Manufactured home transaction" means a secured transaction that satisfies either of the following:

(A) It creates a purchase money security interest in a manufactured home, other than a manufactured home held as inventory.

(B) It is a secured transaction in which a manufactured home, other than a manufactured home held as inventory, is the primary collateral.

(55) "Mortgage" means a consensual interest in real property, including fixtures, which secures payment or performance of an obligation.

(56) "New debtor" means a person that becomes bound as debtor under subdivision (d) of Section 9203 by a security agreement previously entered into by another person.

(57) "New value" means (i) money, (ii) money's worth in property, services, or new credit, or (iii) release by a transferee of an interest in property previously transferred to the transferee. The term does not include an obligation substituted for another obligation.

(58) "Noncash proceeds" means proceeds other than cash proceeds.

(59) "Obligor" means a person that, with respect to an obligation secured by a security interest in or an agricultural lien on the collateral, (i) owes payment or other performance of the obligation, (ii) has provided property other than the collateral to secure payment or other performance of the obligation, or (iii) is otherwise accountable in whole or in part for payment or other performance of the obligation. The term does not include issuers or nominated persons under a letter of credit.

(60) "Original debtor," except as used in subdivision (c) of Section 9310, means a person that, as debtor, entered into a security agreement to which a new debtor has become bound under subdivision (d) of Section 9203.

(61) "Payment intangible" means a general intangible under which the account debtor's principal obligation is a monetary obligation.

(62) "Person related to," with respect to an individual, means any of the following:

(A) The spouse of the individual.

(B) A brother, brother-in-law, sister, or sister-in-law of the individual.

(C) An ancestor or lineal descendant of the individual or the individual's spouse.

(D) Any other relative, by blood or marriage, of the individual or the individual's spouse who shares the same home with the individual.

(63) "Person related to," with respect to an organization, means any of the following:

(A) A person directly or indirectly controlling, controlled by, or under common control with the organization.

(B) An officer or director of, or a person performing similar functions with respect to, the organization.

(C) An officer or director of, or a person performing similar functions with respect to, a person described in subparagraph (A).

(D) The spouse of an individual described in subparagraph (A), (B), or (C).

(E) An individual who is related by blood or marriage to an individual described in subparagraph (A), (B), (C), or (D) and shares the same home with the individual.

(64) "Proceeds," except as used in subdivision (b) of Section 9609, means any of the following property:

(A) Whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral.

(B) Whatever is collected on, or distributed on account of, collateral.

(C) Rights arising out of collateral.

(D) To the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral.

(E) To the extent of the value of collateral and to the extent payable to the debtor or the secured party, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral.

(65) "Promissory note" means an instrument that evidences a promise to pay a monetary obligation, does not evidence an order to pay, and does not contain an acknowledgment by a bank that the bank has received for deposit a sum of money or funds.

(66) "Proposal" means a record authenticated by a secured party that includes the terms on which the secured party is willing to accept collateral in full or partial satisfaction of the obligation it secures pursuant to Sections 9620, 9621, and 9622.

(67) "Public finance transaction" means a secured transaction in connection with which all of the following conditions are satisfied:

(A) Debt securities are issued.

(B) All or a portion of the securities issued have an initial stated maturity of at least 20 years.

(C) The debtor, obligor, secured party, account debtor or other person obligated on collateral, assignor or assignee of a secured obligation, or assignor or assignee of a security interest is a state or a governmental unit of a state.

(68) "Public organic record" means a record that is available to the public for inspection and is any of the following:

(A) A record consisting of the record initially filed with or issued by a state or the United States to form or organize an organization and any record filed with or issued by the state or the United States that amends or restates the initial record.

(B) An organic record of a business trust consisting of the record initially filed with a state and any record filed with the state that amends or restates the initial record, if a statute of the state governing business trusts requires that the record be filed with the state.

(C) A record consisting of legislation enacted by the legislature of a state or the Congress of the United States which forms or organizes an organization, any record amending the legislation, and any record filed with or issued by the state or the United States which amends or restates the name of the organization.

(69) "Pursuant to commitment," with respect to an advance made or other value given by a secured party, means pursuant to the secured party's obligation, whether or not a subsequent event of default or other event not within the secured party's control has relieved or may relieve the secured party from its obligation.

(70) "Record," except as used in "for record," "of record," "record or legal title," and "record owner," means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form.

(71) "Registered organization" means an organization formed or organized solely under the law of a single state or the United States by the filing of a public organic record with, the issuance of a public organic record by, or the enactment of legislation by the state or the United States. The term includes a business trust that is formed or organized under the law of a single state if a statute of the state governing business trusts requires that the business trust's organic record be filed with the state.

(72) "Secondary obligor" means an obligor to the extent that either of the following conditions are satisfied:

(A) The obligor's obligation is secondary.

(B) The obligor has a right of recourse with respect to an obligation secured by collateral against the debtor, another obligor, or property of either.

(73) "Secured party" means any of the following:

(A) A person in whose favor a security interest is created or provided for under a security agreement, whether or not any obligation to be secured is outstanding.

(B) A person that holds an agricultural lien.

(C) A consignor.

(D) A person to which accounts, chattel paper, payment intangibles, or promissory notes have been sold.

(E) A trustee, indenture trustee, agent, collateral agent, or other representative in whose favor a security interest or agricultural lien is created or provided for.

(F) A person that holds a security interest arising under Section 2401, 2505, 4210, or 5118, or under subdivision (3) of Section 2711 or subdivision (5) of Section 10508.

(74) "Security agreement" means an agreement that creates or provides for a security interest.

(75) "Send," in connection with a record or notification, means to do either of the following:

(A) To deposit in the mail, deliver for transmission, or transmit by any other usual means of communication, with postage or cost of transmission provided for, addressed to any address reasonable under the circumstances.

(B) To cause the record or notification to be received within the time that it would have been received if properly sent under subparagraph (A).

(76) "Software" means a computer program and any supporting information provided in connection with a transaction relating to the program. The term does not include a computer program that is included in the definition of goods.

(77) "State" means a state of the United States, the District of Columbia, Puerto Rico, the United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the United States.

(78) "Supporting obligation" means a letter-of-credit right or secondary obligation that supports the payment or performance of an account, chattel paper, document, general intangible, instrument, or investment property.

(79) "Tangible chattel paper" means chattel paper evidenced by a record or records consisting of information that is inscribed on a tangible medium.

(80) "Termination statement" means an amendment of a financing statement that does both of the following:

(A) Identifies, by its file number, the initial financing statement to which it relates.

(B) Indicates either that it is a termination statement or that the identified financing statement is no longer effective.

(81) "Transmitting utility" means a person primarily engaged in the business of any of the following:

(A) Operating a railroad, subway, street railway, or trolley bus.

(B) Transmitting communications electrically, electromagnetically, or by light.

(C) Transmitting goods by pipeline or sewer.

(D) Transmitting or producing and transmitting electricity, steam, gas, or water.

(b) The following definitions in other divisions apply to this division:

"Applicant"	Section 5102.
"Beneficiary"	Section 5102.
"Broker"	Section 8102.
"Certificated security"	Section 8102.
"Check"	Section 3104.
"Clearing corporation"	Section 8102.
"Contract for sale"	Section 2106.
"Control"	Section 7106.
"Customer"	Section 4104.
"Entitlement holder"	Section 8102.
"Financial asset"	Section 8102.
"Holder in due course"	Section 3302.
"Issuer" (with respect to a letter of credit or letter-of-credit right)	Section 5102.
"Issuer" (with respect to a security)	Section 8201.
"Issuer" (with respect to documents of title)	Section 7102.
"Lease"	Section 10103.
"Lease agreement"	Section 10103.
"Lease contract"	Section 10103.
"Leasehold interest"	Section 10103.
"Lessee"	Section 10103.
"Lessee in ordinary course of business"	Section 10103.
"Lessor"	Section 10103.

"Lessor's residual interest"	Section 10103.
"Letter of credit"	Section 5102.
"Merchant"	Section 2104.
"Negotiable instrument"	Section 3104.
"Nominated person"	Section 5102.
"Note"	Section 3104.
"Proceeds of a letter of credit"	Section 5114.
"Prove"	Section 3103.
"Sale"	Section 2106.
"Securities account"	Section 8501.
"Securities intermediary"	Section 8102.
"Security"	Section 8102.
"Security certificate"	Section 8102.
"Security entitlement"	Section 8102.
"Uncertificated security"	Section 8102.

(c) Division 1 (commencing with Section 1101) contains general definitions and principles of construction and interpretation applicable throughout this division.

SEC. 8. Section 9105 of the Commercial Code is amended to read:

9105. (a) A secured party has control of electronic chattel paper if a system employed for evidencing the transfer of interests in the chattel paper reliably establishes the secured party as the person to which the chattel paper was assigned.

(b) A system satisfies subdivision (a) if the record or records comprising the chattel paper are created, stored, and assigned in such a manner that each of the following conditions is satisfied:

(1) A single authoritative copy of the record or records exists which is unique, identifiable, and, except as otherwise provided in paragraphs (4), (5), and (6), unalterable.

(2) The authoritative copy identifies the secured party as the assignee of the record or records.

(3) The authoritative copy is communicated to and maintained by the secured party or its designated custodian.

(4) Copies or amendments that add or change an identified assignee of the authoritative copy can be made only with the consent of the secured party.

(5) Each copy of the authoritative copy and any copy of a copy is readily identifiable as a copy that is not the authoritative copy.

(6) Any amendment of the authoritative copy is readily identifiable as authorized or unauthorized.

SEC. 9. Section 9307 of the Commercial Code is amended to read:

9307. (a) In this section, "place of business" means a place where a debtor conducts its affairs.

(b) Except as otherwise provided in this section, the following rules determine a debtor's location:

(1) A debtor who is an individual is located at the individual's principal residence.

(2) A debtor that is an organization and has only one place of business is located at its place of business.

(3) A debtor that is an organization and has more than one place of business is located at its chief executive office.

(c) Subdivision (b) applies only if a debtor's residence, place of business, or chief executive office, as applicable, is located in a jurisdiction whose law generally requires information concerning the existence of a nonpossessory security interest to be made generally available in a filing, recording, or registration system as a condition or result of the security interest's obtaining priority over the rights of a lien creditor with respect to the collateral. If subdivision (b) does not apply, the debtor is located in the District of Columbia.

(d) A person that ceases to exist, have a residence, or have a place of business continues to be located in the jurisdiction specified by subdivisions (b) and (c).

(e) A registered organization that is organized under the law of a state is located in that state.

(f) Except as otherwise provided in subdivision (i), a registered organization that is organized under the law of the United States and a branch or agency of a bank that is not organized under the law of the United States or a state are located in any of the following jurisdictions:

(1) In the state that the law of the United States designates, if the law designates a state of location.

(2) In the state that the registered organization, branch, or agency designates, if the law of the United States authorizes the registered organization, branch, or agency to designate its state of location, including by designating its main office, home office, or other comparable office.

(3) In the District of Columbia, if neither paragraph (1) nor paragraph (2) applies.

(g) A registered organization continues to be located in the jurisdiction specified by subdivision (e) or (f) notwithstanding either of the following:

(1) The suspension, revocation, forfeiture, or lapse of the registered organization's status as such in its jurisdiction of organization.

(2) The dissolution, winding up, or cancellation of the existence of the registered organization.

(h) The United States is located in the District of Columbia.

(i) A branch or agency of a bank that is not organized under the law of the United States or a state is located in the state in which the branch or agency is licensed, if all branches and agencies of the bank are licensed in only one state.

(j) A foreign air carrier under the Federal Aviation Act of 1958, as amended, is located at the designated office of the agent upon which service of process may be made on behalf of the carrier.

(k) This section applies only for purposes of this chapter.

SEC. 10. Section 9311 of the Commercial Code is amended to read:

9311. (a) Except as otherwise provided in subdivision (d), the filing of a financing statement is not necessary or effective to perfect a security interest in property subject to any of the following:

(1) A statute, regulation, or treaty of the United States whose requirements for a security interest's obtaining priority over the rights of a lien creditor with respect to the property preempt subdivision (a) of Section 9310.

(2) (A) The provisions of the Vehicle Code which require registration of a vehicle or boat.

(B) The provisions of the Health and Safety Code which require registration of a mobilehome or commercial coach, except that during any period in which collateral is inventory, the filing provisions of Chapter 5 (commencing with Section 9501) apply to a security interest in that collateral.

(C) The provisions of the Health and Safety Code which require registration of all interests in approved air contaminant emission reductions (Sections 40709 to 40713, inclusive, of the Health and Safety Code).

(3) A statute of another jurisdiction which provides for a security interest to be indicated on a certificate of title as a condition or result of the security interest's obtaining priority over the rights of a lien creditor with respect to the property.

(b) Compliance with the requirements of a statute, regulation, or treaty described in subdivision (a) for obtaining priority over the rights of a lien creditor is equivalent to the filing of a financing statement under this division. Except as otherwise provided in subdivision (d), in Section 9313, and in subdivisions (d) and (e) of Section 9316 for goods covered by a certificate of title, a security interest in property subject to a statute, regulation, or treaty described in subdivision (a) may be perfected only by compliance with those requirements, and a security interest so perfected remains perfected notwithstanding a change in the use or transfer of possession of the collateral.

(c) Except as otherwise provided in subdivision (d) and in subdivisions (d) and (e) of Section 9316, duration and renewal of perfection of a security interest perfected by compliance with the requirements prescribed by a statute, regulation, or treaty described in subdivision (a) are governed by the statute, regulation, or treaty. In other respects, the security interest is subject to this division.

(d) During any period in which collateral subject to a statute specified in paragraph (2) of subdivision (a) is inventory held for sale or lease by a person or leased by that person as lessor and that person is in the business of selling goods of that kind, this section does not apply to a security interest in that collateral created by that person.

SEC. 11. Section 9316 of the Commercial Code is amended to read:

9316. (a) A security interest perfected pursuant to the law of the jurisdiction designated in subdivision (1) of Section 9301 or in subdivision (c) of Section 9305 remains perfected until the earliest of any of the following:

(1) The time perfection would have ceased under the law of that jurisdiction.

(2) The expiration of four months after a change of the debtor's location to another jurisdiction.

(3) The expiration of one year after a transfer of collateral to a person that thereby becomes a debtor and is located in another jurisdiction.

(b) If a security interest described in subdivision (a) becomes perfected under the law of the other jurisdiction before the earliest time or event described in that subdivision, it remains perfected thereafter. If the security interest does not become perfected under the law of the other jurisdiction before the earliest time or event, it becomes unperfected and is deemed never to have been perfected as against a purchaser of the collateral for value.

(c) A possessory security interest in collateral, other than goods covered by a certificate of title and as-extracted collateral consisting of goods, remains continuously perfected if all of the following conditions are satisfied:

(1) The collateral is located in one jurisdiction and subject to a security interest perfected under the law of that jurisdiction.

(2) Thereafter the collateral is brought into another jurisdiction.

(3) Upon entry into the other jurisdiction, the security interest is perfected under the law of the other jurisdiction.

(d) Except as otherwise provided in subdivision (e), a security interest in goods covered by a certificate of title which is perfected by any method under the law of another jurisdiction when the goods become covered by a certificate of title from this state remains perfected until the security interest would have become unperfected under the law of the other jurisdiction had the goods not become so covered.

(e) A security interest described in subdivision (d) becomes unperfected as against a purchaser of the goods for value and is deemed never to have been perfected as against a purchaser of the goods for value if the applicable requirements for perfection under subdivision (b) of Section 9311 or under Section 9313 are not satisfied before the earlier of either of the following:

(1) The time the security interest would have become unperfected under the law of the other jurisdiction had the goods not become covered by a certificate of title from this state.

(2) The expiration of four months after the goods had become so covered.

(f) A security interest in deposit accounts, letter-of-credit rights, or investment property which is perfected under the law of the bank's jurisdiction, the issuer's jurisdiction, a nominated person's jurisdiction, the securities intermediary's jurisdiction, or the commodity intermediary's jurisdiction, as applicable, remains perfected until the earlier of the following:

(1) The time the security interest would have become unperfected under the law of that jurisdiction.

(2) The expiration of four months after a change of the applicable jurisdiction to another jurisdiction.

(g) If a security interest described in subdivision (f) becomes perfected under the law of the other jurisdiction before the earlier of the time or the end of the period described in that subdivision, it remains perfected thereafter. If the security interest does not become perfected under the law of the other jurisdiction before the earlier of that time or the end of that period, it becomes unperfected and is deemed never to have been perfected as against a purchaser of the collateral for value.

(h) The following rules apply to collateral to which a security interest attaches within four months after the debtor changes its location to another jurisdiction:

(1) A financing statement filed before the change pursuant to the law of the jurisdiction designated in paragraph (1) of Section 9301 or subdivision (c) of Section 9305 is effective to perfect a security interest in the collateral if the financing statement would have been effective to perfect a security interest in the collateral had the debtor not changed its location.

(2) If a security interest perfected by a financing statement that is effective under paragraph (1) becomes perfected under the law of the other jurisdiction before the earlier of the time the financing statement would have become ineffective under the law of the jurisdiction designated in paragraph (1) of Section 9301 or subdivision (c) of Section 9305 or the expiration of the four-month period, it remains perfected thereafter. If the security interest does not become perfected under the law of the other jurisdiction before the earlier time or event, it becomes unperfected and is deemed never to have been perfected as against a purchaser of the collateral for value.

(i) If a financing statement naming an original debtor is filed pursuant to the law of the jurisdiction designated in paragraph (1) of Section 9301 or subdivision (c) of Section 9305 and the new debtor is located in another jurisdiction, each of the following rules apply:

(1) The financing statement is effective to perfect a security interest in collateral acquired by the new debtor before, and within four months after, the new debtor becomes bound under subdivision

(d) of Section 9203, if the financing statement would have been effective to perfect a security interest in the collateral had the collateral been acquired by the original debtor.

(2) A security interest perfected by the financing statement and which becomes perfected under the law of the other jurisdiction before the earlier of the time the financing statement would have become ineffective under the law of the jurisdiction designated in paragraph (1) of Section 9301 or subdivision (c) of Section 9305 or the expiration of the four-month period remains perfected thereafter. A security interest that is perfected by the financing statement but which does not become perfected under the law of the other jurisdiction before the earlier time or event becomes unperfected and is deemed never to have been perfected as against a purchaser of the collateral for value.

SEC. 12. Section 9317 of the Commercial Code is amended to read:

9317. (a) A security interest or agricultural lien is subordinate to the rights of both of the following:

(1) A person entitled to priority under Section 9322.

(2) Except as otherwise provided in subdivision (e), a person that becomes a lien creditor before the earlier of the time the security interest or agricultural lien is perfected, or one of the conditions specified in paragraph (3) of subdivision (b) of Section 9203 is met and a financing statement covering the collateral is filed.

(b) Except as otherwise provided in subdivision (e), a buyer, other than a secured party, of tangible chattel paper, tangible documents, goods, instruments, or a certificated security takes free of a security interest or agricultural lien if the buyer gives value and receives delivery of the collateral without knowledge of the security interest or agricultural lien and before it is perfected.

(c) Except as otherwise provided in subdivision (e), a lessee of goods takes free of a security interest or agricultural lien if the lessee gives value and receives delivery of the collateral without knowledge of the security interest or agricultural lien and before it is perfected.

(d) A licensee of a general intangible or a buyer, other than a secured party, of collateral other than tangible chattel paper, tangible documents, goods, instruments, or a certificated security takes free of a security interest if the licensee or buyer gives value

without knowledge of the security interest and before it is perfected.

(e) Except as otherwise provided in Sections 9320 and 9321, if a person files a financing statement with respect to a purchase money security interest before or within 20 days after the debtor receives delivery of the collateral, the security interest takes priority over the rights of a buyer, lessee, or lien creditor which arise between the time the security interest attaches and the time of filing.

SEC. 13. Section 9326 of the Commercial Code is amended to read:

9326. (a) Subject to subdivision (b), a security interest that is created by a new debtor in collateral in which the new debtor has or acquires rights and is perfected solely by a filed financing statement that would be ineffective to perfect the security interest but for the application of paragraph (1) of subdivision (i) of Section 9316 or Section 9508 is subordinate to a security interest in the same collateral which is perfected other than by such a filed financing statement.

(b) The other provisions of this chapter determine the priority among conflicting security interests in the same collateral perfected by filed financing statements described in subdivision (a). However, if the security agreements to which a new debtor became bound as debtor were not entered into by the same original debtor, the conflicting security interests rank according to priority in time of the new debtor's having become bound.

SEC. 14. Section 9406 of the Commercial Code is amended to read:

9406. (a) Subject to subdivisions (b) to (i), inclusive, an account debtor on an account, chattel paper, or a payment intangible may discharge its obligation by paying the assignor until, but not after, the account debtor receives a notification, authenticated by the assignor or the assignee, that the amount due or to become due has been assigned and that payment is to be made to the assignee. After receipt of the notification, the account debtor may discharge its obligation by paying the assignee and may not discharge the obligation by paying the assignor.

(b) Subject to subdivision (h), notification is ineffective under subdivision (a) as follows:

(1) If it does not reasonably identify the rights assigned.

(2) To the extent that an agreement between an account debtor and a seller of a payment intangible limits the account debtor's duty to pay a person other than the seller and the limitation is effective under law other than this division.

(3) At the option of an account debtor, if the notification notifies the account debtor to make less than the full amount of any installment or other periodic payment to the assignee, even if any of the following conditions is satisfied:

(A) Only a portion of the account, chattel paper, or payment intangible has been assigned to that assignee.

(B) A portion has been assigned to another assignee.

(C) The account debtor knows that the assignment to that assignee is limited.

(c) Subject to subdivision (h), if requested by the account debtor, an assignee shall seasonably furnish reasonable proof that the assignment has been made. Unless the assignee complies, the account debtor may discharge its obligation by paying the assignor, even if the account debtor has received a notification under subdivision (a).

(d) Except as otherwise provided in subdivision (e) and in Sections 9407 and 10303, and subject to subdivision (h), a term in an agreement between an account debtor and an assignor or in a promissory note is ineffective to the extent that it does either of the following:

(1) Prohibits, restricts, or requires the consent of the account debtor or person obligated on the promissory note to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, the account, chattel paper, payment intangible, or promissory note.

(2) Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the account, chattel paper, payment intangible, or promissory note.

(e) Subdivision (d) does not apply to the sale of a payment intangible or promissory note, other than a sale pursuant to a disposition under Section 9610 or an acceptance of collateral under Section 9620.

(f) Except as otherwise provided in Sections 9407 and 10303, and subject to subdivisions (h) and (i), a rule of law, statute, or

regulation, that prohibits, restricts, or requires the consent of a government, governmental body or official, or account debtor to the assignment or transfer of, or creation of a security interest in, an account or chattel paper is ineffective to the extent that the rule of law, statute, or regulation does either of the following:

(1) Prohibits, restricts, or requires the consent of the government, governmental body or official, or account debtor to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, the account or chattel paper.

(2) Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the account or chattel paper.

(g) Subject to subdivision (h), an account debtor may not waive or vary its option under paragraph (3) of subdivision (b).

(h) This section is subject to law other than this division which establishes a different rule for an account debtor who is an individual and who incurred the obligation primarily for personal, family, or household purposes.

(i) This section does not apply to an assignment of a health care insurance receivable.

(j) Subdivision (f) does not apply to an assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, a claim or right to receive compensation for injuries or sickness as described in paragraph (1) or (2) of subdivision (a) of Section 104 of Title 26 of the United States Code, as amended, or a claim or right to receive benefits under a special needs trust as described in paragraph (4) of subdivision (d) of Section 1396p of Title 42 of the United States Code, as amended, to the extent that subdivision (f) is inconsistent with those laws.

SEC. 15. Section 9408 of the Commercial Code is amended to read:

9408. (a) Except as otherwise provided in subdivision (b), a term in a promissory note or in an agreement between an account debtor and a debtor that relates to a health care insurance receivable or a general intangible, including a contract, permit, license, or franchise, and which term prohibits, restricts, or requires the consent of the person obligated on the promissory note or the account debtor to, the assignment or transfer of, or the creation,

attachment, or perfection of a security interest in, the promissory note, health care insurance receivable, or general intangible, is ineffective to the extent that the term does, or would do, either of the following:

(1) It would impair the creation, attachment, or perfection of a security interest.

(2) It provides that the assignment or transfer or the creation, attachment, or perfection of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the promissory note, health care insurance receivable, or general intangible.

(b) Subdivision (a) applies to a security interest in a payment intangible or promissory note only if the security interest arises out of a sale of the payment intangible or promissory note, other than a sale pursuant to a disposition under Section 9610 or an acceptance of collateral under Section 9620.

(c) A rule of law, statute, or regulation that prohibits, restricts, or requires the consent of a government, governmental body or official, person obligated on a promissory note, or account debtor to the assignment or transfer of, or the creation of a security interest in, a promissory note, health care insurance receivable, or general intangible, including a contract, permit, license, or franchise between an account debtor and a debtor, is ineffective to the extent that the rule of law, statute, or regulation does, or would do, either of the following:

(1) It would impair the creation, attachment, or perfection of a security interest.

(2) It provides that the assignment or transfer or the creation, attachment, or perfection of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the promissory note, health care insurance receivable, or general intangible.

(d) To the extent that a term in a promissory note or in an agreement between an account debtor and a debtor that relates to a health care insurance receivable or general intangible or a rule of law, statute, or regulation described in subdivision (c) would be effective under law other than this division but is ineffective under subdivision (a) or (c), the creation, attachment, or perfection of a security interest in the promissory note, health care insurance

receivable, or general intangible is subject to all of the following rules:

(1) It is not enforceable against the person obligated on the promissory note or the account debtor.

(2) It does not impose a duty or obligation on the person obligated on the promissory note or the account debtor.

(3) It does not require the person obligated on the promissory note or the account debtor to recognize the security interest, pay or render performance to the secured party, or accept payment or performance from the secured party.

(4) It does not entitle the secured party to use or assign the debtor's rights under the promissory note, health care insurance receivable, or general intangible, including any related information or materials furnished to the debtor in the transaction giving rise to the promissory note, health care insurance receivable, or general intangible.

(5) It does not entitle the secured party to use, assign, possess, or have access to any trade secrets or confidential information of the person obligated on the promissory note or the account debtor.

(6) It does not entitle the secured party to enforce the security interest in the promissory note, health care insurance receivable, or general intangible.

(e) Subdivision (c) does not apply to an assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, a claim or right to receive compensation for injuries or sickness as described in paragraph (1) or (2) of subdivision (a) of Section 104 of Title 26 of the United States Code, as amended, or a claim or right to receive benefits under a special needs trust as described in paragraph (4) of subdivision (d) of Section 1396p of Title 42 of the United States Code, as amended, to the extent that subdivision (c) is inconsistent with those laws.

SEC. 16. Section 9502 of the Commercial Code is amended to read:

9502. (a) Subject to subdivision (b), a financing statement is sufficient only if it satisfies all of the following conditions:

(1) It provides the name of the debtor.

(2) It provides the name of the secured party or a representative of the secured party.

(3) It indicates the collateral covered by the financing statement.

(b) Except as otherwise provided in subdivision (b) of Section 9501, to be sufficient, a financing statement that covers as-extracted collateral or timber to be cut, or which is filed as a fixture filing and covers goods that are or are to become fixtures, must satisfy subdivision (a) and also satisfy all of the following conditions:

(1) Indicate that it covers this type of collateral.

(2) Indicate that it is to be recorded in the real property records.

(3) Provide a description of the real property to which the collateral is related sufficient to give constructive notice of a mortgage under the law of this state if the description were contained in a record of the mortgage of the real property.

(4) If the debtor does not have an interest of record in the real property, provide the name of a record owner.

(c) A record of a mortgage is effective, from the date of recording, as a financing statement filed as a fixture filing or as a financing statement covering as-extracted collateral or timber to be cut only if all of the following conditions are satisfied:

(1) The record indicates the goods or accounts that it covers.

(2) The goods are or are to become fixtures related to the real property described in the record or the collateral is related to the real property described in the record and is as-extracted collateral or timber to be cut.

(3) The record satisfies the requirements for a financing statement in this section, except that both of the following shall apply:

(A) The record need not indicate that it is to be filed in the real property records.

(B) The record sufficiently provides the name of a debtor who is an individual if it provides the individual name of the debtor or the surname and first personal name of the debtor, even if the debtor is an individual to whom paragraph (4) of subdivision (a) of Section 9503 applies.

(4) The record is duly recorded.

(d) A financing statement may be filed before a security agreement is made or a security interest otherwise attaches.

SEC. 17. Section 9503 of the Commercial Code is amended to read:

9503. (a) A financing statement sufficiently provides the name of the debtor only if it does so in accordance with the following rules:

(1) Except as otherwise provided in paragraph (3), if the debtor is a registered organization or the collateral is held in a trust that is a registered organization, only if the financing statement provides the name that is stated to be the registered organization's name on the public organic record most recently filed with or issued or enacted by the registered organization's jurisdiction of organization which purports to state, amend, or restate the registered organization's name.

(2) Subject to subdivision (f), if the collateral is being administered by the personal representative of a decedent, only if the financing statement provides, as the name of the debtor, the name of the decedent and, in a separate part of the financing statement, indicates that the collateral is being administered by a personal representative.

(3) If the collateral is held in a trust that is not a registered organization, only if the financing statement satisfies both of the following conditions:

(A) Provides, as the name of the debtor, either of the following:

(i) If the organic record of the trust specifies a name for the trust, the name specified.

(ii) If the organic record of the trust does not specify a name for the trust, the name of the settlor or testator.

(B) In a separate part of the financing statement, the following information is provided, as applicable:

(i) If the name is provided in accordance with clause (i) of subparagraph (A), the financing statement indicates that the collateral is held in a trust.

(ii) If the name is provided in accordance with clause (ii) of subparagraph (A), the financing statement provides additional information sufficient to distinguish the trust from other trusts having one or more of the same settlors or the same testator and indicates that the collateral is held in a trust, unless the additional information so indicates.

(4) Subject to subdivision (g), if the debtor is an individual to whom the Department of Motor Vehicles has issued a driver's license or identification card that has not expired, only if the financing statement provides the name of the individual indicated on that driver's license or identification card.

(5) If the debtor is an individual to whom paragraph (4) does not apply, only if the financing statement provides the individual

name of the debtor or the surname and first personal name of the debtor. *Except to the extent prohibited by federal law, a secured party or proposed secured party may not decline to provide credit to a debtor or proposed debtor, or offer to make the terms and conditions of such credit less favorable to the debtor or proposed debtor, for the reason that the debtor's name to be included on the financing statement is or would be that provided under this paragraph rather than under paragraph (4). A person who violates this section is liable for damages pursuant to subdivision (b) of Section 9625 plus an award of reasonable attorney's fees.*

(6) In other cases, according to the following rules:

(A) If the debtor has a name, only if the financing statement provides the organizational name of the debtor.

(B) If the debtor does not have a name, only if it provides the names of the partners, members, associates, or other persons comprising the debtor, in a manner that each name provided would be sufficient if the person named were the debtor.

(b) A financing statement that provides the name of the debtor in accordance with subdivision (a) is not rendered ineffective by the absence of either of the following:

(1) A trade name or other name of the debtor.

(2) Unless required under subparagraph (B) of paragraph (6) of subdivision (a), names of partners, members, associates, or other persons comprising the debtor.

(c) A financing statement that provides only the debtor's trade name does not sufficiently provide the name of the debtor.

(d) Failure to indicate the representative capacity of a secured party or representative of a secured party does not affect the sufficiency of a financing statement.

(e) A financing statement may provide the name of more than one debtor and the name of more than one secured party.

(f) The name of the decedent indicated on the order appointing the personal representative of the decedent issued by the court having jurisdiction over the collateral is sufficient as the "name of the decedent" under paragraph (2) of subdivision (a).

(g) If the Department of Motor Vehicles has issued to an individual more than one driver's license or identification card of a kind described in paragraph (4) of subdivision (a), the one that was issued most recently is the one to which paragraph (4) of subdivision (a) refers.

(h) In this section, the "name of the settlor or testator" means either of the following:

(1) If the settlor is a registered organization, the name that is stated to be the settlor's name on the public organic record most recently filed with or issued or enacted by the settlor's jurisdiction of organization which purports to state, amend, or restate the settlor's name.

(2) In other cases, the name of the settlor or testator indicated in the trust's organic record.

SEC. 18. Section 9507 of the Commercial Code is amended to read:

9507. (a) A filed financing statement remains effective with respect to collateral that is sold, exchanged, leased, licensed, or otherwise disposed of and in which a security interest or agricultural lien continues, even if the secured party knows of or consents to the disposition.

(b) Except as otherwise provided in subdivision (c) and in Section 9508, a financing statement is not rendered ineffective if, after the financing statement is filed, the information provided in the financing statement becomes seriously misleading under Section 9506.

(c) If the name that a filed financing statement provides for a debtor becomes insufficient as the name of the debtor under subdivision (a) of Section 9503 so that the financing statement becomes seriously misleading under Section 9506, the following rules apply:

(1) The financing statement is effective to perfect a security interest in collateral acquired by the debtor before, or within four months after, the filed financing statement becomes seriously misleading.

(2) The financing statement is not effective to perfect a security interest in collateral acquired by the debtor more than four months after the filed financing statement becomes seriously misleading, unless an amendment to the financing statement which renders the financing statement not seriously misleading is filed within four months after the financing statement became seriously misleading.

SEC. 19. Section 9515 of the Commercial Code is amended to read:

9515. (a) Except as otherwise provided in subdivisions (b), (e), (f), and (g), a filed financing statement is effective for a period of five years after the date of filing.

(b) Except as otherwise provided in subdivisions (e), (f), and (g), an initial financing statement filed in connection with a public finance transaction or manufactured home transaction is effective for a period of 30 years after the date of filing if it indicates that it is filed in connection with a public finance transaction or manufactured home transaction.

(c) The effectiveness of a filed financing statement lapses on the expiration of the period of its effectiveness unless before the lapse a continuation statement is filed pursuant to subdivision (d). Upon lapse, a financing statement ceases to be effective and any security interest or agricultural lien that was perfected by the financing statement becomes unperfected, unless the security interest is perfected otherwise. If the security interest or agricultural lien becomes unperfected upon lapse, it is deemed never to have been perfected as against a purchaser of the collateral for value.

(d) A continuation statement may be filed only within six months before the expiration of the five-year period specified in subdivision (a) or the 30-year period specified in subdivision (b), whichever is applicable.

(e) Except as otherwise provided in Section 9510, upon timely filing of a continuation statement, the effectiveness of the initial financing statement continues for a period of five years commencing on the day on which the financing statement would have become ineffective in the absence of the filing. Upon the expiration of the five-year period, the financing statement lapses in the same manner as provided in subdivision (c), unless, before the lapse, another continuation statement is filed pursuant to subdivision (d). Succeeding continuation statements may be filed in the same manner to continue the effectiveness of the initial financing statement.

(f) If a debtor is a transmitting utility and a filed initial financing statement so indicates, the financing statement is effective until a termination statement is filed.

(g) A record of a mortgage that is effective as a financing statement filed as a fixture filing under subdivision (c) of Section 9502 remains effective as a financing statement filed as a fixture

filing until the mortgage is released or satisfied of record or its effectiveness otherwise terminates as to the real property.

SEC. 20. Section 9516 of the Commercial Code is amended to read:

9516. (a) Except as otherwise provided in subdivision (b), communication of a record to a filing office and tender of the filing fee or acceptance of the record by the filing office constitutes filing.

(b) Filing does not occur with respect to a record that a filing office refuses to accept because of any of the following:

(1) The record is not communicated by a method or medium of communication authorized by the filing office.

(2) An amount equal to or greater than the applicable filing fee is not tendered.

(3) The filing office is unable to index the record because of any of the following:

(A) In the case of an initial financing statement, the record does not provide a name for the debtor.

(B) In the case of an amendment or information statement, either of the following applies with respect to the record:

(i) It does not identify the initial financing statement as required by Section 9512 or 9518, as applicable.

(ii) It identifies an initial financing statement whose effectiveness has lapsed under Section 9515.

(C) In the case of an initial financing statement that provides the name of a debtor identified as an individual or an amendment that provides a name of a debtor identified as an individual which was not previously provided in the financing statement to which the record relates, the record does not identify the debtor's surname.

(D) In the case of a record filed or recorded in the filing office described in paragraph (1) of subdivision (a) of Section 9501, the record does not provide a sufficient description of the real property to which it relates.

(4) In the case of an initial financing statement or an amendment that adds a secured party of record, the record does not provide a name and mailing address for the secured party of record.

(5) In the case of an initial financing statement or an amendment that provides a name of a debtor which was not previously provided in the financing statement to which the amendment relates, the record does not do any of the following:

(A) Provide a mailing address for the debtor.

(B) Indicate whether the name provided as the name of the debtor is the name of an individual or an organization.

(6) In the case of an assignment reflected in an initial financing statement under subdivision (a) of Section 9514 or an amendment filed under subdivision (b) of Section 9514, the record does not provide a name and mailing address for the assignee.

(7) In the case of a continuation statement, the record is not filed within the six-month period prescribed by subdivision (d) of Section 9515.

(c) For purposes of subdivision (b), both of the following rules apply:

(1) A record does not provide information if the filing office is unable to read or decipher the information.

(2) A record that does not indicate that it is an amendment or identify an initial financing statement to which it relates, as required by Section 9512, 9514, or 9518, is an initial financing statement.

(d) A record that is communicated to the filing office with tender of the filing fee, but which the filing office refuses to accept for a reason other than one set forth in subdivision (b), is effective as a filed record except as against a purchaser of the collateral which gives value in reasonable reliance upon the absence of the record from the files.

SEC. 21. Section 9518 of the Commercial Code is amended to read:

9518. (a) A person may file in the filing office an information statement with respect to a record indexed there under the person's name if the person believes that the record is inaccurate or was wrongfully filed.

(b) An information statement under subdivision (a) shall do all of the following:

(1) Identify the record to which it relates by the file number assigned to the initial financing statement to which the record relates.

(2) Indicate that it is an information statement.

(3) Provide the basis for the person's belief that the record is inaccurate and indicate the manner in which the person believes the record should be amended to cure any inaccuracy or provide

the basis for the person's belief that the record was wrongfully filed.

(4) If the information statement relates to a record filed or recorded in a filing office described in paragraph (1) of subdivision (a) of Section 9501, the date that the initial financing statement was filed or recorded and the information specified in subdivision (b) of Section 9502.

(c) A person may file in the filing office an information statement with respect to a record filed there if the person is a secured party of record with respect to the financing statement to which the record relates and believes that the person that filed the record was not entitled to do so under subdivision (d) of Section 9509.

(d) An information statement under subdivision (c) shall do all of the following:

(1) Identify the record to which it relates by the file number assigned to the initial financing statement to which the record relates.

(2) Indicate that it is an information statement.

(3) Provide the basis for the person's belief that the person that filed the record was not entitled to do so under subdivision (d) of Section 9509.

(e) The filing of an information statement does not affect the effectiveness of an initial financing statement or other filed record.

SEC. 22. Section 9521 of the Commercial Code is amended to read:

9521. (a) A filing office that accepts written records may not refuse to accept a written initial financing statement in the following form and format except for a reason set forth in subdivision (b) of Section 9516:

PRINTER PLEASE NOTE: TIP-IN MATERIAL TO BE INSERTED

1

PRINTER PLEASE NOTE: TIP-IN MATERIAL TO BE INSERTED

1

(b) A filing office that accepts written records may not refuse to accept a written record in the following form and format except for a reason set forth in subdivision (b) of Section 9516:

PRINTER PLEASE NOTE: TIP-IN MATERIAL TO BE INSERTED

1

PRINTER PLEASE NOTE: TIP-IN MATERIAL TO BE INSERTED

1

SEC. 23. Section 9607 of the Commercial Code is amended to read:

9607. (a) If so agreed, and in any event after default, a secured party may do all of the following:

(1) Notify an account debtor or other person obligated on collateral to make payment or otherwise render performance to or for the benefit of the secured party.

(2) Take any proceeds to which the secured party is entitled under Section 9315.

(3) Enforce the obligations of an account debtor or other person obligated on collateral and exercise the rights of the debtor with respect to the obligation of the account debtor or other person obligated on collateral to make payment or otherwise render performance to the debtor, and with respect to any property that secures the obligations of the account debtor or other person obligated on the collateral.

(4) If it holds a security interest in a deposit account perfected by control under paragraph (1) of subdivision (a) of Section 9104, apply the balance of the deposit account to the obligation secured by the deposit account.

(5) If it holds a security interest in a deposit account perfected by control under paragraph (2) or (3) of subdivision (a) of Section 9104, instruct the bank to pay the balance of the deposit account to or for the benefit of the secured party.

(b) If necessary to enable a secured party to exercise under paragraph (3) of subdivision (a) the right of a debtor to enforce a mortgage nonjudicially, the secured party may record in the office in which a record of the mortgage is recorded both of the following:

(1) A copy of the security agreement that creates or provides for a security interest in the obligation secured by the mortgage.

(2) The secured party's sworn affidavit in recordable form stating both of the following:

(A) That a default has occurred with respect to the obligation secured by the mortgage.

(B) That the secured party is entitled to enforce the mortgage nonjudicially.

(c) A secured party shall proceed in a commercially reasonable manner if both of the following apply with respect to the secured party:

(1) It undertakes to collect from or enforce an obligation of an account debtor or other person obligated on collateral.

(2) It is entitled to charge back uncollected collateral or otherwise to full or limited recourse against the debtor or a secondary obligor.

(d) A secured party may deduct from the collections made pursuant to subdivision (c) reasonable expenses of collection and enforcement, including reasonable attorney's fees and legal expenses incurred by the secured party.

(e) This section does not determine whether an account debtor, bank, or other person obligated on collateral owes a duty to a secured party.

SEC. 24. Chapter 8 (commencing with Section 9801) is added to Division 9 of the Commercial Code, to read:

Chapter 8. Transition Provisions for 2010 Amendments

9801. The changes to this division made by the act adding this chapter shall become operative on July 1, ~~2013.~~ *2014.*

9802. (a) Except as otherwise provided in this chapter, the changes to this division made by the act adding this chapter apply to a transaction or lien within its scope, even if the transaction or lien was entered into or created before July 1, ~~2013.~~ *2014.*

(b) The changes to this division made by the act adding this chapter do not affect an action, case, or proceeding commenced before July 1, ~~2013.~~ *2014.*

9803. (a) A security interest that is a perfected security interest immediately before July 1, ~~2013,~~ *2014,* is a perfected security interest under this division as amended by this act if, as of July 1, ~~2013,~~ *2014,* the applicable requirements for attachment and perfection under this division as of that date are satisfied without further action.

(b) Except as otherwise provided in Section 9805, if, immediately before July 1, ~~2013,~~ *2014,* a security interest is a perfected security interest, but the applicable requirements for perfection under this division as of July 1, ~~2013,~~ *2014,* are not satisfied as of that date, the security interest remains perfected thereafter only if the applicable requirements for perfection under this division as amended by this act are satisfied by July 1, ~~2014.~~ *2015.*

9804. A security interest that is an unperfected security interest immediately before July 1, ~~2013,~~ *2014,* becomes a perfected security interest as follows:

(a) Without further action, on July 1, ~~2013,~~ *2014,* if the applicable requirements for perfection under this division as amended by this act are satisfied before or at that time.

(b) When the applicable requirements for perfection are satisfied if the requirements are satisfied after that time.

9805. (a) The filing of a financing statement before July 1, ~~2013,~~ *2014,* is effective to perfect a security interest to the extent the filing would satisfy the applicable requirements for perfection under this division as amended by this act.

(b) The changes to this division made by the act adding this chapter do not render ineffective an effective financing statement that, before July 1, ~~2013,~~ *2014,* is filed and satisfies the applicable requirements for perfection under the law of the jurisdiction governing perfection as provided in this division as it existed before that date. However, except as otherwise provided in subdivisions (c) and (d) and Section 9806, the financing statement ceases to be effective under the following conditions:

(1) If the financing statement is filed in this state, at the time the financing statement would have ceased to be effective had the changes to this division made by the act adding this chapter not become operative.

(2) If the financing statement is filed in another jurisdiction, at the earlier of the following:

(A) The time the financing statement would have ceased to be effective under the law of that jurisdiction.

(B) June 30, 2018.

(c) The filing of a continuation statement after July 1, ~~2013,~~ *2014,* does not continue the effectiveness of a financing statement filed before that date. However, upon the timely filing of a continuation statement after July 1, ~~2013,~~ *2014,* and in accordance with the law of the jurisdiction governing perfection as provided in this division, the effectiveness of a financing statement filed in the same office in that jurisdiction before July 1, ~~2013,~~ *2014,* continues for the period provided by the law of that jurisdiction.

(d) Subparagraph (B) of paragraph (2) of subdivision (b) applies to a financing statement that, before July 1, ~~2013,~~ *2014,* is filed against a transmitting utility and satisfies the applicable

requirements for perfection under the law of the jurisdiction governing perfection as provided in this division as it existed before that date, only to the extent that this division provides that the law of a jurisdiction other than the jurisdiction in which the financing statement is filed governs perfection of a security interest in collateral covered by the financing statement.

(e) A financing statement that includes a financing statement filed before July 1, ~~2013,~~ *2014*, and a continuation statement filed after that date is effective only to the extent that it satisfies the requirements of Chapter 5 (commencing with Section 9501) as amended by the act adding this chapter for an initial financing statement. A financing statement that indicates that the debtor is a decedent's estate indicates that the collateral is being administered by a personal representative within the meaning of paragraph (2) of subdivision (a) of Section 9503, as amended by the act adding this chapter. A financing statement that indicates that the debtor is a trust or is a trustee acting with respect to property held in trust indicates that the collateral is held in a trust within the meaning of paragraph (3) of subdivision (a) of Section 9503 as amended by the act adding this chapter.

9806. (a) The filing of an initial financing statement in the office specified in Section 9501 continues the effectiveness of a financing statement filed before July 1, ~~2013,~~ *2014*, if the following conditions are satisfied:

(1) The filing of an initial financing statement in that office would be effective to perfect a security interest under this division as amended by the act adding this chapter.

(2) The preeffective-date financing statement was filed in an office in another state.

(3) The initial financing statement satisfies subdivision (c).

(b) The filing of an initial financing statement under subdivision (a) continues the effectiveness of the preeffective-date financing statement if the following conditions are satisfied:

(1) If the initial financing statement is filed before July 1, ~~2013,~~ *2014*, for the period provided in Section 9515 prior to its amendment by the act adding this chapter with respect to an initial financing statement.

(2) If the initial financing statement is filed after July 1, ~~2013,~~ *2014*, for the period provided in Section 9515 as amended by the

act adding this chapter with respect to an initial financing statement.

(c) To be effective for purposes of subdivision (a), an initial financing statement shall satisfy the following conditions:

(1) Satisfy the requirements of Chapter 5 (commencing with Section 9501) as amended by the act adding this chapter for an initial financing statement.

(2) Identify the preeffective-date financing statement by indicating the office in which the financing statement was filed and providing the dates of filing and file numbers, if any, of the financing statement and of the most recent continuation statement filed with respect to the financing statement.

(3) Indicate that the preeffective-date financing statement remains effective.

9807. (a) In this section, "preeffective-date financing statement" means a financing statement filed before July 1, ~~2013.~~ *2014.*

(b) After July 1, ~~2013,~~ *2014,* a person may add or delete collateral covered by, continue or terminate the effectiveness of, or otherwise amend the information provided in, a preeffective-date financing statement only in accordance with the law of the jurisdiction governing perfection as provided in this division as amended by the act adding this chapter. However, the effectiveness of a preeffective-date financing statement also may be terminated in accordance with the law of the jurisdiction in which the financing statement is filed.

(c) Except as otherwise provided in subdivision (d), if the law of this state governs perfection of a security interest, the information in a preeffective-date financing statement may be amended after July 1, ~~2013,~~ *2014,* only if:

(1) The preeffective-date financing statement and an amendment are filed in the office specified in Section 9501.

(2) An amendment is filed in the office specified in Section 9501 concurrently with, or after the filing in that office of, an initial financing statement that satisfies subdivision (c) of Section 9806.

(3) An initial financing statement that provides the information as amended and satisfies subdivision (c) of Section 9806 is filed in the office specified in Section 9501.

(d) If the law of this state governs perfection of a security interest, the effectiveness of a preeffective-date financing statement

may be continued only under subdivision (c) or (e) of Section 9805 or Section 9806.

(e) Whether or not the law of this state governs perfection of a security interest, the effectiveness of a preeffective-date financing statement filed in this state may be terminated after July 1, ~~2013,~~ *2014,* by filing a termination statement in the office in which the preeffective-date financing statement is filed, unless an initial financing statement that satisfies subdivision (c) of Section 9806 has been filed in the office specified by the law of the jurisdiction governing perfection as provided in this division as amended by the act adding this chapter as the office in which to file a financing statement.

9808. A person may file an initial financing statement or a continuation statement under this chapter if the following conditions are satisfied:

(a) The secured party of record authorizes the filing.

(b) The filing is necessary under this part to accomplish either of the following:

(1) To continue the effectiveness of a financing statement filed before July 1, ~~2013.~~ *2014.*

(2) To perfect or continue the perfection of a security interest.

9809. The changes to this division made by the act adding this chapter determine the priority of conflicting claims to collateral. However, if the relative priorities of the claims were established before those changes become operative on July 1, ~~2013,~~ *2014,* this division as it existed before those changes become operative determines priority.

SEC. 25. Section 10103 of the Commercial Code is amended to read:

10103. (a) In this division, unless the context otherwise requires:

(1) "Buyer in ordinary course of business" means a person who, in good faith and without knowledge that the sale to him or her is in violation of the ownership rights or security interest or leasehold interest of a third party in the goods, buys in ordinary course from a person in the business of selling goods of that kind, but does not include a pawnbroker. "Buying" may be for cash or by exchange of other property or on secured or unsecured credit and includes acquiring goods or documents of title under a preexisting contract

for sale but does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

(2) "Cancellation" occurs when either party puts an end to the lease contract for default by the other party.

(3) "Commercial unit" means such a unit of goods as by commercial usage is a single whole for purposes of lease and division of which materially impairs its character or value on the market or in use. A commercial unit may be a single article, as a machine, or a set of articles, as a suite of furniture or a line of machinery, or a quantity, as a gross or carload, or any other unit treated in use or in the relevant market as a single whole.

(4) "Conforming" goods or performance under a lease contract means goods or performance that are in accordance with the obligations under the lease contract.

(5) "Consumer lease" means a lease that a lessor regularly engaged in the business of leasing or selling makes to a lessee who is an individual and who takes under the lease primarily for a personal, family, or household purpose.

(6) "Fault" means wrongful act, omission, breach, or default.

(7) "Finance lease" means a lease with respect to which (A) the lessor does not select, manufacture, or supply the goods, (B) the lessor acquires the goods or the right to possession and use of the goods in connection with the lease, and (C) one of the following occurs:

(i) The lessee receives a copy of the contract by which the lessor acquired the goods or the right to possession and use of the goods before signing the lease contract.

(ii) The lessee's approval of the contract by which the lessor acquired the goods or the right to possession and use of the goods is a condition to effectiveness of the lease contract.

(iii) The lessee, before signing the lease contract, receives an accurate and complete statement designating the promises and warranties, and any disclaimers of warranties, limitations or modifications of remedies, or liquidated damages, including those of a third party, such as the manufacturer of the goods, provided to the lessor by the person supplying the goods in connection with or as part of the contract by which the lessor acquired the goods or the right to possession and use of the goods.

(iv) The lessor, before the lessee signs the lease contract, informs the lessee in writing (aa) of the identity of the person supplying

the goods to the lessor, unless the lessee has selected that person and directed the lessor to acquire the goods or the right to possession and use of the goods from that person, (bb) that the lessee is entitled under this division to the promises and warranties, including those of any third party, provided to the lessor by the person supplying the goods in connection with or as part of the contract by which the lessor acquired the goods or the right to possession and use of the goods, and (cc) that the lessee may communicate with the person supplying the goods to the lessor and receive an accurate and complete statement of those promises and warranties, including any disclaimers and limitations of them or of remedies.

(8) "Goods" means all things that are movable at the time of identification to the lease contract, or are fixtures (Section 10309), but the term does not include money, documents, instruments, accounts, chattel paper, general intangibles, or minerals or the like, including oil and gas, before extraction. The term also includes the unborn young of animals.

(9) "Installment lease contract" means a lease contract that authorizes or requires the delivery of goods in separate lots to be separately accepted, even though the lease contract contains a clause "each delivery is a separate lease" or its equivalent.

(10) "Lease" means a transfer of the right to possession and use of goods for a term in return for consideration, but a sale, including a sale on approval or a sale or return, or retention or creation of a security interest is not a lease. Unless the context clearly indicates otherwise, the term includes a sublease.

(11) "Lease agreement" means the bargain, with respect to the lease, of the lessor and the lessee in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of performance as provided in this division. Unless the context clearly indicates otherwise, the term includes a sublease agreement.

(12) "Lease contract" means the total legal obligation that results from the lease agreement as affected by this division and any other applicable rules of law. Unless the context clearly indicates otherwise, the term includes a sublease contract.

(13) "Leasehold interest" means the interest of the lessor or the lessee under a lease contract.

(14) “Lessee” means a person who acquires the right to possession and use of goods under a lease. Unless the context clearly indicates otherwise, the term includes a sublessee.

(15) “Lessee in ordinary course of business” means a person who, in good faith and without knowledge that the lease to him or her is in violation of the ownership rights or security interest or leasehold interest of a third party in the goods, leases in ordinary course from a person in the business of selling or leasing goods of that kind, but does not include a pawnbroker. “Leasing” may be for cash or by exchange of other property or on secured or unsecured credit and includes acquiring goods or documents of title under a preexisting lease contract but does not include a transfer in bulk or as security for or in total or partial satisfaction of a money debt.

(16) “Lessor” means a person who transfers the right to possession and use of goods under a lease. Unless the context clearly indicates otherwise, the term includes a sublessor.

(17) “Lessor’s residual interest” means the lessor’s interest in the goods after expiration, termination, or cancellation of the lease contract.

(18) “Lien” means a charge against or interest in goods to secure payment of a debt or performance of an obligation, but the term does not include a security interest.

(19) “Lot” means a parcel or a single article that is the subject matter of a separate lease or delivery, whether or not it is sufficient to perform the lease contract.

(20) “Merchant lessee” means a lessee that is a merchant with respect to goods of the kind subject to the lease.

(21) “Present value” means the amount as of a date certain of one or more sums payable in the future, discounted to the date certain. The discount is determined by the interest rate specified by the parties if the rate was not manifestly unreasonable at the time the transaction was entered into; otherwise, the discount is determined by a commercially reasonable rate that takes into account the facts and circumstances of each case at the time the transaction was entered into.

(22) “Purchase” includes taking by sale, lease, mortgage, security interest, pledge, gift, or any other voluntary transaction creating an interest in goods.

(23) "Sublease" means a lease of goods the right to possession and use of which was acquired by the lessor as a lessee under an existing lease.

(24) "Supplier" means a person from whom a lessor buys or leases goods to be leased under a finance lease.

(25) "Supply contract" means a contract under which a lessor buys or leases goods to be leased.

(26) "Termination" occurs when either party pursuant to a power created by agreement or law puts an end to the lease contract otherwise than for default.

(b) Other definitions applying to this division and the sections in which they appear are:

"Accessions." Subdivision (a) of Section 10310.

"Construction mortgage." Paragraph (4) of subdivision (a) of Section 10309.

"Encumbrance." Paragraph (5) of subdivision (a) of Section 10309.

"Fixtures." Paragraph (1) of subdivision (a) of Section 10309.

"Fixture filing." Paragraph (2) of subdivision (a) of Section 10309.

"Purchase money lease." Paragraph (3) of subdivision (a) of Section 10309.

(c) The following definitions in other divisions apply to this division:

"Account." Paragraph (2) of subdivision (a) of Section 9102.

"Between merchants." Subdivision (3) of Section 2104.

"Buyer." Paragraph (a) of subdivision (1) of Section 2103.

"Chattel paper." Paragraph (11) of subdivision (a) of Section 9102.

"Consumer goods." Paragraph (23) of subdivision (a) of Section 9102.

"Document." Paragraph (30) of subdivision (a) of Section 9102.

"Entrusting." Subdivision (3) of Section 2403.

"General intangible." Paragraph (42) of subdivision (a) of Section 9102.

"Instrument." Paragraph (47) of subdivision (a) of Section 9102.

"Merchant." Subdivision (1) of Section 2104.

"Mortgage." Paragraph (55) of subdivision (a) of Section 9102.

"Pursuant to commitment." Paragraph (69) of subdivision (a) of Section 9102.

"Receipt of goods." Paragraph (c) of subdivision (1) of Section 2103.

"Sale." Subdivision (1) of Section 2106.

"Sale on approval." Section 2326.

"Sale or return." Section 2326.

"Seller." Paragraph (d) of subdivision (1) of Section 2103.

(d) In addition, Division 1 contains general definitions and principles of construction and interpretation applicable throughout this division.

SEC. 26. Section 21855 of the Food and Agricultural Code is amended to read:

21855. Notwithstanding any other ~~provision of~~ law, in any action for the wrongful taking, possessing, harboring, or transporting of cattle, for the driving of cattle off their usual range, or for the killing or slaughter of cattle without the consent of the owner or the person lawfully in possession of such cattle, the detriment caused thereby to the plaintiff shall be four times the value of the cattle at the time of the taking, possessing, harboring, transporting, or driving, or killing or slaughtering thereof, with interest from that time, plus an amount in fair compensation for the time and money properly expended by the plaintiff in pursuit of the cattle.

~~The provisions of this~~

This section shall not apply to a secured party, as defined in paragraph (73) of subdivision (a) of Section 9102 of the Commercial Code, when taking possession of cattle pursuant to a security agreement if one of the following conditions has been met prior to movement of any such cattle:

(a) The secured party has requested and received a brand inspection of the cattle covered by the security agreement pursuant to Sections 21051.5 and 21171 of this code.

(b) The secured party has requested the inspection required by subdivision (a) and due to an insufficient amount of time to inspect the cattle prior to their movement, the brand inspector agrees to allow movement of the cattle, with inspection of ~~such~~ *the* cattle to be made at their first destination prior to their commingling with any other cattle.

The inspection performed pursuant to subdivision (a) or (b) shall be conducted for the sole purpose of assuring that the cattle that are moved are the same cattle subject to the security agreement.

In a proper case, which shall include the killing or slaughter of cattle, exemplary damages may be awarded to the plaintiff as provided in Section 3340 of the Civil Code.

The commencement of any criminal prosecution for grand theft of cattle shall not preclude or prevent the commencement of any civil action for damages, as specified in this section.

SEC. 27. Section 504b of the Penal Code is amended to read:

504b. Where under the terms of a security agreement, as defined in paragraph (74) of subdivision (a) of Section 9102 of the Commercial Code, the debtor has the right to sell the property covered thereby and is to account to the secured party for, and pay to the secured party the indebtedness secured by the security agreement from, the proceeds of the sale of any of the property, and where the debtor, having sold the property covered by the security agreement and having received the proceeds of the sale, willfully and wrongfully, and with the intent to defraud, fails to pay to the secured party the amounts due under the security agreement, or the proceeds of the sale, whichever is the lesser amount, and appropriates the money to his or her own use, the debtor shall be guilty of embezzlement and shall be punishable as provided in Section 514.

SEC. 28. Section 574 of the Penal Code is amended to read:

574. As used in this chapter, the following terms have the following meanings:

(a) "Buyer" has the meaning set forth in subdivision (c) of Section 2981 of the Civil Code.

(b) "Conditional sale contract" has the meaning set forth in subdivision (a) of Section 2981 of the Civil Code. Notwithstanding subdivision (k) of Section 2981 of the Civil Code, "conditional sale contract" includes any contract for the sale or bailment of a motor vehicle between a buyer and a seller primarily for business or commercial purposes.

(c) "Direct loan agreement" means an agreement between a lender and a purchaser whereby the lender has advanced funds pursuant to a loan secured by the motor vehicle which the purchaser has purchased.

(d) "Lease contract" means a lease contract between a lessor and lessee as this term and these parties are defined in Section 2985.7 of the Civil Code. Notwithstanding subdivision (d) of

Section 2985.7 of the Civil Code, "lease contract" includes a lease for business or commercial purposes.

(e) "Motor vehicle" means any vehicle required to be registered under the Vehicle Code.

(f) "Person" means an individual, company, firm, association, partnership, trust, corporation, limited liability company, or other legal entity.

(g) "Purchaser" has the meaning set forth in paragraph (30) of subdivision (b) of Section 1201 of the Commercial Code.

(h) "Security agreement" and "secured party" have the meanings set forth, respectively, in paragraphs (74) and (73) of subdivision (a) of Section 9102 of the Commercial Code. "Security interest" has the meaning set forth in paragraph (35) of subdivision (b) of Section 1201 of the Commercial Code.

(i) "Seller" has the meaning set forth in subdivision (b) of Section 2981 of the Civil Code, and includes the present holder of the conditional sale contract.

SEC. 29. This act shall become operative on July 1, ~~2013.~~ *2014.*

~~SEC. 30. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:~~

~~To enact amendments to the Commercial Code that are in conformity with amendments to the Commercial Codes in other states that are also operative on July 1, 2013, and thus allow businesses within this state to benefit from uniformity with the rules of commerce throughout the nation, it is necessary that this bill go into immediate effect.~~

SEC. 30. There is hereby appropriated two hundred forty thousand dollars ($240,000) from the Secretary of State's Business Fees Fund, established pursuant to Section 12176 of the Government Code, to the Secretary of State for expenditures in the 2013–14 fiscal year to implement this act, including, but not limited to, promulgating appropriate regulations, modifying automated filing systems and programming, and updating filing forms.

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