

# PRAIRIE ISLAND INDIAN COMMUNITY

## JUDICIAL CODE TITLE 4: COMMERCIAL CODE

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# PRAIRIE ISLAND INDIAN COMMUNITY

## JUDICIAL CODE

### TITLE 4: COMMERCIAL CODE

#### CHAPTER ONE: GENERAL COMMERCIAL PROVISIONS

##### PART 1: SHORT TITLE, CONSTRUCTION, APPLICATION AND SUBJECT MATTER OF THIS TITLE

###### **Section 1. Short Title.**

This Title shall be known and may be cited as the Prairie Island Indian Community Commercial Code and consists of the following chapters: General Commercial Provisions, Sales and Secured Transactions.

###### **Section 2. Purposes; Rules of Construction; Variation by Agreement.**

- (1) This Title shall be liberally construed and applied to promote its underlying purposes and policies.
- (2) Underlying purposes and policies of this Title are
  - (a) To simplify, clarify and modernize the law governing commercial transactions on the Prairie Island Dakota Reservation;
  - (b) To permit the continued expansion of commercial practices through custom, usage and agreement of the parties;
- (3) The effect of provisions of this Title may be varied by agreement, except as otherwise provided in this Title and except that the obligations of good faith, diligence, reasonableness and care prescribed by this Title may not be disclaimed by agreement but the parties may by agreement determine the standards by which the performance of such obligations is to be measured if such standards are not manifestly unreasonable.
- (4) The presence in certain provisions of this Title of the words “unless otherwise agreed” or words of similar import does not imply that the effect of other provisions may not be varied by agreement under subsection (3).

- (5) In this Title unless the context otherwise requires
- (a) words in the singular number include the plural, and in the plural include the singular;
  - (b) words of the masculine gender include the feminine and the neuter, and when the sense so indicates words of the neuter gender may refer to any gender.

**Section 3. Supplementary General Principles of Law Applicable.**

Unless displaced by the particular provisions of this Title, the principles of law and equity, including the law merchant and the law relative to capacity to contract, principal and agent, estoppel, fraud, misrepresentation, duress, coercion, mistake, bankruptcy, or other validating or invalidating cause shall supplement its provisions.

**Section 4. Construction Against Implicit Repeal.**

This Title being a general law intended as a unified coverage of its subject matter, no part of it shall be deemed to be impliedly repealed by subsequent legislation if such construction can reasonably be avoided.

**Section 5. Territorial Application of This Title; Parties' Power to Choose Applicable Law.**

- (1) Except as provided hereafter in this section, when a transaction bears a reasonable relation to this Reservation and also to another reservation, state or nation the parties may agree that the law either of this Reservation or of such other reservation, state or nation shall govern their rights and duties. Failing such agreement this Title applies to transactions bearing an appropriate relation to this Reservation.
- (2) Where on of the following provisions of this Title specifies the applicable law, that provision governs and a contrary agreement is effective only to the extent permitted by the law (including the conflict of laws rules) so specified:

Rights of creditors against sold goods. Sales Chapter Section 402.

Perfection provisions of the Chapter on Secured Transactions.

**Section 6. Remedies to Be Liberally Administered.**

- (1) The remedies provided by this Title shall be liberally administered to the end that the aggrieved party may be put in as good a position as if the other party had fully performed but neither consequential or special nor penal damages may be had except as specifically provided in this Title or by other rule of law.

- (2) Any right or obligation declared by this Title is enforceable by action unless the provision declaring it specifies a different and limited effect.

**Section 7. Waiver or Renunciation of Claim or Right After Breach.**

Any claim or right arising out of an alleged breach can be discharged in whole or in part without consideration by a written waiver or renunciation signed and delivered by the aggrieved party.

**Section 8. Severability.**

If any provision or clause of this Title or application thereof to any person or circumstances is held invalid, such invalidity shall not affect other provisions or applications of the Title which can be given effect without the invalid provision or application, and to this end the provisions of this Title are declared to be severable.

**Section 9. Section Captions.**

Section captions are parts of the laws contained in this Title.

**Section 10 Application to Pre-Existing Transactions.**

Except as provided in this Title to the contrary, this Title shall not apply to any pending disputes or legal proceeding or any transaction entered into prior to the effective date of this Title.

**PART 2: GENERAL DEFINITIONS AND PRINCIPLES OF INTERPRETATION**

**Section 1. General Definitions.**

Subject to additional definitions contained in the subsequent Chapters of this Title which are applicable to specific Chapters or Parts thereof, and unless the context otherwise requires, in this Title:

- (1) “Action” in the sense of judicial proceeding includes recoupment, counterclaim, set-off, suit in equity and any other proceedings in which rights are determined.
- (2) “Aggrieved party” means a party entitled to resort to a remedy.
- (3) “Agreement” means the bargain of the parties 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 Title (Section 205 of this Chapter and 208 of the Sales Chapter). Whether an agreement has legal consequences is determined by the provisions of this Title, if applicable; otherwise by the law of contracts (Section 103). (Compare “Contract.”)

- (4) "Bank" means any person engaged in the business of banking.
- (5) "Bearer" means the person in possession of an instrument, document of title, or certificate security payable to bearer or endorsed in blank.
- (6) "Bill of lading" means a document evidencing the receipt of goods for shipment issued by a person engaged in the business of transporting or forwarding goods, and includes an airbill. "Airbill" means a document serving for air transportation as a bill of lading does for marine or rail transportation, and includes an air consignment note or air waybill.
- (7) "Branch" includes a separately incorporated foreign branch of a bank.
- (8) "Burden of establishing" a fact means the burden of persuading the triers of fact that the existence of the fact is more probable than its non-existence.
- (9) "Buyer in ordinary course of business" means a person who in good faith and without knowledge that the sale to him is in violation of the ownership rights or security 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. All persons who sell minerals or the like (including oil and gas) at wellhead or minehead shall be deemed to be persons in the business of selling goods of that kind. "Buying" may be for cash or by exchange of other property or on secured or unsecured credit and includes receiving goods or documents of title under a pre-existing 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.
- (10) "Conspicuous": A term or clause is conspicuous when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in capitals (as: NON-NEGOTIABLE BILL OF LADING) is conspicuous. Language in the body of form is "conspicuous" if it is in larger or other contrasting type or color. But in a telegram any stated term is "conspicuous." Whether a term or clause is "conspicuous" or not is for decision by the court.
- (11) "Contract" means the total legal obligation which results from the parties' agreement as affected by this Title and any other applicable rules of law. (Compare "Agreement.")
- (12) "Creditor" includes a general creditor, a secured creditor, a lien creditor and any representative of creditors, including an assignee for the benefit of creditors, a trustee in bankruptcy, a receiver in equity and an executor or administrator of an insolvent debtor's or assignor's estate.
- (13) "Defendant" includes a person in the position of defendant in a cross-action or counterclaim.
- (14) "Delivery" with respect to instruments, documents of title, chattel paper, or certificate securities means voluntary transfer of possession.

- (15) “Document of title” includes bill of lading, dock warrant, dock receipt, warehouse receipt or order for the delivery of goods, and also any other document which in the regular course of business or financing is treated as adequately evidencing that the person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers. To be a document of title a document must purport to be issued by or addressed to a bailee and purport to cover goods in the bailee’s possession which are either identified or are fungible portions of an identified mass.
- (16) “Fault” means wrongful act, omission or breach.
- (17) “Fungible” with respect to goods or securities means goods or securities of which any unit is, by nature or usage of trade, the equivalent of any other like unit. Goods which are not fungible shall be deemed fungible for the purposes of this Title to the extent that under a particular agreement or document unlike units are treated as equivalents.
- (18) “Genuine” means free of forgery or counterfeiting.
- (19) “Good faith” means honesty in fact in the conduct or transaction concerned.
- (20) “Holder” means a person who is in possession of a document of title or an instrument or a certificate investment security drawn, issued, or endorsed to him or his order or to bearer or in blank.
- (21) To “honor” is to pay or to accept and pay, or where a credit so engages to purchase or discount a draft complying with the terms of credit.
- (22) “Insolvency proceedings” includes any assignment for the benefit of creditors or other proceedings intended to liquidate or rehabilitate the estate of the person involved.
- (23) A person is “insolvent” who either has ceased to pay his debts in the ordinary course of business or cannot pay his debts as they become due or is insolvent within the meaning of the federal bankruptcy law.
- (24) “Money” means a medium of exchange authorized or adopted by a domestic or foreign government as a part of its currency.
- (25) A person has “notice” of a fact when
- (a) he has actual knowledge of it; or
  - (b) he has received a notice or notification of it; or
  - (c) from all the facts and circumstances known to him at the time in question he has reason to know that it exists.

A person “knows” or has “knowledge” of a fact when he has actual knowledge of it. “Discover” or “learn” or a word or phrase of similar import refers to knowledge rather than

to reason to know. The time and circumstances under which a notice or notification may cease to be effective are not determined by this Title.

- (26) A person “notifies” or “gives” a notice or notification to another by taking such steps as may be reasonably required to inform the other in ordinary course whether or not such other actually comes to know of it. A person “receives” a notice or notification when
- (a) it comes to his attention; or
  - (b) it is duly delivered at the place of business through which the contract was made or at any other place held out by him as the place for receipt of such communications.
- (27) Notice, knowledge or a notice or notification received by an organization is effective for a particular transaction from the time when it is brought to the attention of the individual conducting that transaction, and in any event from the time when it would have been brought to his attention if the organization had exercised due diligence. An organization exercises due diligence if it maintains reasonable routines for communicating significant information to the person conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of his regular duties or unless he has reason to know of the transaction and that the transaction would be materially affected by the information.
- (28) “Organization” includes a corporation, government or governmental subdivision or agency, business trust, estate, trust, partnership or association, two or more persons having a joint or common interest, or any other legal or commercial entity.
- (29) “Party,” as distinct from “third party,” means a person who has engaged in a transaction or made an agreement within this Title.
- (30) “Person” includes an individual or an organization (See Section 102).
- (31) “Presumption”: or “presumed” means that the trier of fact must find the existence of the fact presumed unless and until evidence is introduced which would support a finding of its non-existence.
- (32) “Purchase” includes taking by sale, discount, negotiation, mortgage, pledge, lien, issue or re-issue, gift or any other voluntary transaction creating an interest in property.
- (33) “Purchaser” means a person who takes by purchase.
- (34) “Remedy” means an remedial right to which an aggrieved party is entitled with or without resort to a tribunal.

- (35) “Representative” includes an agent, an officer of a corporation or association, and a trustee, executor or administrator of an estate, or any other person empowered to act for another.
- (36) “Rights” includes remedies.
- (37) “Security interest” means an interest in personal property or fixtures which secures payment or performance of an obligation. The retention or reservation of title by a seller of goods notwithstanding shipment or delivery to the buyer (Sales Chapter Section 401) is limited in effect to a reservation of a “security interest.” The term also includes any interest of a buyer of accounts or chattel paper which is subject to the Secured Transaction Chapter. The special property interest of a buyer of goods on identification of such goods to a contract for sale under Sales Chapter Section 401 is not a “security interest,” but a buyer may also acquire a “security interest” by complying with the Secured Transactions Chapter. Unless a lease or consignment is intended as security, reservation of title thereunder is not a “security interest” but a consignment is in any event subject to the provisions on consignment sales (Sales Chapter Section 326). Whether a lease is intended as security is to be determined by the facts of each case; however, (a) the inclusion of an option to purchase does not of itself make the lease one intended for security, and (b) an agreement that upon compliance with the terms of the lease the lessee shall become or has the option to become the owner of the property for no additional consideration or for a nominal consideration does make the lease one intended for security.
- (38) “Send” in connection with any writing or notice means to deposit in the mail or deliver for transmission by any other usual means of communication with postage or cost of transmission provided for and properly addressed and in the case of an instrument to an address specified thereon or otherwise agreed, or if there be none to any address reasonable under the circumstances. The receipt of any writing or notice within the time at which it would have arrived if properly sent has the effect of a proper sending.
- (39) “Signed” includes any symbol executed or adopted by a party with present intention to authenticate a writing.
- (40) “Telegram” includes a message transmitted by radio, teletype, cable, any mechanical method of transmission, or the like.
- (41) “Term” means that portion of an agreement which relates to a particular matter.
- (42) “Value.” A person gives “value” for rights if he acquires them
- (a) in return for a binding commitment to extend credit or for the extension of immediately available credit whether or not drawn upon and whether or not a charge back is provided for in the event of difficulties in collection; or
  - (b) as security for or in total or partial satisfaction of a pre-existing claim; or
  - (c) by accepting delivery pursuant to a pre-existing contract for purchase; or
  - (d) generally, in return for any consideration, sufficient to support a simple contract.

(43) “Warehouse receipt” means a receipt issued by a person engaged in the business of storing goods for hire.

(44) “Written” or “writing” includes printing, typewriting or any other intentional reduction to tangible form.

**Section 2. Prima Facie Evidence by Third Party Documents.**

A document in due form purporting to be a bill of lading, policy or certificate of insurance, official weigher’s or inspector’s certificate, consular invoice, or any other document authorized or required by the contract to be issued by a third party shall be prima facie evidence of its own authenticity and genuineness and of the facts stated in the document by the third party.

**Section 3. Obligation of Good Faith.**

Every contract or duty within this Title imposes an obligation of good faith in its performance or enforcement.

**Section 4. Time; Reasonable Time; Seasonably.**

- (1) Whenever this Act requires any action to be taken within a reasonable time, any time which is not manifestly unreasonable may be fixed by agreement.
- (2) What is a reasonable time for taking any action depends on the nature, purpose and circumstances of such action.
- (3) An action is taken “seasonably” when it is taken at or within the time agreed, or if no time is agreed, at or within a reasonable time.

**Section 5. Course of Dealing and Usage of Trade.**

- (1) A course of dealing is a sequence of previous conduct between the parties to a particular transaction which is fairly to be regarded as establishing a common basis of understanding for interpreting their expressions and other conduct.
- (2) A usage of trade is any practice or method of dealing having such regularity of observance in a place, vocation or trade as to justify an expectation that it will be observed with respect to the transaction in question. The existence and scope of such a usage are to be proved as facts. If it is established that such a usage is embodied in a written trade code or similar writing the interpretation of the writing is for the court.
- (3) A course of dealing between parties, and any usage of trade in the vocation or trade in which they are engaged or of which they are or should be aware, give particular meaning to and supplement or qualify terms of an agreement.

- (4) The express terms of an agreement and an applicable course of dealing or usage of trade shall be construed wherever reasonable as consistent with each other; but when such construction is unreasonable express terms control both course of dealing and usage of trade and course of dealing controls usage of trade.
- (5) An applicable usage of trade in the place where any part of performance is to occur shall be used in interpreting the agreement as to that part of the performance.
- (6) Evidence of a relevant usage of trade offered by one party is not admissible unless and until he has given the other party such notice as the court finds sufficient to prevent unfair surprise to the latter.

#### **Section 6. {Reserved}**

#### **Section 7. Performance or Acceptance Under Reservation of Rights.**

A party who with explicit reservation of rights performs or promises performance or assents to performance in a manner demanded or offered by the other party does not thereby prejudice the rights reserved. Such words as “without prejudice,” “under protect” or the like are sufficient.

#### **Section 8. Option to Accelerate At Will.**

A term providing that one party or his successor in interest may accelerate payment or performance or require collateral or additional collateral “at will” or “when he deems himself insecure” or in words of similar import shall be construed to mean that he shall have power to do so only if he in good faith believes that the prospect of payment or performance is impaired. The burden of establishing lack of good faith is on the party against whom the power has been exercised.

#### **Section 9. Subordinated Obligations.**

An obligation may be issued as subordinated to payment of another obligation of the person obligated, or a creditor may subordinate his right to payment of an obligation by agreement with either the person obligated or another creditor of the person obligated. Such a subordination does not create a security interest as against either the common debtor or a subordinated creditor. This section shall be construed as declaring the law as it existed prior to the enactment of this section and not as modifying it.

## **CHAPTER TWO SALES**

### **PART 1: SHORT TITLE, GENERAL CONSTRUCTION AND SUBJECT MATTER**

#### **Section 1. Short Title.**

This Chapter shall be known and may be cited as the Prairie Island Indian Community Commercial Code - Sales Chapter.

**Section 2. Scope; Certain Security and Other Transactions Excluded From This Chapter**

(1) Unless the context otherwise requires, this Chapter applies to transactions in goods; it does not apply to any transaction which although in the form of an unconditional contract to sell or present sale is intended to operate only as a security transaction nor does this Chapter impair or repeal any statute regulating sales to consumers, farmers or other specified classes of buyers.

(2) In the absence of other applicable law, the provisions of this Chapter may be applied by analogy to a transaction which is primarily or totally a sale of services rather than goods, if court determines that

- (a) the policies underlying the provisions apply to the transaction, and
- (b) application of provisions is
  - (i) commercially reasonable, and
  - (ii) not contrary to the reasonable expectations of the parties.

**Section 3. Definitions and Index of Definitions.**

(1) In this Chapter unless the context otherwise requires:

- (a) “Buyer” means a person who buys or contracts to buy goods.
- (b) “Good faith” in the case of a merchant means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade.
- (c) “Receipt” of goods means taking physical possession of them.
- (d) “Seller” means a person who sells or contracts to sell goods.

(2) Other definitions applying to this Chapter or to specified Parts thereof, and the sections in which they appear are:

- “Acceptance.” Section 606.
- “Banker’s Credit.” Section 325.
- “Between Merchants.” Section 104.
- “Cancellation.” Section 106(4).

**Section 4. Definitions: “Merchant”; “Between Merchants”; “Financing Agency”.**

(1) “Merchant” means a person who deals in goods of the kind or otherwise by his occupation holds himself out as having knowledge or skill peculiar to the practices of goods involved in the transaction or to whom such knowledge or skill may be attributed by his employment of an agent or broker or other intermediary who by his occupation holds himself out as having such knowledge or skill.

- (2) “Financing agency” means a bank, finance company or other person who in the ordinary course of business makes advances against goods or documents of title or who by arrangement with either the seller or the buyer intervenes in ordinary course to make or collect payment due or claimed under the contract for sale, as by purchasing or paying the seller’s draft or making advances against it or by merely taking it for collection whether or not documents of title accompany the draft. “Financing agency” includes also a bank or other person who similarly intervenes between persons who are in the position of seller and buyer in respect to the goods (Section 707).
- (3) “Between merchants” means in any transaction with respect to which both parties are chargeable with the knowledge or skill of merchants.

**Section 5. Definitions: Transferability; “Goods”; “Future” Goods; “lot”; “Commercial Unit”.**

- (1) “Goods” means all things (including specially manufactured goods) which are movable at the time of identification to the contract for sale other than the money in which the price is to be paid, investment securities and things in action. “Goods” also includes the unborn young of animals and growing crops and other identified things attached to realty as described in the section on goods to be severed from realty (Section 107).
- (2) Goods must be both existing and identified before any interest in them can pass. Goods which are not both existing and identified are “future” goods. A purported present sale of future goods or of any interest therein operates as a contract to sell.
- (3) There may be a sale of a part interest in existing identified goods.
- (4) An undivided share in an identified bulk of fungible goods is sufficiently identified to be sold although the quantity of the bulk is not determined. Any agreed proportion of such a bulk or any quantity thereof agreed upon by number, weight or other measure may to the extent of the seller’s interest in the bulk be sold to the buyer when then becomes an owner in common.
- (5) “Lot” means a parcel or a single article which is the subject matter of a separate sale or delivery, whether or not it is sufficient to perform the contract.
- (6) “Commercial unit” means such a unit of goods as by commercial usage is a single whole for purposes of sale 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 an assortment of sizes) or a quantity (as a bale, gross, or carload) or any other unit treated in use or in the relevant market as single whole.

**Section 6. Definitions: “Contracts”; “Agreement”; “Contract for Sale”; “Sale”; “Conforming” to Contract; “Termination”; “Cancellation”.**

- (1) In this Chapter, unless the context otherwise requires, “contract” and “agreement” are limited to those relating to the present or future sale of goods. “Contract for sale” includes both a present sale of goods and a contract to sell goods at a future time. A “sale” consists in the passing of title from the seller to the buyer for a price (Section 401). A “present sale” means a sale which is accomplished by the making of the contract.
- (2) Goods or conduct including any part of a performance are “conforming” or conform to the contract when they are in accordance with the obligations under the contract.
- (3) “Termination” occurs when either party pursuant to a power created by agreement or law puts an end to the contract otherwise than for its breach. On “termination” all obligations which are still executory on both sides are discharged but any right based on prior breach or performance survives.
- (4) “Cancellation” occurs when either party puts an end to the contract for breach by the other and its effect is the same as that of “termination” except that the canceling party also retains any remedy for breach of the whole contract or any unperformed balance.

**Section 7. Goods to Be Severed From Realty: Recording.**

- (1) A contract for the sale of minerals or the like (including oil and gas) or a structure or its materials to be removed from realty is a contract for the sale of goods within this Chapter if they are to be severed by the seller but until severance a purported present sale thereof which is not effective as a transfer of an interest in land is effective only as contract to sell.
- (2) A contract for the sale apart from the land of growing crops or other things attached to realty and capable of severance without material harm thereto but not described in subsection (1) or of timber to be cut is a contract for the sale of goods within this Chapter whether the subject matter is to be severed by the buyer or by the seller even though it forms part of the realty at the time of contracting, and the parties can by identification effect a present sale before severance.
- (3) The provisions of this section are subject to any third party rights provided by the law relating to realty records, and the contract for sale may be executed and recorded as a document transferring an interest in land and shall then constitute notice to third parties of the buyer’s rights under the contract for sale.
- (4) Nothing in this Chapter shall be construed as affecting the responsibilities of the parties to comply with Tribal laws and regulations concerning the use of land or federal laws and regulations concerning the sale of goods such as timber, minerals, oil or gas from land which is held in trust or which is subject to restrictions against alienation.

**PART 2: FORM, FORMATION AND READJUSTMENT OF CONTRACT**

## **Section 1. Formal Requirements; Statute of Frauds.**

- (1) Except as otherwise provided in this section a contract for the sale of goods for the price of \$500 or more is not enforceable by way of action or defense unless there is some writing sufficient to indicate that a contract for sale has been made between the parties and signed by the party against whom enforcement is sought or by his authorized agent or broker. A writing is not insufficient because it omits or incorrectly states a term agreed upon but the contract is not enforceable under this paragraph beyond the quantity of goods shown in such writing.
- (2) Between merchants if within a reasonable time a writing in confirmation of the contract and sufficient against the sender is received and the party receiving it has reason to know its contents, it satisfies the requirements of subsection (1) against such party unless written notice of objection to its contents is given within 10 days after it is received.
- (3) A contract which does not satisfy the requirements of subsection (1) but which is valid in other respects is enforceable
  - (a) if the goods are to be specially manufactured for the buyer and are not suitable for sale to others in the ordinary course of the seller's business and the seller, before notice of repudiation is received and under circumstances which reasonably indicate that the goods are for the buyer, has made either a substantial beginning of their manufacture or commitments for their procurement; or
  - (b) if the party against whom enforcement is sought admits in his pleading, testimony or otherwise in court that a contract for sale was made, but the contract is not enforceable under this provision beyond the quantity of goods admitted; or
  - (c) with respect to goods for which payment has been made and accepted or which have been received and accepted (Sec. 606).

## **Section 2. Final Written Expression: Parol or Extrinsic Evidence.**

Terms with respect to which the confirmatory memoranda of the parties agree or which are otherwise set forth in a writing intended by the parties as a final expression of their agreement with respect to such terms as are included therein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement but may be explained or supplemented.

- (a) by course of dealing or usage of trade (Section 205) or by course of performance (Section 208); and
- (b) by evidence of consistent additional term unless the court finds the writing to have been intended also as a complete and exclusive statement of the terms of the agreement.

### **Section 3. Seals Inoperative.**

The affixing of a seal to a writing evidencing a contract for sale or an offer to buy or sell goods does not constitute the writing a sealed instrument and the law with respect to sealed instruments does not apply to such a contract or offer.

### **Section 4. Formation in General.**

- (1) A contract for sale of goods may be made in any manner sufficient to show agreement, including conduct by both parties which recognizes the existence of such a contract.
- (2) An agreement sufficient to constitute a contract for sale may be found even though the moment of its making is undetermined.
- (3) Even though one or more terms are left open a contract for sale does not fail for indefiniteness if the parties have intended to make a contract and there is a reasonably certain basis for giving an appropriate remedy.

### **Section 5. Firm Offers.**

An offer by a merchant to buy or sell goods in a signed writing which by its terms gives assurance that it will be held open is not revocable, for lack of consideration, during the time stated or if no time is stated for a reasonable time, but in no event may such period of irrevocability exceed three (3) months; but any such term of assurance on a form supplied by the offeree must be separately signed by the offeror.

### **Section 6. Offer and Acceptance in Formation of Contract.**

- (1) Unless otherwise unambiguously indicated by the language or context:
  - (a) an offer to make a contract shall be construed as inviting acceptance in any manner and by any medium reasonable in the circumstances;
  - (b) an order or other offer to buy goods for prompt or current shipment shall be construed as inviting acceptance either by a prompt promise to ship or by the prompt or current shipment of conforming or non-conforming goods, but such a shipment of non-conforming goods does not constitute an acceptance if the seller seasonably notifies the buyer that the shipment is offered only as an accommodation to the buyer.
- (2) Where the beginning of a requested performance is a reasonable mode of acceptance an offeror who is not noticed of acceptance within a reasonable time may treat the offer as having lapsed before acceptance.

### **Section 7. Additional Terms in Acceptance or Confirmation.**

- (1) A definite and seasonable expression of acceptance or a written confirmation which is sent within a reasonable time operates as an acceptance even though it states terms additional to or different from those offered or agreed upon, unless acceptance is expressly made conditional on assent to the additional or different terms.
- (2) The additional terms are to be construed as proposals for addition to the contract. Between merchants such terms become part of the contract unless:
  - (a) the offer expressly limits acceptance to the terms of the offer;
  - (b) they materially alter it; or
  - (c) notification of objection to them has already been given or is given within a reasonable time after notice of them is received.
- (3) Conduct by both parties which recognizes the existence of a contract is sufficient to establish a contract for sale although the writings of the parties do not otherwise establish a contract. In such case the terms of the particular contract consist of those terms on which the writings of the parties agree, together with any supplementary terms incorporated under any other provisions of this Title.

**Section 8. Course of Performance or Practical Construction.**

- (1) Where the contract for sale involves repeated occasions for performance by either party with knowledge of the nature of the performance and opportunity for objection to it by the other, any course of performance accepted or acquiesced in without objection shall be relevant to determine the meaning of the agreement.
- (2) The express terms of the agreement and any such course of performance, as well as any course of dealing and usage of trade, shall be construed whenever reasonable as consistent with each other; but when such construction is unreasonable, express terms shall control course of performance and course of performance shall control both course of dealing and usage of trade (Section 205).
- (3) Subject to the provisions of the next section on modification and waiver, such course of performance shall be relevant to show a waiver or modification of any term inconsistent with such course of performance.

**Section 9. Modification, Rescission and Waiver.**

- (1) An agreement modifying a contract with this Chapter needs no considerations to be binding.
- (2) A signed agreement which excludes modification or rescission except by a signed writing cannot be otherwise modified or rescinded, but except as between merchants such a

requirement on a form supplied by the merchant must be separately signed by the other party.

- (3) The requirements of the statute of frauds section of this Chapter (Section 201) must be satisfied if the contract as modified is within its provisions.
- (4) Although an attempt at modification or rescission does not satisfy the requirements of subsection (2) or (3) it can operate as a waiver.
- (5) A party who has made a waiver affecting an executory portion of the contract may retract the waiver by reasonable notification received by the other party that strict performance will be required of any term waived, unless the retraction would be unjust in view of a material change of position in reliance on the waiver.

**Section 10. Delegation of Performance; Assignment of Rights.**

- (1) A party may perform his duty through a delegate unless otherwise agreed or unless the other party has a substantial interest in having his original promisor perform or control the acts required by the contract. No delegation of performance relieves the party delegating of any duty to perform or any liability for breach.
- (2) Unless otherwise agreed all rights of either seller or buyer can be assigned except where the assignment would materially change the duty of the other party, or increase materially the burden or risk imposed on him by his contract, or impair materially his chance of obtaining return performance. A right to damages for breach of the whole contract or a right arising out of the assignor's due performance of his entire obligation can be assigned despite agreement otherwise.
- (3) Unless the circumstances indicate the contrary a prohibition of assignment of "the contract" is to be construed as barring only the delegation of the assignee of the assignor's performance.
- (4) An assignment of "the contract" or of "all my rights under the contract" or an assignment in similar general terms is an assignment of rights and unless the language or the circumstances (as in an assignment for security) indicate the contrary, it is a delegation of performance of the duties of the assignor and its acceptance by the assignee constitutes a promise by him to perform those duties. This promise is enforceable by either the assignor or the other party to the original contract.
- (5) The other party may treat any assignment which delegates performance as creating reasonable grounds for insecurity and may without prejudice to his rights against the assignor demand assurances from the assignee (Section 609).

**Section 1. General Obligations of Parties.**

The obligation of the seller is to transfer and deliver and that of the buyer is to accept and pay in accordance with the contract.

**Section 2. Unconscionable Contract or Clause.**

- (1) If the Prairie Island Mdewakanton Dakota Tribal Court as a matter of law finds the contract or any clause of contract to have been unconscionable at the time it was made, the Court may refuse to enforce the contract, or it may enforce the remainder of the contract without the unconscionable clause, or it may so limit the application of any unconscionable clause as to avoid any unconscionable result.
- (2) When it is claimed or appears to the Court that the contract or any clause thereof may be unconscionable the parties shall be afforded a reasonable opportunity to present evidence as to its commercial setting, purpose and effect to aid the court in making the determination.

**Section 3. Allocation or Division of Risks.**

Where this Chapter allocates a risk or a burden as between the parties “unless otherwise agreed,” the agreement may not only shift the allocation but may also divide the risk or burden.

**Section 4. Price Payable in Money, Goods, Realty, or Otherwise.**

- (1) The price can be made payable in money or otherwise. If it is payable in whole or in part in goods each party is a seller of the goods which he is to transfer.
- (2) Even though all or part of the price is payable in an interest in realty the transfer of the goods and the seller’s obligations with reference to them are subject to this Chapter, but not the transfer of the interest in realty or the transferor’s obligations in connection therewith.

**Section 5. Open Price Term.**

- (1) The parties if they so intend can conclude a contract for sale even though the price is not settled. In such a case the price is a reasonable price at the time for delivery if
  - (a) nothing is said as to price;
  - (b) the price is left to be agreed by the parties and they fail to agree; or
  - (c) the price is to be fixed in terms of some agreed market or other standard as set or recorded by a third person or agency and it is not so set or recorded
- (2) A price to be fixed by the seller or by the buyer means a price for him to fix in good faith.

- (3) When a price left to be fixed otherwise than by agreement of the parties fails to be fixed through fault of one party the other may at his option treat the contract as canceled or himself fix a reasonable price.
- (4) Where, however, the parties intend not to be bound unless the price be fixed or agreed and it is not fixed or agreed there is no contract. In such a case the buyer must return any goods already received or if unable so to do must pay their reasonable value at the time of delivery and the seller must return any portion of the price on account.

**Section 6. Output, Requirements and Exclusive Dealings.**

- (1) A term which measures the quantity by the output of the seller or the requirements of the buyer means such actual output or requirements as may occur in good faith, except that no quantity unreasonably disproportionate to any stated estimate or in the absence of a stated estimate to any normal or otherwise comparable prior output or requirements may be tendered or demanded.
- (2) A lawful agreement by either the seller or the buyer for exclusive dealing in the kind of goods concerned imposes unless otherwise agreed an obligation by the seller to use best efforts to supply the goods and by the buyer to use best efforts to promote their sale.

**Section 7. Delivery in Single Lot or Several Lots.**

Unless otherwise agreed all goods called for by a contract for sale must be tendered in a single delivery and payment is due only on such tender but where the circumstances give either party the right to make or demand delivery in lots in price if it can be apportioned may be demanded for each lot.

**Section 8. Absence of Specified Place for Delivery.**

Unless otherwise agreed:

- (a) The place for delivery of goods is the seller's place of business or if he has none his residence; but
- (b) In a contract for sale of identified goods which to the knowledge of the parties at the time of contracting are in some other place, that place is the place for their delivery; and
- (c) Documents of title may be delivered through customary banking channels.

**Section 10. Open Time for Payment or Running of Credit; Authority to Ship Under Reservation.**

Unless otherwise agreed:

- (a) Payment is due at the time and place at which the buyer is to receive the goods even though the place of shipment is the place of delivery; and
- (b) If the seller is authorized to send the goods he may ship them under reservation, and may tender the documents of title, but the buyer may inspect the goods after their arrival before payment is due unless such inspection is inconsistent with the terms of the contract (Section 513); and
- (c) If delivery is authorized and made way of documents of title otherwise than by subsection (b) then payment is due at the time and place at which the buyer is to receive the documents regardless of where the goods are to be received; and
- (d) Where the seller is required or authorized to ship the goods on credit the credit period runs from the time of shipment but post-dating the invoice or delaying its dispatch will correspondingly delay the starting of the credit period.

**Section 11. Options and Cooperation Respecting Performance.**

- (1) An agreement for sale which is otherwise sufficiently definite (subsection (3) of Section 204) to be a contract is not made invalid by the fact that it leaves particulars of performance to be specified by one of the parties. Any such specification must be made in good faith and within limits set by commercial reasonableness.
- (2) Unless otherwise agreed specifications relating to assortment of the goods are at the buyer's option and except as otherwise provided in subsection (1) (c) and (3) of Section 319 specifications or arrangements relating to shipment are at the seller's option.
- (3) Where such specification would materially affect the other party's performance but is not seasonably made or where one party's cooperation is necessary to the agreed performance of the other but is not seasonably forthcoming, the other party in addition to all other remedies
  - (a) Is excused for any resulting delay in his own performance; and
  - (b) May also either proceed to perform in any reasonable manner or after the time for a material part of his own performance treat the failure to specific or to cooperate as a breach by failure to deliver or accept the goods.

**Section 12. Warranty of Title and Against Infringement; Buyer's Obligation Against Infringement.**

- (1) Subject to subsection (2) there is a contract for sale a warranty by the seller that:
  - (a) The title conveyed shall be good, and its transfer rightful; and
  - (b) The goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.

- (2) A warranty under subsection (1) will be excluded or modified only by specific language or by circumstances which give the buyer reason to know that the person selling does not claim title in himself or that he is purporting to sell only such right or title as he or a third person may have.
- (3) Unless otherwise agreed, a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

**Section 13. Express Warranties by Affirmation, Promise, Description, Sample.**

- (1) Express warranties by the seller are created as follows:
  - (a) Any affirmation of fact or promise made by the seller to the buyer which relates to the goods and becomes part of the basis of the bargain creates an express warranty that the goods shall conform to the affirmation or promise.
  - (b) Any description of the goods which is made part of the basis of the bargain creates an express warranty that the goods shall conform to the description.
  - (c) Any sample or model which is made part of the basis of the bargain creates an express warranty that the whole of the goods shall conform to the sample or model.
- (2) It is not necessary to the creation of an express warranty that the seller use formal words such as “warranty” or “guarantee” or that he have a specific intention to make a warranty, but an affirmation merely of the value of the goods or a statement purporting to be merely the seller’s opinion or commendation of the goods does not create a warranty.

**Section 14. Implied Warranty: Merchantability; Usage of Trade.**

- (1) Unless excluded or modified (Section 316), a warranty that the goods shall be merchantable is implied in a contract for their sale if the seller is a merchant with respect to goods of that kind. Under this section the serving for value of food or drink to be consumed either on the premises or elsewhere is a sale.
- (2) Goods to be merchantable must be at least such as
  - (a) Pass without objection in the trade under the contract description; and
  - (b) In the case of fungible goods, are of fair average quality within the description; and
  - (c) Are fit for the ordinary purposes for which such goods are used; and
  - (d) Run, within the variations permitted by the agreement, of even kind, quality and quantity within each unit and among all units involved; and
  - (e) Are adequately contained, packaged, labeled, or marked if any.

- (3) Unless excluded or modified (Section 316) other implied warranties may arise from course of dealing or usage of trade.
- (4) Notwithstanding this section or section 315 of this Chapter there is no implied warranty on the sale of cattle, hogs, sheep, horses, mules, goats, poultry or rabbits that such cattle, hogs, sheep, horses, mules, goats, poultry or rabbits are free from disease.
- (5) Notwithstanding this section or section 315 of this Chapter there are no implied warranties which arise on the sale of human blood, blood plasma, or other human tissue or organs from a blood bank, clinic, hospital or other reservoir of such blood, tissue or organs.

**Section 15. Implied Warranty: Fitness for Particular Purpose.**

Where the seller at the time of contracting has reason to know any particular purpose for which the goods are required and that the buyer is relying on the seller's skill or judgment to select or furnish suitable goods, there is unless excluded or modified under the next section an implied warranty that the goods shall be fit for such purpose.

**Section 16. Exclusion or Modification of Warranties.**

- (1) Words or conduct relevant to the creation of an express warranty and words or conduct tending to negate or limit warranty shall be construed wherever reasonable as consistent with each other; but subject to the provisions of this Chapter on Parol or extrinsic evidence (Section 202) negation or limitation is inoperative to the extent that such construction is unreasonable.
- (2) Subject to subsection (3), to exclude or modify the implied warranty of merchantability or any part of it the language must mention merchantability and in case of a writing must be conspicuous, and to exclude or modify any implied warranty of fitness the exclusion must be by a writing and conspicuous. Language to exclude all implied warranties of fitness is sufficient if it states, for example, that "There are no warranties which extend beyond the description on the face hereof."
- (3) Notwithstanding subsection (2):
  - (a) Unless the circumstances indicate otherwise, all implied warranties are excluded by expressions like "as is," "with all faults" or other language which in common understanding calls the buyer's attention to the exclusion of warranties and makes plain that there is no implied warranty; and
  - (b) When the buyer before entering into the contract has examined the goods or the sample or model as fully as he desired or has refused to examine the goods there is no implied warranty with regard to defects which an examination ought in the circumstances to have revealed to him; and

- (c) An implied warranty can also be excluded or modified by course of dealing or course of performance or usage of trade.
- (4) Remedies for breach of warranty can be limited in accordance with the provisions of this Chapter on liquidation or limitation of damages and on contractual modification of remedy (Sections 718 and 719).

**Section 17. Cumulation and Conflict of Warranties Express or Implied.**

Warranties whether express or implied shall be construed as consistent with each other and as cumulative, but if such construction is unreasonable the intention of the parties shall determine which warranty is dominant. In ascertaining that intention the following rules apply:

- (1) Exact or technical specifications displace an inconsistent sample or model or general language of description.
- (2) A sample from an existing bulk displaces inconsistent general language of description.
- (3) Express warranties displace inconsistent implied warranties other than an implied warranty of fitness for a particular purpose.

**Section 18. Third Party Beneficiaries of Warranties Express or Implied.**

A seller's warranty whether express or implied extends to any person who may reasonably be expected to use, consume or be affected by the goods and who is injured by breach of the warranty. A seller may not exclude or limit the operation of this section with respect to injury to the person of an individual to whom the warranty extends.

**Section 19. F.O.B. and F.A.S. Terms.**

- (1) Unless otherwise agreed the term F.O.B. (which means "free on board") at a named place, even though used only in connection with the stated price, is a delivery term under which:
  - (a) When the term is F.O.B. the place of shipment, the seller must at that place ship the goods in the manner provided in this Chapter (Section 504) and bear the expense and risk of putting them into the possession of the carrier; or
  - (b) When the term is F.O.B. the place of destination, the seller must at his own expense and risk transport the goods to that place and there tender delivery of them in the manner provided in this Chapter (Section 503);
  - (c) When under either (a) or (b) the term is also F.O.B. vessel, care or other vehicle, the seller must in addition at his own expense and risk load the goods on board. If the term

is F.O.B. vessel the buyer must name the vessel and in an appropriate case the seller must comply with \_\_\_ of this Chapter on the form of bill of lading (Section 323).

- (2) Unless otherwise agreed the term F.A.S. vessel (which means “free alongside” at a named port, even though used only in connection with the stated price, is a delivery term under which the seller must
  - (a) At his own expense and risk deliver the goods alongside the vessel in the manner usual in that port or on a dock designated and provided by the buyer; and
  - (b) Obtain and tender a receipt for the goods in exchange for which the carrier is under the duty to issue a bill of lading.
- (3) Unless otherwise agreed in any case falling within subsection (1) (a) or (c) or subsection (2) the buyer must seasonably give any needed instructions for making delivery, including when the term is F.A.S. or B.O.B. the loading berth of the vessel and in an appropriate case its name and sailing date. The seller may treat the failure of needed instructions as a failure of cooperation under this Chapter (Section 311). He may also at his option move the goods in any reasonable manner preparatory to delivery or shipment.
- (4) Under the term F.O.B. vessel or F.A.S. unless otherwise agreed the buyer must make payment against tender of the required documents and the seller may not tender nor the buyer demand delivery of the goods in substitution for the documents.

**Section 20. C.I.F. and C. & F. Terms.**

- (1) The terms C.I.F. means that the price includes in a lump sum the cost of the goods and the insurance and freight to the named destination. The term C. & F. or C.F. means that the price so includes cost and freight to the named destination.
- (2) Unless otherwise agreed and even though used only in connection with the stated price and destination, the term C.I.F. destination or its equivalent requires the seller at this own expense and risk to
  - (a) Put the goods into the possession of a carrier at the port for shipment and obtain a negotiable bill or bills of lading covering and entire transportation to the named destination; and
  - (b) Load the goods and obtain a receipt from the carrier (which may be contained in the bill of lading) showing that the freight has been paid or provided for; and
  - (c) Obtain a policy or certificate of insurance, including any war risk insurance, of a kind and on terms then current at the port of shipment in the usual amount, in the currency of the contract, shown to cover the same goods covered by the bill of lading and provided for payment of loss to the order of the buyer or for the account of whom it may

concern; but the seller may add to the price the amount of the premium for any such war risk insurance; and

- (d) Prepare an invoice of the goods and procure any other documents required to effect shipment or to comply with the contract ; and
  - (e) Forward and tender with commercial promptness all the documents in due form and with any endorsement necessary to perfect the buyer's rights.
- (3) Unless otherwise agreed the term C.& F. or its equivalent has the same effect and imposes upon the seller the same obligations and risks as a C.I.F. term except the obligation as to insurance.
- (4) Under the term C.I.F. or C. & F. unless otherwise agreed the buyer must make payment against sender of the required documents and the seller may not tender nor the buyer demand delivery of the goods in substitution for the documents.

**Section 21. C.I.F. or C. & F.: "Net Landed Weights"; "Payment on Arrival"; Warranty of Condition on Arrival.**

Under a contract containing a term C.I.F. or C. & F.:

- (1) Where the price is based on or is to be adjusted according to "net landed weights," "delivered weights," "out turn" quantity or quality or the like, unless otherwise agreed the seller must reasonably estimate the price. The payment due on tender of the documents called for by the contract is the amount so estimated, but after final adjustment of the price a settlement must be made with commercial promptness.
- (2) An agreement described in subsection (1) or any warranty of quality or condition of the goods on arrival placed upon the seller the risk of ordinary deterioration, shrinkage and the like in transportation but has no effect on the place or time of identification to the contract for sale or delivery or on the passing of the risk of loss.
- (3) Unless otherwise agreed where the contract provides for payment on or after arrival of the goods the seller must before payment allow such preliminary inspection as is feasible; but if the goods are lost delivery of the documents and payment are due when the goods should have arrived.

**Section 22. Delivery "Ex-Ship".**

- (1) Unless otherwise agreed, a term for delivery of goods "ex-ship" (which means from the carrying vessel) or in equivalent language is not restricted to a particular ship and requires delivery from a ship which has reached a place at the named port of destination where goods of the kind are usually discharged.

- (2) Under such a term unless otherwise agreed:
  - (a) The seller must discharge all liens arising out of the carriage and furnish the buyer with a direction which puts the carrier under a duty to deliver the goods; and
  - (b) The risk of loss does not pass to the buyer until the goods leave the ship's tackle or are otherwise properly unloaded.

**Section 24. "No Arrival, No Sale" Term.**

Under the term "no arrival, no sale" or terms of like meaning, unless otherwise agreed,

- (1) The seller must properly ship conforming goods and if they arrive by any means he must tender them on arrival but he assumes no obligation that the goods will arrive unless he has caused the non-arrival ; and
- (2) Where without fault of the seller the goods are in part lost or have so deteriorated as no longer to conform to the contract or arrive after the contract time, the buyer may proceed as if there had been casualty to identified goods (Section 613).

**Section 25. "Letter of Credit" Term; "Confirmed Credit".**

- (1) Failure of the buyer seasonably to furnish an agreed letter of credit is a breach of the contract for sale.
- (2) The delivery to seller of a proper letter of credit suspends the buyer's obligation to pay. If the letter of credit is dishonored, the seller may on reasonable notification to the buyer require payment directly from him.
- (3) Unless otherwise agreed the term "letter of credit" or "banker's credit" in a contract for sale means an irrevocable credit issued by a financing agency of good repute and, where the shipment is overseas, of good international repute. The term "confirmed credit" means that the credit must also carry the direct obligation of such an agency which does business in the seller's financial market.

**Section 26. Sale on Approval and Sale or Return; Consignment Sales and Rights of Creditors.**

- (1) Unless otherwise agreed, if delivered goods may be returned by the buyer even though they conform to the contract, the transaction is:
  - (a) A "sale on approval" if the goods are delivered primarily for use, and
  - (b) A "sale or return: if the goods are delivered primarily for resale.

- (2) Except as provided in subsection (3), goods held on approval are not subject to the claims of the buyer's creditors until acceptance; goods held on sale or return are subject to such claims while in the buyer's possession.
- (3) Where goods are delivered to a person for sale and such person maintains a place of business at which he deals in goods of the kind involved, under a name other than the name of the person making delivery, then with respect to claims of creditors of the person conducting the business the goods are deemed to be on sale or return. The provisions of this subsection are applicable even though an agreement purports to reserve title to the person making delivery until payment or resale or uses such words as "on consignment" or "on memorandum." However, this subsection is not applicable if the person making delivery:
  - (a) Complies with an applicable law providing for a consignor's interest or the like to be evidenced by a sign, or
  - (b) Established that the person conducting the business is generally known by his creditors to be substantially engaged in selling the goods of others, or
  - (c) Complies with the filing provisions of the Chapter on Secured Transactions.
- (4) Any "or return" term of a contract for sale is to be treated as a separate contract for sale within the statute of frauds section of this Chapter (Section 201) and as contradicting the sale aspect of the contract within the provisions of this Chapter on parol or extrinsic evidence (Section 202).

**Section 27. Special Incident of Sale on Approval and Sale or Return.**

- (1) Under a sale on approval unless otherwise agreed:
  - (a) Although the goods are identified to the contract the risk of loss and the title do not pass to the buyer until acceptance; and
  - (b) Use of the goods consistent with the purpose of trial is not acceptable but failure seasonably to notify the seller of election to return the goods is acceptance, and if the goods conform to the contract acceptance of any part is acceptance of the whole; and
  - (c) After due notification of election to return, the return is at the seller's risk and expense but a merchant buyer must follow any reasonable instructions.
- (2) Under a sale or return otherwise agreed:
  - (a) The option to return extends to the whole or any commercial unit of the goods while in substantially their original conditions, but must be exercised seasonably; and
  - (b) The return is at the buyer's risk and expense.

## **Section 28. Sale by Auction.**

- (1) In a sale by auction, if goods are put up in lots, each lot is the subject of a separate sale.
- (2) A sale by auction is complete when auctioneer so announces by the fall of the hammer or in other customary manner. Where a bid is made while the hammer is falling in acceptance of a prior bid the auctioneer may in his discretion reopen the bidding or declare the goods sold under the bid on which the hammer was falling.
- (3) Such a sale is with reserve unless the goods are in explicit terms put up without reserve. In an auction with reserve the auctioneer may withdraw the goods at any time until he announces completion of the sale. In an auction without reserve, after the auctioneer calls for bids on an article or lot, that article or lot cannot be withdrawn unless no bid is made within a reasonable time. In either case a bidder may retract his bid until the auctioneer's announcement of completion of the sale, but a bidder's retraction does not revive any previous bid.
- (4) If the auctioneer knowingly receives a bid on the seller's behalf or the seller makes or procures such a bid, and notice has not been given that liberty for such bidding is reserved, the buyer may at his option avoid the sale or take the goods at the price of the last good faith bid prior to the completion of the sale. This subsection shall not apply to any bid at a forced sale.

## **PART 4 TITLE, CREDITORS AND GOOD FAITH PURCHASERS**

### **Section 1. Passing of Title; Reservation for Security; Limited Application of This Section.**

Each provision of this Chapter with regard to the rights, obligations and remedies of the seller, the buyer, purchasers or other parties applies irrespective of title to the goods except where the provisions refers to such title. Insofar as situations are not covered by the other provisions of this Chapter and matters concerning title become material the following rules apply:

- (1) Title to goods cannot pass under a contract for sale prior to their identification to the contract (Section 501), and unless otherwise explicitly agreed the buyer acquires by their identification a special property as limited by this Title. Any retention or reservation by the seller of the title (property) in goods shipped or delivered to the buyer is limited in effect to a reservation of a security interest. Subject to these provisions and to the provisions of the Chapter on Secured Transactions, title to goods passes from the seller to the buyer in any manner and on any conditions explicitly agreed on by the parties.
- (2) Unless otherwise explicitly agreed, title passes to the buyer at the time and place at which the seller completes his performance with reference to the physical delivery of the goods, despite any reservation of a security interest and even though a document of title is to be

delivered at a different time or place; and in particular and despite any reservation of a security interest by the bill of lading

- (a) If the contract requires or authorizes the seller to send the goods to the buyer but does not require him to deliver then at destination, title passes to the buyer at the time and place of shipment; but
  - (b) If the contract requires delivery at destination, title passes on tender there.
- (3) Unless otherwise explicitly agreed where delivery is to be made without moving the goods:
- (a) If the seller is to deliver a document of title, title passes at the time when and the place where he delivers such documents; or
  - (b) If the goods are at the time of contracting already identified and no documents are to be delivered, title passes at the time and place of contracting.
- (4) A rejection or other refusal by the buyer to receive or retain the goods, whether or not justified, or a justified revocation of acceptance reverts title to the goods in the seller. Such reversion occurs by operation of law and is not a “sale.”

## **Section 2. Rights of Seller’s Creditors Against Sold Goods.**

- (1) Except as provided in subsection (2) and (3), rights of unsecured creditors of the seller with respect to goods which have been identified to a contract for sale are subject to the buyer’s rights to recover the goods under this Chapter (Sections 502 and 716).
- (2) A creditor of the seller may treat a sale or an identification of goods to a contract for sale as void if as against him a retention of possession by the seller is fraudulent under any rule of law of the jurisdiction where the goods are situated, except that retention of possession in good faith and current course of trade by a merchant-seller for a commercially reasonable time after a sale or identification is not fraudulent.
- (3) Nothing in this Chapter shall be deemed to impair the rights of creditors of the seller:
  - (a) Under the provisions of the Chapter on Secured Transactions; or
  - (b) Where identification to the contract or delivery is made not in current course of trade but in satisfaction of or as security for a pre-existing claim for money, security or the like and is made under circumstances which under any rule of law of the state where the goods are situated would apart from this Chapter constitute the transaction a fraudulent transfer or voidable preference.

## **Section 3. Power to Transfer; Good Faith Purchase of Goods; “Entrusting”.**

- (1) A purchaser of goods acquires all title which his transferor had or had power to transfer except that a purchaser of a limited interest acquires rights only to the extent of the interest purchased. A person with voidable title has power to transfer a good title to a good faith purchaser for value. When goods have been delivered under a transaction of purchase the purchaser has such power even though:
  - (a) The transferor was deceived as to the identity of the purchaser,
  - (b) The delivery was in exchange for a check which is later dishonored,
  - (c) It was agreed that the transaction was to be a “cash sale,” or
  - (d) The delivery was procured through fraud punishable as larcenous under the criminal law.
- (2) Any entrusting of possession of goods to a merchant who deals in goods of that kind gives him power to transfer all rights of the entruster to a buyer in ordinary course of business.
- (3) “Entrusting” includes any delivery and any acquiescence in retention of possession regardless of any condition expressed between the parties to the delivery or acquiescence and regardless of whether the procurement of the entrusting or the possessor’s disposition of the goods have been such as to be larcenous under the criminal law.
- (4) The rights of other purchasers of goods and of lien creditors are governed by the Chapter on Secured Transactions, or other applicable laws.

## PART 5: PERFORMANCE

### **Section 1. Insurable Interest in Goods; Manner of Identification of Goods.**

- (1) The buyer obtains a special property and an insurable interest in goods by identification of existing goods as goods to which the contract refers even though the goods so identified are non-conforming and he has an option to return or reject them. Such identification can be made at any time and in any manner explicitly agreed to by parties. In the absence of explicit agreement identification occurs:
  - (a) When the contract is made if it is for the sale of goods already existing and identified;
  - (b) If the contract is for the sale of future goods other than those described in paragraph (c), when goods are shipped, marked or otherwise designated by the seller as goods to which the contract refers;
  - (c) When the crops are planted or otherwise become growing crops or the young are conceived if the contract is for the sale of unborn young to be born within twelve

months after contracting or for the sale of crops to be harvested within twelve months or the next normal harvest season after contracting whichever is longer.

- (2) The seller retains an insurable interest in goods so long as title to or any security interest in the goods remains in him and where the identification is by the seller alone he may until default or insolvency or notification to the buyer that the identification is final substitute other goods for those identified.
- (3) Nothing in this section impairs any insurable interest recognized under any other statute or rule of law.

## **Section 2. Buyer's Right to Goods on Seller's Insolvency.**

- (1) Subject to subsection (2) and even though the goods have not been shipped a buyer who has paid a part or all of the price of goods in which he has a special property under the provisions of the immediately preceding section may on making and keeping good a tender of any unpaid portion of their price recover them from the seller if the seller becomes insolvent within ten days after receipt of the first installment on their price.
- (2) If the identification creating his special property has been made by the buyer he acquires the right to recover the goods only if they conform to the contract for sale.

## **Section 3. Manner of Seller's Tender of Delivery.**

- (1) Tender of Delivery requires that the seller put and hold conforming goods at the buyer's disposition and give the buyer any notification reasonably necessary to enable him to take delivery. The manner, time and place for tender are determined by the agreement and this Chapter, and in particular
  - (a) Tender must be at a reasonable hour, and if it is of goods they must be kept available for the period reasonably necessary to enable the buyer to take possession; but
  - (b) Unless otherwise agreed the buyer must furnish facilities reasonably suited to the receipt of the goods.
- (2) Where the case is within the next section respecting shipment tender requires that the seller comply with its provisions.
- (3) Where the seller is required to deliver at a particular destination tender requires that he comply with subsection (1) and also in any appropriate case tender documents as described in subsection (4) and (5) of this section.
- (4) Where goods are in the possession of a bailee and are to be delivered without being moved

- (a) Tender requires that the seller either tender a negotiable document of title covering such goods or procure acknowledgment by the bailee of the buyer's right to possession of the goods; but
  - (b) Tender to the buyer of a non-negotiable document of title or of a written direction to the bailee to deliver is sufficient tender unless the buyer seasonably objects, and receipt by the bailee of notification of the buyer's rights fixes those rights as against the bailee and all third persons; but risk of loss of the goods and of any failure by the bailee to honor the non-negotiable documents of title or to obey the direction remains on the seller until the buyer has had a reasonable time to present the document or direction, and a refusal by the bailee to honor the document or to obey the direction defeats the tender.
- (5) Where the contract requires the seller to deliver documents
- (a) He must tender all such documents in correct form, except as provided in this Chapter with respect to bills of lading in a set (subsection (2) of Section 323); and
  - (b) Tender through customary banking channels is sufficient and dishonor of a draft accompanying the documents constitutes non-acceptance or rejection.

#### **Section 4. Shipment by Seller.**

Where the seller is required or authorized to send the goods to the buyer and the contract does not require him to deliver them at a particular destination, then unless otherwise agreed he must

- (1) Put the goods in the possession of such a carrier and make such a contract for their transportation as may be reasonable having regard to the nature of the goods and other circumstances of the case;
- (2) Obtain and promptly deliver or tender in due form any document necessary to enable the buyer to obtain possession of the goods or otherwise required by the agreement or by usage of trade; and
- (3) Promptly notify the buyer of the shipment

Failure to notify the buyer under paragraph (c) or to make a proper contract under paragraph (a) is a ground for rejection only if material delay or loss ensues.

#### **Section 5. Seller's Shipment Under Reservation.**

- (1) Where the seller has identified goods to the contract by or before shipment:
  - (a) His procurement of a negotiable bill of lading to his own order or otherwise reserves in him a security interest in the goods. His procurement of the bill to the order of a

financing agency or of the buyer indicates in addition only the seller's expectation of transferring that interest to the person named.

- (b) A non-negotiable bill of lading to himself for his nominee reserves possession of the goods as security but except in a case of conditional delivery (subsection (2) of Section 507) a non-negotiable bill of lading naming the buyer as consignee reserves no security interest even though the seller retains possession of the bill of lading.
- (2) When shipment by the seller with reservation of a security interest is in violation of the contract for sale it constitutes an improper contract for transportation within the preceding section but impairs neither the rights given to the buyer by shipment and identification of the goods to the contract nor the seller's powers as a holder or a negotiable document.

**Section 6. Right of Financing Agency.**

- (1) A financing agency by paying or purchasing for value a draft which relates to a shipment of goods acquires to the extent of the payment or purchase and in addition to its own rights under the draft and any document of title securing it any rights of the shipper in the goods including the right to stop delivery and the shipper's right to have the draft honored by the buyer.
- (2) The right to reimbursement of a financing agency which has in good faith honored or purchased the draft under commitment to or authority from the buyer is not impaired by subsequent discovery of defects with reference to any relevant document which was apparently regular on its face.

**Section 7. Effect of Seller's Tender; Delivery on Condition.**

- (1) Tender of delivery is a condition to the buyer's duty to accept the goods and, unless otherwise agreed, to his duty to pay for them. Tender entitles the seller to acceptance of the goods and to payment according to the contract.
- (2) Where payment is due and demanded on the delivery to the buyer of goods or documents of title, his right as against the seller to retain or dispose of them is conditional upon his making the payment due.

**Section 8. Cure by Seller of Improper Tender or Delivery; Replacement.**

- (1) Where any tender or delivery by the seller is rejected because non-conforming and the time for performance has not yet expired, the seller may seasonably notify the buyer of his intention to cure and may then within the contract time make a conforming delivery.
- (2) Where the buyer rejects a non-conforming tender which the seller had reasonable grounds to believe would be acceptable with or without money allowance the seller may if he

seasonably notifies the buyer have a further reasonable time to substitute a conforming tender.

**Section 9. Risk of Loss In the Absence of Breach.**

- (1) Where the contract requires or authorizes the seller to ship the goods by carrier
  - (a) If it does not require him to deliver them at a particular destination, the risk of loss passes to the buyer when the goods are duly delivered to the carrier even though the shipment is under reservation (Section 505); but
  - (b) If it does require him to deliver them at a particular destination and the goods are there duly tendered while in the possession of the carrier, the risk of loss passes to the buyer when the goods are there duly so tendered as to enable the buyer to take delivery.
- (2) Where the goods are held by a bailee to be delivered without being moved, the risk of loss passes to the buyer
  - (a) On his receipt of a negotiable document of title covering the goods; or
  - (b) On acknowledgment by the bailee of the buyer's right to possession of the goods; or
  - (c) After his receipt of a non-negotiable document of title or other written direction to deliver, as provided in subsection (4) (b) of Section 503.
- (3) In any case not within subsection (1) or (2), the risk of loss passes to the buyer on his receipt of the goods if the seller is a merchant; otherwise the risk passes to the buyer on tender of delivery.
- (4) The provisions of this section are subject to contrary agreement of the parties and to the provisions of this Chapter on sale on approval (Section 327) and on effect of breach on risk of loss (Section 510).

**Section 10. Effect of Breach on Risk of Loss.**

- (1) Where a tender or delivery of goods so fails to conform to the contract as to give a right of rejection the risk of their loss remains on the seller until cure or acceptance.
- (2) Where the buyer rightfully revokes acceptance he may to the extent of any deficiency in his effective insurance coverage treat the risk of loss as having rested on the seller from the beginning.
- (3) Where the buyer as to conforming goods already identified to the contract for sale repudiates or is otherwise in breach before risk of their loss has passed to him, the seller

may to the extent of any deficiency in his effective insurance coverage treat the risk of loss as resting on the buyer for a commercially reasonable time.

**Section 11. Tender of Payment by Buyer; Payment by Check.**

- (1) Unless otherwise agreed tender of payment is a condition to the seller's duty to tender and complete any delivery.
- (2) Tender of payment is sufficient when made by any means or in any manner current in the ordinary course of business unless the seller demands payment in legal tender and gives any extension of time reasonably necessary to procure it.
- (3) Subject to the provisions of any applicable law on the effect of an instrument on an obligation, payment by check is conditional and is defeated as between the parties by dishonor of the check on due presentment.

**Section 12. Payment by Buyer Before Inspection.**

- (1) Where the contract requires payment before inspection non-conformity of the goods does not excuse the buyer from so making payment unless
  - (a) The non-conformity appears without inspection; or
  - (b) By agreement payment is to be made pursuant to a letter of credit and, despite tender of the required documents, under applicable law the issuer of the credit may be excused from honoring a demand for payment.
- (2) Payment pursuant to subsection (1) does not constitute an acceptance of goods or impair the buyer's right to inspect or any of his remedies.

**Section 13. Buyer's Right to Inspection of Goods.**

- (1) Unless otherwise agreed and subject to subsection (3), where goods are tendered or delivered or identified to the contract for sale, the buyer has a right before payment or acceptance to inspect them at any reasonable place and time and in any reasonable manner, when the seller is required or authorized to send the goods to the buyer, the inspection may be after their arrival.
- (2) Expenses of inspection must be borne by the buyer but may be recovered from the seller if the goods do not conform and are rejected.
- (3) Unless otherwise agreed and subject to the provisions of this Chapter on C.I.F. contracts (subsection (3) of Section 321), the buyer is not entitled to inspect the goods before payment of the price when the contract provides

- (a) For delivery “C.O.D.” or on other like terms; or
  - (b) For payment against documents of title, except where such payment is due only after the goods are to become available for inspection.
- (4) A place or method of inspection fixed by the parties is presumed to be exclusive but unless otherwise expressly agreed it does not postpone identification or shift the place for delivery or for passing the risk of loss. If compliance becomes impossible, inspection shall be as provided in this section unless the place or method fixed was clearly intended as an indispensable condition failure of which avoids the contract.

**Section 14. When Documents Deliverable on Acceptance; When on Payment.**

When otherwise agreed documents against which a draft is drawn are to be delivered to the drawee on acceptance of the draft if it is payable more than three days after presentment; otherwise, only on payment.

**Section 15. Preserving Evidence of Goods in Dispute.**

In furtherance of the adjustment of any claim of dispute:

- (1) Either party on reasonable notification to the other and for the purpose of ascertaining the facts and preserving evidence has the right to inspect, test and sample the goods including such of them as may be in the possession or control of the other; and
- (2) The parties may agree to a third party inspection or survey to determine the conformity or condition of the goods and may agree that the findings shall be binding upon them in any subsequent litigation or adjustment.

**PART 6: BREACH, REPUDIATION AND EXCUSE**

**Section 1. Buyer’s Rights on Improper Delivery.**

Subject to the provisions of this Chapter on breach in installment contracts (Section 612) and unless otherwise agreed under the sections on contractual limitations of remedy (Sections 718 and 719), if the goods or the tender of delivery fail in any respect to conform to the contract, the buyer may:

- (1) Reject the whole;
- (2) Accept the whole; or
- (3) accept any commercial unit or units and reject the rest.

**Section 2. Manner and Effect of Rightful Rejection.**

- (1) Rejection of goods must be within a reasonable time after their delivery of tender. It is ineffective unless the buyer seasonably notifies the seller.
- (2) Subject to the provisions of the two following sections on rejected goods (Sections 603 and 604):
  - (a) After rejection any exercise of ownership by the buyer with respect to any commercial unit is wrongful as against the seller; and
  - (b) If the buyer has before rejection taken physical possession of goods in which he does not have a security interest under the provisions of this Chapter (subsection (3) of Section 711), he is under a duty after rejection to hold them with reasonable care at the seller's disposition for a time sufficient to permit the seller to remove them; but
  - (c) The buyer has no further obligations with regard to goods rightfully rejected.
- (3) The seller's rights with respect to goods wrongfully rejected are governed by the provisions of this Chapter on seller's remedies in general (Section 703).

### **Section 3. Merchant Buyer's Duties as to Rightfully Rejected Goods.**

- (1) Subject to any security interest in the buyer (subsection (3) of Section 711), when the seller has no agent or place of business at the market of rejection a merchant buyer is under a duty after rejection of goods in his possession or control to follow any reasonable instructions received from the seller with respect to the goods and in the absence of such instructions to make reasonable efforts to sell them for the seller's account if they are perishable or threatened to decline in value speedily. Instructions are not reasonable if on demand indemnity for expenses is not forthcoming.
- (2) When the buyer sells goods under subsection (1), he is entitled to reimbursement from the seller or out of the proceeds for reasonable expenses of caring for and selling them, and if the expenses include no selling commission then to such commission as is usual in the trade or if there is none to a reasonable sum not exceeding ten percent on the gross proceeds.
- (3) In complying with this section the buyer is held only to good faith and good faith conduct hereunder is neither acceptance nor conversion nor the basis of an action for damages.

### **Section 4. Buyer's Options as to Salvage of Rightfully Rejected Goods.**

Subject to the provisions of the immediately preceding section on perishables if the seller gives no instructions within a reasonable time after notification of rejection the buyer may store the rejected goods for the seller's account or reship them to him or resell them for the seller's account with reimbursement as provided in the preceding section. Such action is not acceptance or conversion.

**Section 5. Waiver of Buyer's Objections by Failure to Particularize.**

- (1) The buyer's failure to state in connection with rejection a particular defect which is ascertainable by reasonable inspection preclude him from relying on the unstated defect to justify rejection or to establish breach
  - (a) Where the seller could have cured it if stated seasonably; or
  - (b) Between merchants when the seller has after rejection made a request in writing for a full and final written statement of all defects on which the buyer proposes to rely.
- (2) Payment against documents made without reservation of rights preclude recovery of the payment for defects apparent on the face of the documents.

**Section 6. What Constitutes Acceptance of Goods.**

- (1) Acceptance of goods occurs when the buyer:
  - (a) After a reasonable opportunity to inspect the goods signifies to the seller that the goods are conforming or that he will take or retain them in spite of their non-conformity;
  - (b) Fails to make an effective rejection (subsection (1) of Section 602), but such acceptance does not occur until the buyer has had a reasonable opportunity to inspect them; or
  - (c) Does any act inconsistent with the seller's ownership; but if such act is wrongful as against the seller it is an acceptance only if ratified by him.
- (2) Acceptance of a part of any commercial unit is acceptance of that entire unit.

**Section 7. Effect of Acceptance; Notice of Breach; Burden of Establishing Breach After Acceptance; Notice of Claim of Litigation to Person Answerable Over.**

- (1) The buyer must pay at the contract rate for any goods accepted.
- (2) Acceptance of goods by the buyer precludes rejection of the goods accepted and if made with knowledge of a non-conformity cannot be revoked because of it unless the acceptance was on the reasonable assumption that the non-conformity would be seasonably cured but acceptance does not of itself impair any other remedy provided by this Chapter for non-conformity.
- (3) Where a tender has been accepted

- (a) The buyer must within a reasonable time after he discovers or should have discovered any breach notify the seller of breach or be barred from any remedy; and
  - (b) If the claim is one for infringement or the like (subsection (3) of Section 312) and the buyer is sued as a result of such a breach he must so notify the seller within a reasonable time after he receives notice of the litigation or be barred from any remedy over for liability established by the litigation.
- (4) The burden is on the buyer to establish any breach with respect to the goods accepted.
- (5) Where the buyer is sued for breach of a warranty or other obligation for which his seller is answerable over
- (a) He may give his seller written notice of the litigation. If the notice states that the seller may come in and defend and that if the seller does not do so he will be bound in any action against him by his buyer by and determination of fact common to both parties then, unless the seller after seasonable receipt of the notice, does come in and defend, he is so bound.
  - (b) If the claim is one for infringement or the like (subsection (3) of Section 312) the original seller may demand in writing that his buyer turn over to him control of the litigation settlement or else be barred from any remedy over and if he also agrees to bear all expenses and to satisfy any adverse judgment, then unless the buyer after seasonable receipt of the demand does turn over control the buyer is so barred.
- (6) The provisions of subsection (3), (4) and (5) apply to any obligation of a buyer to hold the seller harmless against infringement or the like (subsection (3) of Section 312).

**Section 8. Revocation of Acceptance in Whole or in Part.**

- (1) The buyer may revoke his acceptance of a lot or commercial unit whose non-conformity substantially impairs its value to him if he has accepted it.
- (a) On the reasonable assumption that its non-conformity would be cured and it has not been seasonably cured; or
  - (b) Without discovery of such non-conformity if his acceptance was reasonably induced either by the difficulty of discovery before acceptance or by the seller's assurances.
- (2) Revocation of acceptance must occur within a reasonable time after the buyer discovers or should have discovered the ground for it and before any substantial change in condition of the goods which is not caused by their own defects. It is not effective until the buyer notifies the seller of it.

- (3) A buyer who so revokes has the same rights and duties with regard to the goods involved as if he had rejected them.

**Section 9. Right to Adequate Assurance of Performance.**

- (1) A contract for sale imposes an obligation on each party that the other's expectation of receiving due performance will not be impaired. When reasonable grounds for insecurity arise with respect to the performance of either party the other may in writing demand adequate assurance of due performance and until he receives such assurance may if commercially reasonable suspend any performance for which he has not already received the agreed return.
- (2) Between merchants the reasonableness of grounds for insecurity and the adequacy of any assurance offered shall be determined according to commercial standards.
- (3) Acceptance of any improper delivery or payment does not prejudice the aggrieved party's right to demand adequate assurance of future performance.
- (4) After receipt of a justified demand failure to provide within a reasonable time not exceeding thirty days such assurance of due performance as is adequate under the circumstances of the particular case is a repudiation of the contract.

**Section 10. Anticipatory Repudiation.**

When either party repudiates the contract with respect to a performance not yet due the loss of which will substantially impair the value of the contract to the other, the aggrieved party may:

- (1) For a commercially reasonable time await performance by the repudiating party; or
- (2) Resort to any remedy for breach (Section 703 or Section 711), even though he has notified the repudiating party that he would await the latter's performance and has urged retraction; and
- (3) In either case suspend his own performance or proceed in accordance with the provisions of this Chapter on the seller's right to identify goods to the contract notwithstanding breach or to salvage unfinished goods (Section 704).

**Section 11. Retraction of Anticipatory Repudiation.**

- (1) Until the repudiating party's next performance is due he can retract his repudiation unless the aggrieved party has since the repudiation canceled or materially changed his position or otherwise indicated that he considers the repudiation final.

- (2) Retraction may be by any method which clearly indicates to the aggrieved party that the repudiating party intends to perform, but must include any assurance justifiably demanded under the provisions of this Chapter (Section 609).
- (3) Retraction reinstates the repudiating party's rights under the contract with due excuse and allowance to the aggrieved party for any delay occasioned by the repudiation.

**Section 12. "Installment Contract"; Breach.**

- (1) An "installment contract" is one which requires or authorizes the delivery of goods in separate lots to be separately accepted, even though the contract contains a clause "each delivery is a separate contract" or its equivalent.
- (2) The buyer may reject any installment which is non-conforming if the non-conformity substantially impairs the value of that installment and cannot be cured or if the non-conformity is a defect in the required documents; but if the non-conformity does not fall within subsection (3) and the seller gives adequate assurance of its cure the buyer must accept that installment.
- (3) Whenever non-conformity or default with respect to one or more installments substantially impairs the value of the whole contract there is a breach of the whole. But the aggrieved party reinstates the contract if he accepts a non-conforming installment without seasonably notifying of cancellation or if he brings an action with respect only to past installments or demands performance as to future installments.

**Section 13. Casualty to Identified Goods.**

Where the contract requires for its performance goods identified when the contract is made, and the goods suffer casualty without fault of either party before the risk of loss passes to the buyer, or in a proper case under a "no arrival, no sale" term (Section 324) then

- (1) If the loss is total the contract is avoided; and
- (2) If the loss is partial or the goods have so deteriorated as no longer to conform to the contract the buyer may nevertheless demand inspection and at his option either treat the contract as avoided or accept the goods with due allowance from the contract price for the deterioration or the deficiency in quantity but without further right against the seller.

**Section 14. Substituted Performance.**

- (1) Where without fault of either party the agreed berthing, loading, or unloading facilities fail or an agreed type of carrier becomes unavailable or the agreed manner of delivery otherwise becomes commercially impracticable but a commercially reasonable substitute is available, such substitute performance must be tendered and accepted.

- (2) If the agreed means or manner of payment fails because of domestic or foreign governmental regulation, the seller may withhold or stop delivery unless the buyer provides a means or manner of payment which is commercially a substantial equivalent. If delivery has already been taken, payment by the means or in the manner provided by the regulation discharges the buyer's obligation unless the regulation is discriminatory, oppressive or predatory.

**Section 15. Excuse by Failure of Presupposed Conditions.**

Except so far as a seller may have assumed a greater obligation and subject to the preceding section on substituted performance:

- (1) Delay in delivery or non-delivery in whole or in part by a seller who complies with paragraphs (b) and (c) is not a breach of his duty under a contract for sale if performance as agreed has been made impracticable by the occurrence of a contingency the non-occurrence of which was a basic assumption on which the contract was made or by compliance in good faith with any applicable foreign or domestic governmental regulation or order whether or not it later proves to be invalid.
- (2) Where the causes mentioned in paragraph (a) affect only a part of the seller's capacity to perform, he must allocate production and deliveries among his customers but may at his option include regular customers not then under contract as well as his own requirements for further manufacture. He may so allocate in any manner which is fair and reasonable.
- (3) The seller must notify the buyer seasonably that there will be delay or non-delivery and, when allocation is required under paragraph (b), of the estimated quota thus made available for the buyer.

**Section 16. Procedure On Notice Claiming Excuse.**

- (1) Where the buyer receives notification of a material or indefinite delay or an allocation justified under the preceding section he may by written notification to the seller as to any delivery concerned, and where the prospective deficiency substantially impairs the value of the whole contract under the provisions of this Chapter relating to breach of installment contracts (Section 612), then also as to the whole,
  - (a) Terminate and thereby discharge any unexecuted portion of the contract; or
  - (b) Modify the contract by agreeing to take his available quota in substitution.
- (2) If after receipt of such notification from the seller the buyer fails so to modify the contract within a reasonable time not exceeding thirty days the contract lapses with respect to any deliveries affected.

- (3) The provisions of this section may not be negated by agreement except in so far as the seller has assumed a greater obligation under the preceding section.

## PART 7: REMEDIES

### **Section 1. Remedies for Breach of Collateral Contracts Not Impaired.**

Remedies for breach of any obligation or promise collateral or ancillary to a contract for sale are not impaired by the provisions of this Chapter.

### **Section 2. Seller's Remedies on Discovery of Buyer's Insolvency.**

Where the seller discovers the buyer to be insolvent, he may refuse delivery except for cash including payment for all goods theretofore delivered under the contract, and stop delivery under this Chapter (Section 705).

- (1) Where the seller discovers that the buyer has received goods on credit while the insolvent he may reclaim the goods upon demand made within ten days after the receipt, but if misrepresentation of solvency has been made to the particular seller in writing within three months before delivery the ten day limitation does not apply. Except as provided in this subsection the seller may not base a right to reclaim goods on the buyer's fraudulent or innocent misrepresentation of solvency or of intent to pay.
- (2) The seller's right to reclaim under subsection (2) is subject to the rights of a buyer in ordinary course or other good faith purchaser under this Chapter (Section 403). Successful reclamation of goods excludes all other remedies with respect to them.

### **Section 3. Seller's Remedies in General.**

Where the buyer wrongfully rejects or revokes acceptance of goods or fails to make a payment due on or before delivery or repudiates with respect to a part or the whole, then with respect to any goods directly affected and, if the breach is of the whole contract (Section 612), then also with respect to the whole undelivered balance, the aggrieved seller may:

- (1) Withhold delivery of such goods;
- (2) Stop delivery by any bailee as hereafter provided (Section 705);
- (3) Proceed under the next section respecting goods still unidentified to the contract;
- (4) Resell and recover damages as hereafter provided (Section 706);
- (5) Recover damages for non-acceptance (Section 708) or, in a proper case, the price (Section 709); or

(6) Cancel.

**Section 4. Seller's Right to Identify Goods to the Contract Notwithstanding Breach or to Salvage Unfinished Goods.**

- (1) An aggrieved seller under the preceding section may:
  - (a) Identify to the contract conforming goods not already identified if at the time he learned of the breach they are in his possession or control;
  - (b) Treat as the subject of resale goods which have demonstrably been intended for the particular contract even though those goods are unfinished.
- (2) Where the goods are unfinished an aggrieved seller may in the exercise of reasonable commercial judgment for the purposes of avoiding loss and of effective realization either complete the manufacture and wholly identify the goods to the contract or cease manufacture and resell for scrap or salvage value or proceed in any other reasonable manner.

**Section 5. Seller's Stoppage of Delivery in Transit or Otherwise.**

- (1) The seller may stop delivery of goods in the possession of a carrier or other bailee when he discovers the buyer to be insolvent (Section 702) and may stop delivery of carload, truckload, planeload or larger shipments of express or freight when the buyer repudiates or fails to make a payment due before delivery or if for any other reason the seller has a right to withhold or reclaim the goods.
- (2) As against such buyer the seller may stop delivery until:
  - (a) Receipt of the goods by the buyer;
  - (b) Acknowledgment to the buyer by any bailee of the goods except a carrier that the bailee holds the goods for the buyer;
  - (c) Such acknowledgment to the buyer by a carrier by reshipment or as warehouseman; or
  - (d) Negotiation to the buyer of any negotiable document of title covering the goods.
- (3)
  - (a) To stop delivery the seller must so notify as to enable the bailee by reasonable diligence to prevent delivery of the goods.
  - (b) After such notification the bailee must hold and deliver the goods according to the directions of the seller but the seller is liable to the bailee for any ensuing charges or damages.

- (c) If a negotiable document of title has been issued for goods the bailee is not obliged to obey a notification to stop until surrender of the document.
- (d) A carrier who has issued a non-negotiable bill of lading is not obliged to obey a notification to stop received from a person other than the consignor.

**Section 6. Seller's Resale Including Contract for Resale.**

- (1) Under the conditions stated in Section 703 on seller's remedies, the seller may resell the goods concerned or the undelivered balance thereof. Where the resale is made in good faith and in a commercially reasonable manner the seller may recover the difference between the resale price and the contract price together with any incidental damages allowed under the provisions of this Chapter (Section 710), but less expenses saved in consequence of the buyer's breach.
- (2) Except as otherwise provided in subsection (3) or unless otherwise agreed resale may be at public or private sale including sale by way of one or more contracts to sell or of identification to an existing contract of the seller. Sale may be as a unit or in parcels and at any time and place and on any terms but every aspect of the sale including the method, manner, time, place and terms must be commercially reasonable. The resale must be reasonably identified as referring to the broken contract, but it is not necessary that the goods be in existence or that any or all of them have been identified to the contract before the breach.
- (3) Where the resale is at private sale the seller must give the buyer reasonable notification of his intention to resell.
- (4) Where the resale is at public sale:
  - (a) Only identified goods can be sold except where there is a recognized market for a public sale of futures in goods of the kind;
  - (b) It must be made at a usual place or market for public sale if one is reasonably available and except in the case of goods which are perishable or threaten to decline in value speedily the seller must give the buyer reasonable notice of the time and place of the resale;
  - (c) If the goods are not to be within the view of those attending the sale the notification of sale must state the place where the goods are located and provide for their reasonable inspection by prospective bidders; and
  - (d) The seller may buy.

- (5) A purchaser who buys in good faith at a resale takes the goods free of any rights of the original buyer even though the seller fails to comply with one or more of the requirements of this section.
- (6) The seller is not accountable to the buyer for any profit made on any resale. A person in the position of a seller (Section 707) or a buyer who has rightfully rejected or justifiably revoked acceptance must account for any excess over the amount of his security interest, as hereinafter defined (subsection (3) of Section 711).

**Section 7. “Person in the Position of a Seller”.**

- (1) A “person in the position of a seller” includes as against a principal an agent who has paid or become responsible for the price of goods on behalf of his principal or anyone who otherwise holds a security interest or other rights in goods similar to that of a seller.
- (2) A person in the position of a seller may as provided in this Chapter withhold or stop delivery (Section 705) and resell (Section 706) and recover incidental damages (Section 710).

**Section 8. Seller’s Damages for Non-acceptance or Repudiation.**

- (1) Subject to subsection (2) and to the provisions of this Chapter with respect to proof of market price (Section 723), the measure of damages for non-acceptance or repudiation by the buyer is the difference between the market price at the time and place for tender and the unpaid contract price together with any incidental damages provided in this Chapter (Section 710), but less expenses saved in consequence of the buyer’s breach.
- (2) If the measure of damages provided in subsection (1) is inadequate to put the seller in as good a position as performance would have done then the measure of damages is the profit (including reasonable overhead) which the seller would have made from full performance by the buyer, together with any incidental damages provided in this Chapter (Section 710), due allowance for costs reasonably incurred and due credit for payments or proceeds of resale.

**Section 9. Action for the Price.**

- (1) When the buyer fails to pay the price as it becomes due the seller may recover, together with any incidental damages under the next section, the price:
  - (a) Of goods accepted or of conforming goods lost or damages within a commercially reasonable time after risk of their loss has passed to the buyer; and
  - (b) Of goods identified to the contract if the seller is unable after reasonable effort to resell them at a reasonable price or the circumstances reasonably indicate that such effort will be unavailing.

- (2) Where the seller sues for the price he must hold for the buyer any goods which have been identified to the contract and are still in his control except that if resale becomes possible he may resell them at any time prior to the collection of the judgment. The net proceeds of any such resale must be credited to the buyer and payment of the judgment entitles him to any goods not resold.
- (3) After the buyer has wrongfully rejected or revoked acceptance of the goods or has failed to make payment due or has repudiated (Section 610), a seller who is held not entitled to the price under this section shall nevertheless be awarded damages for non-acceptance under the preceding section.

**Section 10. Seller's Incidental Damages.**

Incidental damages to an aggrieved seller include any commercially reasonable charges, expenses or commissions incurred in stopping delivery, in the transportation, care and custody of goods after the buyer's breach, in connection with return or resale of the goods or otherwise resulting from the breach.

**Section 11. Buyer's Remedies in General; Buyer's Security Interest in Rejected Goods.**

- (1) Where the seller fails to make delivery or repudiates or the buyer rightfully rejects or justifiably revokes acceptance then with respect to any goods involved, and with respect to the whole if the breach goes to the whole contract (Section 612), the buyer may cancel and whether or not he has done so may in addition to recovering so much of the price as had been paid:
  - (a) "Cover" and have damages under the next section as to all the goods affected whether or not they have been identified to the contract; or
  - (b) Recover damages for non-delivery as provided in this Chapter (Section 713).
- (2) Where the seller fails to deliver or repudiates the buyer may also:
  - (a) If the goods have been identified recover them as provided in this Chapter (Section 502); or
  - (b) In a proper case obtain specific performance or replevy the goods as provided in this Chapter (Section 716).
- (3) On rightful rejection or justifiable revocation of acceptance a buyer has a security interest in goods in his possession or control for any payments made on their price and any expenses reasonably incurred in their inspection, receipt, transportation, care and custody and may hold such goods and resell them in like manner as an aggrieved seller (Section 706).

**Section 12. “Cover”; Buyer’s Procurement of Substitute Goods.**

- (1) After a breach within the preceding section the buyer may “cover” by making in good faith and without unreasonable delay any reasonable purchase of or contract to purchase goods in substitution for those due from the seller.
- (2) The buyer may recover from the seller as damages the difference between the cost of cover and the contract price together with any incidental or consequential damages as hereinafter defined (Section 715), but less expenses saved in consequence of the seller’s breach.
- (3) Failure of the buyer to effect cover within this section does not bar him from any other remedy.

**Section 2.13. Buyer’s Damages for Non-Delivery or Repudiation**

- (1) Subject to the provisions of this Chapter with respect to proof of market price (Section 723), the measure of damages for non-delivery or repudiation by the seller is the difference between the market price at the time when the buyer learned of the breach and the contract price together with any incidental and consequential damages provide in this Chapter (Section 715), but less expenses saved in consequence of the seller’s breach.
- (2) Market price is to be determined as of the place for tender or, in cases of rejection after arrival or revocation of acceptance, as of the place of arrival.

**Section 14. Buyer’s Damages for Breach in Regard to Accepted Goods.**

- (1) Where the buyer has accepted goods and given notification (subsection (3) of Section 607) he may recover as damages for any non-conformity of tender the loss resulting in the ordinary course of events from the seller’s breach as determined in any manner which is reasonable.
- (2) The measure of damages for breach of warranty is the difference at the time and place of acceptance between the value of the goods accepted and the value they would have had if they proximate damages of a different amount.
- (3) In a proper case any incidental and consequential damages under the next section may also be recovered.

**Section 15. Buyer’s Incidental and Consequential Damages.**

- (1) Incidental damages resulting from the seller’s breach include expenses reasonably incurred in inspection, receipt, transportation and care and custody of goods rightfully rejected, any commercially reasonable charges, expenses or commissions in connection with effecting cover and any other reasonable expense incident to the delay or other breach.

- (2) Consequential damages resulting from the seller's breach include:
  - (a) Any loss resulting from general or particular requirements and needs of which the seller at the time of contracting had reason to know and which could not reasonably be prevented by cover or otherwise; and
  - (b) Injury to person or property proximately resulting from any breach of warranty.

**Section 16. Buyer's Right to Specific Performance or Replevin.**

- (1) Specific performance may be decreed where the goods are unique or in other proper circumstances.
- (2) The decree for specific performance may include such terms and conditions as to payment of the price, damages, or other relief as the court may deem just.
- (3) The buyer has a right of replevin for goods identified to the contract if after reasonable effort he is unable to effect cover for such goods or the circumstances reasonably indicate that such effort will be unavailing or if the goods have been shipped under reservation and satisfaction of the security interest in them has been made or tendered.

**Section 17. Deduction of Damages From the Price.**

The buyer, on notifying the seller of his intention to do so, may deduct all or any part of the damages resulting from any breach of the contract from any part of the price still due under the same contract.

**Section 18. Liquidation or Limitation of Damages; Deposits.**

- (1) Damages for breach by either party may be liquidated in the agreement but only at an amount which is reasonable in the light of the anticipates or actual harm caused by the breach, the difficulties of proof of loss, and the inconvenience or nonfeasibility of otherwise obtaining an adequate remedy. A term fixing unreasonably large liquidated damages is void as a penalty.
- (2) Where the seller justifiably withholds delivery of goods because of the buyer's breach, the buyer is entitled to restitution of any amount by which the sum of his payments exceeds:
  - (a) The amount to which the seller is entitled by virtue of terms liquidating the seller's damages in accordance with subsection (1), or
  - (b) In the absence of such terms, twenty percent of the value of the total performance for which the buyer is obligated under the contract or \$500, whichever is smaller.

- (3) The buyer's right to restitution under subsection (2) is subject to offset to the extent that the seller establishes:
  - (a) a right to recover damages under the provisions of this Chapter other than subsection (1), and
  - (b) the amount or value of any benefits received by the buyer directly or indirectly by reason of the contract.
- (4) Where a seller has received payment in goods their reasonable value or the proceeds of their resale shall be treated as payments for the purpose of subsection (2); but if the seller has notice of the buyer's breach before reselling goods received in part performance, his resale is subject to the conditions laid down in this Chapter on resale by an aggrieved seller (Section 706).

**Section 19. Contractual Modifications of Limitation of Remedy.**

- (1) Subject to the provisions of subsections (2) and (3) of this section and of the preceding section on liquidation and limitation of damages,
  - (a) The agreement may provide for remedies in addition to or in substitution for those provided in this Chapter and may limit or alter the measure of damages recoverable under this Chapter, as by limited the buyer's remedies to return of the goods and repayment of the price or to repair and replacement of non-conforming goods or parts; and
  - (b) Resort to a remedy as provided is optional unless the remedy is expressly agreed to be exclusive, in which case it is the sole remedy.
- (2) Where circumstances cause an exclusive or limited remedy to fail of its essential purpose, remedy may be held as provided in this Title.
- (3) Consequential damages may be limited or excluded unless the limitation or exclusion is unconscionable. Limitations of consequential damages for injury to the person in the case of consumer goods is prima facie unconscionable but limitation of damages where the loss is commercial is not.

**Section 20. Effect of "Cancellation" or "Rescission" on Claims for Antecedent Breach.**

Unless the contrary intention clearly appears, expressions of "cancellation" or "rescission" of the contract or the like shall not be construed as a renunciation or discharge of any claim in damages for an antecedent breach.

**Section 21. Remedies for Fraud.**

Remedies for material misrepresentation or fraud include all remedies available under this Chapter for non-fraudulent breach. Neither rescission or a claim for rescission of the contract for sale nor rejection or return of the goods shall bar or be deemed inconsistent with a claim for damages or other remedy.

**Section 2.22. Who Can Sue Third Parties for Injury to Goods.**

Where a third party so deals with goods which have been identified to a contract for sale as to cause actionable injury to a party to that contract:

- (1) A right of action against the third party is in either party to the contract for sale who has title to or a security interest or a special property or an insurable interest in the goods; and if the goods have been destroyed or converted a right of action is also in the party who either bore the risk of loss under the contract for sale or has since the injury assumed that risk as against the other;
- (2) If at the time of the injury the party plaintiff did not bear the risk of loss as against the other party to the contract for sale and there is no arrangement between them for disposition of the recovery, his suit or settlement is, subject to his own interest, as a fiduciary for the other party to the contract;
- (3) Either party may, with the consent of the other, sue for the benefit of whom it may concern.

**Section 23. Proof of Market Price: Time and Place.**

- (1) If an action based on anticipatory repudiation comes to trial before the time for performance with respect to some or all of the goods, any damages based on market price (Section 708 or Section 713) shall be determined according to the price of such goods prevailing at the time when the aggrieved party learned of the repudiation.
- (2) If evidence of a price prevailing at the time or places described in this Chapter is not readily available the price prevailing within any reasonable time before or after the time described or at any other place which in commercial judgment or under usage of trade would serve as a reasonable substitute for the one described may be used, making any proper allowance for the cost of transporting the goods to or from such other place.
- (3) Evidence of a relevant price prevailing at a time or place other than the one described in this Chapter offered by one party is not admissible unless and until he has given the other party such notice as the court finds sufficient to prevent unfair surprise.

**Section 24. Admissibility of Market Quotations.**

Whenever the prevailing price or value of any goods regularly bought and sold in any established commodity market is in issue, reports in official publications or trade journals or in newspapers or periodicals of general circulation published as the reports of such market shall be

admissible in evidence. The circumstances of the preparation of such a report may be shown to affect its weight but not its admissibility.

## **Section 25. Statute of Limitations in Contracts for Sale.**

- (1) An action for breach of any contract for sale must be commenced within four years after the cause of action has occurred. By the original agreement the parties may reduce the period of limitation to not less than one year but may not extend it.
- (2) A cause of action accrues when the breach occurs, regardless of the aggrieved party's lack of knowledge of the breach. A breach of warranty occurs when tender of delivery is made, except that where a warranty explicitly extends to future performance of the goods and discovery of the breach must await the time of such performances the cause of action accrues when the breach is or should have been discovered.
- (3) Where an action commenced within the time limited by subsection (1) is so terminated as to leave available a remedy by another action for the same breach such other action may be commenced after the expiration of the time limited and within six months after the termination of the first action unless the termination resulted from voluntary discontinuance or from dismissal for failure or neglect to prosecute.
- (4) This section does not alter the law on tolling of the statute of limitations nor does it apply to causes of action which accrued before this Title became effective.

## **CHAPTER THREE: COMMERCIAL PAPER**

### **PART 1: SHORT TITLE, FORM AND INTERPRETATION**

#### **Section 1. Short Title.**

This Chapter shall be known and may be cited as Prairie Island Mdewakanton Dakota Uniform Commercial Code - Commercial Paper.

#### **Section 2. Definitions and Index of Definitions.**

- (1) In this Chapter unless the context otherwise requires:
  - (a) "Issue" means the first delivery of an instrument to a holder or a remitter.
  - (b) An "order" is a direction to pay and must be more than an authorization or request. It must identify the person to pay with reasonable certainty. It may be addressed to one or more such persons jointly or in the alternative but not in succession.
  - (c) A "promise" is a undertaking to pay and must be more than an acknowledgment of an obligation.

- (d) “Secondary party” means a negotiable instrument.
  - (e) “Instrument” means a negotiable instrument.
- (2) Other definitions to this Chapter and the sections in which they appear are:
- “Acceptance” Section 3-410.
  - “Accommodation party” Section 3-415.
  - “Alteration” Section 3-407.
  - “Certificate of deposit” Section 3-104.
  - “Certification” Section 3-411.
  - “Check” Section 3-104.
  - “Definite time” Section 3-109.
  - “Dishonor” Section 3-507.
  - “Draft” Section 3-104.
  - “Holder in due course” Section 3-302.
  - “Negotiation” Section 3-202.
  - “Note” Section 3-104.
  - “Notice of dishonor” Section 3-508.
  - “On demand” Section 3-108.
  - “Presentation” Section 3-504.
  - “Protest” Section 3-509.
  - “Restrictive Endorsement” Section 3-205.
  - “Signature” Section 3-401.
- (3) In this Chapter, unless the context otherwise requires:
- (a) “Account” means any account with a bank and includes a checking, time, interest or saving account.
  - (b) “Banking day” means that part of any day on which a bank is open to the public for carrying on substantially all of its banking functions.
  - (c) “Clearing house” means any association of banks or other payers regularly clearing items.
  - (d) “Collecting bank” means any bank handling the item for collection except the payer bank.
  - (e) “Customer” means any person having an account with a bank or for whom a bank has agreed to collect items and includes a bank carrying an account with another bank.
  - (f) “Depository Bank” means the first bank to which an item is transferred for collection even though it is also the payer bank;

- (g) “Documentary draft” means any negotiable or non-negotiable draft with accompanying documents, securities or other papers to be delivered against honor of the draft.
  - (h) “Intermediary Bank” means any bank to which an item is transferred in course of collection except the depository or payer bank.
  - (i) “Item” means any instrument for the payment of money even though it is not negotiable but does not include money.
  - (j) “Midnight deadline” with respect to a bank is midnight on its next banking day following the banking day on which it receives the relevant item or notice or from which the time for taking action commences to run, whichever is later.
  - (k) “Payer bank” means a bank by which an item is payable as drawn or accepted.
- (4) In addition, Chapter 1 contains general definitions and principles of construction and interpretation applicable throughout this Chapter.

**Section 3. Limitations on Scope of Article.**

- (1) This Chapter does not apply to money, documents of title or investment securities.
- (2) The provisions of this Chapter are subject to the provisions of the Chapter on Secured Transactions (Chapter 9) and, to the extent provided in 7 N.T.C. §204, the Chapter on Bank Deposits and Collections (Chapter 4) adopted by the State in which the bank is located.

**Section 4. Form of Negotiable Instruments; “Draft”; “Check”; “Certificate of Deposit”; “Note”.**

- (1) Any writing to be a negotiable instrument within this Chapter must:
  - (a) Be signed by the maker or drawer;
  - (b) Contain an unconditional promise or order to pay a sum certain in money and no other promise, order, obligation or power given by the maker or drawer except as authorized by this Chapter;
  - (c) Be payable on demand or at a definite time; and
  - (d) Be payable to order or to bearer.
- (2) A writing which complies with the requirements of this section is:
  - (a) A “draft” (“bill of exchange”) if it is an order.

- (b) A “check” if it is a draft drawn on a bank and payable on demand.
  - (c) A “certificate of deposit” if it is an acknowledgment by a bank or receipt of money with an engagement to repay it.
  - (d) A “note” if it is a promise other than a certificate of deposit.
- (3) As used in other Chapters of this Code, and as the context may require, the terms “draft”, “check”, “certificate of deposit” and “note” may refer to instruments which are not negotiable within this Chapter as well as to instruments which are so negotiable.

**Section 5.           When Promise or Order Unconditional.**

- (1) A promise or order otherwise unconditional is not made conditional by the fact that the instrument:
- (a) Is subject to implied or constructive conditions;
  - (b) States its consideration, whether performed or promised, or the transaction which gave rise to the instrument, or that the promise or order is made or the instrument matures in accordance with or “as per” such transaction;
  - (c) Refers to or states that it arises out of a separate agreement or refers to a separate agreement for rights as to repayment or acceleration;
  - (d) States that it is drawn under a letter of credit;
  - (e) States that it is secured, whether by mortgage, reservation of title or otherwise;
  - (f) Indicates a particular account to be debited or any other fund or source from which reimbursement is expected;
  - (g) Is limited to payment out of a particular fund or the proceeds of a particular source, if the instrument is issued by a government or governmental agency or unit; or
  - (h) Is limited to payment out of the entire assets of a partnership, unincorporation association, trust or estate by or on behalf of which the instrument is issued.
- (2) A promise or order is not unconditional if the instrument:
- (a) States that it is subject to or governed by any other agreement; or
  - (b) States that it is to be paid only out of a particular fund or source except as provided in this section.

**Section 6. Sum Certain.**

- (1) The sum payable is a sum certain even though it is to be paid:
  - (a) With stated interest or by stated installments;
  - (b) With stated different rates or interest before and after default or a specified date;
  - (c) With a stated discount or addition if paid before or after the date fixed for payment;
  - (d) With exchange or less exchange, whether at a fixed rate or at the current rate; or
  - (e) The costs of collection or an attorney's fee or both upon default.
- (2) Nothing in this Section shall validate any term which is otherwise illegal.

**Section 7. Money.**

- (1) An instrument is payable in money if the medium of exchange in which it is payable is money at the time the instrument is made. An instrument payable in "currency" or "current funds" or "immediately available funds" is payable in money.
- (2) A promise or order to pay a sum stated in a foreign currency is for a sum certain in money and, unless a different medium of payment is specified in the instrument, may be satisfied by payment of that number of dollars which the stated foreign currency will purchase at the buyer sight rate for that currency on the day on which the instrument is payable, or if payable on demand, on the date of demand. If such an instrument specifies a foreign currency as the medium of payment the instrument is payable in that currency.

**Section 8. Payable on Demand.**

Instruments payable on demand include those payable at sight or on presentation and those in which no time for payment is stated.

**Section 9. Definite Time.**

- (1) An instrument is payable at a definite time if by its terms it is payable:
  - (a) On or before a stated date or at a fixed period after a stated date;
  - (b) At a fixed period after sight;
  - (c) At a definite time subject to any acceleration; or

- (d) At a definite time subject to extension at the option of the holder, or to extension to a further definite time at the option of the maker or acceptor or automatically upon or after a specified act or event.
- (2) An instrument is payable to order when by its terms it is payable to the order or assigns of any person therein specified with reasonable certainty, or to him or his order or when it is conspicuously designated on its face as “exchange” or the like and names a payee. It may be payable to the order of:
- (a) The maker or drawer;
  - (b) The drawee;
  - (c) A payee who is not maker, drawer or drawee;
  - (d) Two or more payees together or in the alternative;
  - (e) An estate, trust or fund, in which case it is payable to the order of the representative of such estate, trust or fund or his successors;
  - (f) An office, or an officer by his title as such, in which case it is payable to the principal but the incumbent of the office or his successors may act as if he or they were the holder; or
  - (g) A partnership or unincorporated association, in which case it is payable to the partnership or association and may be endorsed or transferred by any person thereto authorized.
- (2) An instrument not payable to order is not made so payable by such words as “payable upon return of this instrument properly endorsed.”
- (3) An instrument made payable both to order and to bearer is payable to order unless the bearer words are handwritten or typewritten.

**Section 11. Payable to Bearer.**

An instrument is payable to bearer when by its terms it is payable to:

- (1) Bearer or the order of bearer;
- (2) A specified person or bearer; or
- (3) “Cash” or the order of “cash”, or any other indication which does not purport to designate a specific payee.

**Section 12. Terms and Omissions Not Affecting Negotiability.**

- (1) The negotiability of an instrument is not affected by:
  - (a) The omission of a statement of any consideration or of the place where the instrument is drawn or payable;
  - (b) A statement that collateral has been given to secure obligations either on the instrument or otherwise of an obligor on the instrument or that in case of default on those obligations the holder may realize on or dispose of the collateral;
  - (c) A promise or power to maintain or protect collateral or to give additional collateral;
  - (d) A term authorizing a confession of judgment on the instrument if it is not paid when due;
  - (e) A term purporting to waive the benefit of any law intended for the advantage or protection of any obligor;
  - (f) A term in a draft providing that the payee by endorsing or cashing it acknowledges full satisfaction of an obligation of the drawer; or
  - (g) A statement in a draft drawn in a set of parts (Section 3-801) to the effect that the order is effective only if no other part has been honored.
- (2) Nothing in this Section shall validate any term which is otherwise illegal.

**Section 13. Seal.**

An instrument otherwise negotiable is within this Chapter even though it is under a seal.

**Section 14. Date, Antedating, Postdating.**

- (1) The negotiability of an instrument is not affected by the fact that it is undated, antedated or postdated.
- (2) Where an instrument is antedated or postdated the time when it is payable is determined by the stated date if the instrument is payable on demand or at a fixed period after date.
- (3) Where the instrument or any signature thereon is dated, the date is presumed to be correct.

**Section 15. Incomplete Instruments.**

- (1) When a paper whose contents at the time of signing show that it is intended to become an instrument is signed while still incomplete in any necessary respect, it cannot be enforced

until completed, but when it is completed in accordance with authority given it is effective as completed.

- (2) If the completion is unauthorized, the rules as to material alteration apply (Section 3-407), even though the paper was not delivered by the maker or drawer; but the burden of establishing that any completion is unauthorized is on the party so asserting.

**Section 16. Instruments Payable to Two or More Persons.**

An instrument to the order of two or more persons,

- (1) If in the alternative is payable to any one of them and may be negotiated, discharged or enforced by any of them who has possession of it;
- (2) If not in the alternative is payable to all of them and may be negotiated, discharged or enforced only by all of them.

**Section 17. Instrument Payable with Words of Description.**

An instrument made payable to a named person with the addition of words describing him:

- (1) As agent or officer of a specified person is payable to that person's principal, but the agent or officer may act as if he was the holder;
- (2) As any other fiduciary for a specified person or purpose is payable to the payee and may be negotiated, discharged or enforced by him;
- (3) In any other manner is payable to the payee unconditionally and the additional words are without effect on subsequent parties.

**Section 18. Ambiguous Terms and Rules of Construction.**

The following rules apply to every instrument:

- (1) Where there is doubt whether the instrument is a draft or a note, the holder may treat it as either. A draft drawn on the drawer is effective as a note.
- (2) Handwritten terms control typewritten and printed terms, and typewritten control printed.
- (3) Words control figures except that, if the words are ambiguous, figures control.
- (4) Unless otherwise specified a provision for interest means interest at the judgment rate at the place of payment from the date of the instrument, or if it is undated from the date of issue.

- (5) Unless the instrument otherwise specified, two or more persons who sign as maker, acceptor or drawer or endorser and as part of the same transaction are jointly and severally liable even though the instrument contains such words as “I promise to pay.”
- (6) Unless otherwise specified consent to extension authorizes a single extension for not longer than the original period. A consent to extension, expressed on the instrument, is binding on secondary parties and accommodation makers. A holder may not exercise his option to extend an instrument over the objection of a maker or acceptor or other party who in accordance with Section 3-604 tenders full payment when the instrument is due.

**Section 19. Other Writings Affecting Instrument.**

- (1) As between the obligor and his immediate obligee or any transferee the terms of an instrument may be modified or affected by another written agreement executed as a part of the same transaction, except that a holder in due course is not affected by any limitation of his rights arising out of the separate written agreement if he had not notice of the limitation when he took the instrument.
- (2) A separate agreement does not affect the negotiability of an instrument.

**Section 20. Instruments “Payable Through” Bank.**

An instrument which states that it is “payable through” a bank or the like designates that bank as a collecting bank to make presentment but does not of itself authorize the bank to pay the instrument.

**Section 21. Instruments Payable at Bank.**

A note or acceptance which states that it is payable at a bank is not of itself an order or authorization to the bank to pay it.

**Section 22. Accrual of Cause of Action.**

- (1) A cause of action against a maker or an acceptor accrues:
  - (a) In the case of a time instrument on the day after maturity;
  - (b) In the case of a demand instrument upon its date or, if not date is stated, on the date of issue.
- (2) A cause of action against the obligor of a demand or time certificate of deposit accrues upon demand, but demand on a time certificate may not be made until on or after the date of maturity.

- (3) A cause of action against a drawer of a draft or an endorser of any instrument accrues upon demand following dishonor of the instrument. Notice of dishonor is a demand.
- (4) Unless an instrument provides otherwise, interest runs at the rate provided by law for a judgment:
  - (a) In the case of a maker, acceptor or other primary obligor of a demand instrument, from the date of demand;
  - (b) In all other cases from the date of accrual of the cause of action.

## PART 2: TRANSFER AND NEGOTIATION

### **Section 1. Transfer: Right to Endorsement.**

- (1) Transfer of an instrument vests in the transferee such rights as the transferor has therein, except that a transferee who has himself been a party to any fraud or illegality affecting the instrument or who as a prior holder had notice of a defense or claim against it cannot improve his position by taking from a later holder in due course.
- (2) A transfer of a security interest in an instrument vests the foregoing rights in the transferee to the extent of the interest transferred.
- (3) Unless otherwise agreed, any transfer for value of an instrument not then payable to bearer gives the transferee the specifically enforceable right to have the unqualified endorsement of the transferor. Negotiation takes effect only when the endorsement is made, and until that time there is no presumption that the transferee is the owner.

### **Section 2. Negotiation.**

- (1) Negotiation is the transfer of an instrument in such form that the transferee becomes a holder. If the instrument is payable to order, it is negotiated by delivery with any necessary endorsement; if payable to bearer, it is negotiated by delivery.
- (2) An endorsement must be written by or on behalf of the holder and on the instrument or on a paper so firmly affixed thereto as to become a part thereof.
- (3) An endorsement is effective for negotiation only when it conveys the entire instrument or any unpaid residue. If it purports to be of less, it operates only as a partial assignment.
- (4) Words of assignment, condition, waiver, guaranty, limitation or disclaimer of liability and the like accompanying an endorsement do not affect its character as an endorsement.

### **Section 3. Wrong or Misspelled Name.**

Where an instrument is made payable to a person under a misspelled name or one other than his own, he may endorse in that name or his own or both; but signature in both names may be required by a person paying or giving value for the instrument.

#### **Section 4. Special Endorsement; Blank Endorsement.**

- (1) A special endorsement specifies the person to whom or to whose order it makes the instrument payable. Any instrument specially endorsed becomes payable to the order of the special endorsee and may be further negotiated only by his endorsement.
- (2) An endorsement in blank specifies no particular endorsee and may consist of a mere signature. An instrument payable to order and endorsed in blank becomes payable to bearer and may be negotiated by delivery alone until specially endorsed.
- (3) The holder may convert a blank endorsement into a special endorsement by writing over the signature of the endorser in blank any contract consistent with the character of the endorsement.

#### **Section 5. Restrictive Endorsements.**

An endorsement is restrictive when it:

- (a) Is conditional; or
- (b) Purports to prohibit further transfer of the instrument;
- (c) Includes the words “for collection”, “for deposit”, “pay any bank”, or like terms signifying a purpose of deposit or collection; or
- (d) Otherwise states that it is for the benefit or use of the endorser or of another person.

#### **Section 6. Effect of Restrictive Endorsement.**

- (1) No restrictive endorsement prevents further transfer or negotiation of the instrument.
- (2) An intermediary bank, or a payer bank which is not the depository bank, is neither given notice nor otherwise affected by a restrictive endorsement of any person except the bank’s immediate transferor or the person presenting for payment.
- (3) Except for an intermediary bank, any transferee under an endorsement which is conditional or includes the words “for collection”, “for deposit”, “pay any bank”, or like terms (subparagraphs (a) and (c) of Section 3-205) must pay or apply any value given by him for or on the security of the instrument consistently with the endorsement, and, to the extent that he does so, he becomes a holder for value. In addition, such transferee is a holder in

due course if he otherwise complies with the requirements of Section 3-302 on what constitutes a holder in due course.

- (4) The first taker under an endorsement for the benefit of the endorser or another person (subparagraph (d) of Section 3-205) must pay or apply any value given by him for or on the security of the instrument consistently with the endorsement, and, to the extent that he does so, he becomes a holder for value. In addition, such taker is a holder in due course if he otherwise complies with the requirements of Section 3-302 on what constitutes a holder in due course. A later holder for value is neither given notice nor otherwise affected by such restrictive endorsement unless he has knowledge that a fiduciary or other person has negotiated the instrument in any transaction for his own benefit or otherwise in breach of duty (subsection (2) of Section 3-304).

### **Section 7. Negotiation Effective Although It May Be.**

- (1) Negotiation is effective to transfer the instrument although the negotiation is:
  - (a) Made by an infant, a corporation exceeding its powers, or any other person without capacity; or
  - (b) Obtained by fraud, duress or mistake of any kind; or
  - (c) Part of an illegal transaction; or
  - (d) Made in breach of duty.
- (2) Except as against a subsequent holder in due course, such negotiation is in an appropriate case subject to rescission, the declaration of a constructive trust or any other remedy permitted by law.

### **Section 8. Reacquisition.**

Where an instrument is returned to or reacquired by a prior party, he may cancel any endorsement which is not necessary to his title and reissue or further negotiate the instrument, but any intervening party is discharged as against the reacquiring party and subsequent holders not in due course, and, if endorsement has been canceled, is discharged as against subsequent holders in due course as well.

## **PART 3: RIGHTS OF A HOLDER**

### **Section 1. Rights of a Holder.**

The holder of an instrument, whether or not he is the owner, may transfer or negotiate it and, except as otherwise provided in Section 3-603 on payment or satisfaction, discharge it or enforce payment in his own name.

**Section 2. Holder in Due Course.**

- (1) A holder in due course is a holder who takes the instrument:
  - (a) For value;
  - (b) In good faith; and
  - (c) Without notice that it is overdue or has been dishonored or of any defense against or claim to it on the part of any person.
- (2) A payee may be a holder in due course.
- (3) A holder does not become a holder in due course of an instrument:
  - (a) By purchase of it at judicial sale or by taking it under legal process;
  - (b) By acquiring it in taking over an estate; or
  - (c) By purchasing it as part of a bulk transaction not in regular course of business of the transferor.
- (4) A purchaser of a limited interest can be a holder in due course only to the extent of the interest purchased.

**Section 3. Taking for Value.**

A holder takes the instrument for value:

- (1) To the extent that the agreed consideration has been performed or that he acquires a security interest in or a lien on the instrument otherwise than by legal process;
- (2) When he takes the instrument in payment of or as security for an antecedent claim against any person whether or not the claim is due; or
- (3) When he gives a negotiable instrument for it or makes an irrevocable commitment to a third person.

**Section 4. Notice to Purchaser.**

- (1) The purchaser has notice of a claim or defense if:

- (a) The instrument is so incomplete, bears such visible evidence of forgery or alteration, or is otherwise so irregular as to call into question its validity, terms or ownership or to create an ambiguity as to the party to pay; or
  - (b) The purchaser has notice that the obligation of any party is avoidable in whole or in part, or that all parties have been discharged.
- (2) The purchaser has notice of a claim against the instrument when he has knowledge that a fiduciary has negotiated the instrument in payment of or as security for his own debt or in any transaction for his own benefit or otherwise in breach of duty.
- (3) The purchaser has notice that an instrument is overdue if he has reason to know
- (a) That any part of the principal amount is overdue or that there is an uncured default in payment of another instrument of the same series;
  - (b) That acceleration of the instrument has been made; or
  - (c) That he is taking a demand instrument after demand had been made or more than a reasonable length of time after its issue. A reasonable time for a check drawn and payable within the states and territories of the United States and the District of Columbia is presumed to be thirty (30) days.
- (4) Knowledge of the following facts does not of itself give the purchaser notice of a defense or claim
- (a) That the instrument is antedated or postdated;
  - (b) That it was issued or negotiated in return for an executory promise or accompanied by a separate agreement, unless the purchaser has notice that a defense or claim has arisen from the terms thereof;
  - (c) That any party has signed for accommodation;
  - (d) That an incomplete instrument has been completed, unless the purchaser has notice of any improper completion;
  - (e) That any person negotiating the instrument is or was a fiduciary;
  - (f) That there has been default in payment of interest on the instrument or in payment of any other instrument, except one of the same series.
- (5) The filing or recording of a document does not of itself constitute notice within the provisions of this Chapter to a person who would otherwise be a holder in due course.

- (6) To be effective notice must be received at such time and in such manner as to give a reasonable opportunity to act on it.

**Section 4. Rights of a Holder in Due Course.**

To the extent that a holder is a holder in due course he takes the instrument free from

- (1) All claims to it on the part of any person; and
- (2) All defenses of any party to the instrument with whom the holder has not dealt except:
  - (a) Infancy, to the extent that it is a defense to a simple contract;
  - (b) Such other incapacity, or duress, or illegality of the transaction, as renders the obligation of the party a nullity;
  - (c) Such misrepresentation as has induced the party to sign the instrument with neither knowledge nor reasonable opportunity to obtain knowledge of its character or its essential terms;
  - (d) Discharge in insolvency proceedings; and
  - (e) Any other discharge of which the holder has notice when he takes the instrument.

**Section 6. Right of One Not Holder in Due Course.**

Unless he has the rights of a holder in due course, any person takes the instrument subject to:

- (1) All valid claims to it on the part of any person; and
- (2) All defenses of any party which would be available in an action on a simple contract; and
- (3) The defenses of want or failure of consideration, nonperformance of any condition precedent, nondelivery, or delivery for a special purpose (Section 3-408); and
- (d) the defense that he or a person through whom he holds the instrument acquired it by theft, or that payment or satisfaction to such holder would be inconsistent with the terms of a restrictive endorsement. The claim of any third person to the instrument is not otherwise available as a defense to any party liable thereon unless the third person himself defends the action for such party.

**Section 7. Burden of Establishing Signatures, Defenses and Due Course.**

- (1) Unless specifically denied in the pleadings, each signature on an instrument is admitted. When the effectiveness of a signature is put in issue:

- (a) The burden of establishing it is on the party claiming under the signature; but
  - (b) The signature is presumed to be genuine or authorized except where the action is to enforce the obligation of a purported signer who has died or become incompetent before proof is required.
- (2) When signatures are admitted or established, production of the instrument entitles a holder to recover on it unless the defendant establishes a defense.
  - (3) After it is shown that a defense exists, a person claiming the rights of a holder to recover on it unless the defendant establishes a defense.

#### PART 4: LIABILITY OF PARTIES

##### **Section 1. Signature.**

- (1) No person is liable on an instrument unless his signature appears thereon.
- (2) A signature is made by use of any name, including any trade or assumed name, upon an instrument, or by any word or mark used in lieu of a written signature.

##### **Section 2. Signature in Ambiguous Capacity.**

Unless the instrument clearly indicates that a signature is made in some other capacity it is an endorsement.

##### **Section 3. Signature by Authorized Representative.**

- (1) A signature may be made by an agent or other representative, and his authority to make it may be established as in other cases or representation. No particular form of appointment is necessary to establish such authority.
- (2) An authorized representative who signs his own name to an instrument
  - (a) Is personally obligated if the instrument neither names the person represented nor shows that the representative signed in a representative capacity;
  - (b) Except as otherwise established between the immediate parties, is personally obligated if the instrument names the person represented but does not show that the representative signed in a representative capacity, or if the instrument does not name the person represented but does show that the representative signed in a representative capacity.

- (3) Except as otherwise established the name of an organization preceded or followed by the name and office of an authorized individual is a signature made in a representative capacity.

**Section 4. Unauthorized Signatures.**

- (1) Any unauthorized signature is wholly inoperative as that of the person whose name is signed unless he ratifies it or is precluded from denying it; but it operates as the signature of the unauthorized signer in favor of any person who in good faith pays the instrument or takes it for value.
- (2) Any unauthorized signature may be ratified for all purposes of this Chapter. Such ratification does not of itself affect any rights of the person ratifying against the actual signer.

**Section 5. Impostors; Signature in Name of Payee.**

- (1) An endorsement by any person in the name of a named payee is effective if:
  - (a) An impostor by use of the mails or otherwise has induced the maker or drawer to issue the instrument to him or his confederate in the name of the payee; or
  - (b) A person signing as or on behalf of a maker or drawer intends the payee to have no interest in the instrument; or
  - (c) An agent or employee of the maker or drawer has supplied him with the name of the payee intending the latter to have no such interest.
- (2) Nothing in this section shall affect the criminal or civil liability of the person so endorsing.

**Section 6. Negligence Contributing to Alteration or Unauthorized Signature.**

Any person who by his negligence substantially contributes to a material alteration of the instrument or to the making of an unauthorized signature is precluded from asserting the alteration or lack of authority against a holder in due course or against a drawee or other payer who pays the instrument in good faith and in accordance with the reasonable commercial standards of the drawee's or payer's business.

**Section 7. Alteration.**

- (1) Any alteration of an instrument is material which changes the contract of any party thereto in any respect, including any such change in:
  - (a) The number or relations of the parties;
  - (b) An incomplete instrument, by completing it otherwise than as authorized; or

- (c) the writing as signed, by adding to it or by removing any part of it.
- (2) As against any person other than a subsequent holder in due course:
  - (a) Alteration by the holder which is both fraudulent and material discharges any party whose contract is thereby changed unless that party assents or is precluded from asserting the defense;
  - (b) No other alteration discharges any party and the instrument may be enforced according to its original tenor, or as to incomplete instruments according to the authority given.
- (3) A subsequent holder in due course may in all cases enforce the instrument according to its original tenor, and when an incomplete instrument has been completed, he may enforce it as completed.

**Section 8            Consideration.**

Want or failure of consideration is a defense as against any person not having the rights of a holder in due course (Section 3-305), except that no consideration is necessary for an instrument or obligation thereon given in payment of or as security for an antecedent obligation of any kind. Nothing in this Section shall be taken to displace any statute outside this Code, under which a promise is enforceable notwithstanding lack or failure of consideration. Partial failure of consideration is a defense pro tanto whether or not the failure is in an ascertained or liquidated amount.

**Section 9.            Draft Not an Assignment.**

- (1) A check or other draft does not in itself operate as an assignment of any funds in the hands of the drawers available for its payment, and the drawee is not liable on the instrument until he accepts it.
- (2) Nothing in this Section shall affect any liability in contract, tort or otherwise arising from any letter of credit or other obligation or representation which is not an acceptance.

**Section 10.          Definition and Operation of Acceptance.**

- (1) Acceptance is the drawee's signed engagement to honor the draft as presented. It must be written on the draft, and may consist of his signature alone. It becomes operative when completed by delivery or notification.
- (2) A draft may be accepted although it has not been signed by the drawer or is otherwise incomplete or is overdue or has been dishonored.

- (3) Where the draft is payable at a fixed period after sight and the acceptor fails to date his acceptance the holder may complete it by supplying a date in good faith.

**Section 11. Certification of a Check.**

- (1) Certification of a check is acceptance. Where a holder procures certification the drawer and all prior endorsers are discharged.
- (2) Unless otherwise agreed a bank has no obligation to certify a check.
- (3) A bank may certify a check before returning it for lack of proper endorsement. If it does so the drawer is discharged.

**Section 12. Acceptance Varying Draft.**

- (1) Where the drawee's proffered acceptance in any manner varies the draft as presented the holder may refuse the acceptance and treat the draft as dishonored in which case the drawee is entitled to have his acceptance canceled.
- (2) The terms of the draft are not varied by an acceptance to pay at any particular bank or place in the United States, unless the acceptance states that the draft is to be paid only at such bank or place.
- (3) Where the holder assents to an acceptance varying the terms of the draft each drawer and endorser who does not affirmatively assent is discharged.

**Section 13. Contract of Maker, Drawer and Acceptor.**

- (1) The maker or acceptor engages that he will pay the instrument according to its tenor at the time of his engagement or as completed pursuant to Section 3-115 on incomplete instruments.
- (2) The drawer engages that upon dishonor of the draft and any necessary notice of dishonor or protest he will pay the amount of the draft to the holder or to any endorser who takes it up. The drawer may disclaim this liability by drawing without recourse.
- (3) By making, drawing or accepting the party admits as against all subsequent parties including the drawee the existence of the payee and his then capacity to endorse.

**Section 14. Contract of Endorser; Order of Liability.**

- (1) Unless the endorsement otherwise specifies (as by such words as "without recourse") every endorser engages that upon dishonor and any necessary notice of dishonor and protest he will pay the instrument according to its tenor at the time of his endorsement to the holder to

any subsequent endorsers who takes it up, even though the endorser who takes it up was not obligated to do so.

- (2) Unless they otherwise agree endorsers are liable to one another in the order in which they endorse, which is presumed to be the order in which their signatures appear on the instrument.

**Section 15. Contract of Accommodation Party.**

- (1) An accommodation party is one who signs the instrument in any capacity for the purpose of lending his name to another party to it.
- (2) When the instrument has been taken for value before it is due the accommodation party is liable in the capacity in which he has signed even though the taker knows of the accommodation.
- (3) As against a holder in due course and without notice of the accommodation oral proof of the accommodation is not admissible to give the accommodation party the benefit of discharges dependent on his character as such. In other cases the accommodation character may be shown by oral proof.
- (4) An endorsement which shows that it is not in the chain of title is notice of its accommodation character.
- (5) An accommodation party is not liable to the party accommodated, and if he pays the instrument has a right of recourse on the instrument against such party.

**Section 16. Contract of Guarantor.**

- (1) "Payment guaranteed" or equivalent words added to a signature mean that the signer engages that if the instrument is not paid when due he will pay it according to its tenor without resort by the holder to any other party.
- (2) "Collection guaranteed" or equivalent words added to a signature mean that the signer engages that if the instrument is not paid when due he will pay it according to its tenor, but only after the holder has reduced his claim against the maker or acceptor to judgment and execution has been returned unsatisfied, or after the maker or acceptor has become insolvent or it is otherwise apparent that it is unless to proceed against him.
- (3) Words of guaranty which do not otherwise specify guarantee payment.
- (4) No words of guaranty added to the signature of a sole maker or acceptor affect his liability on the instrument. Such words added to the signature of one of two or more makers or acceptors create a presumption that the signature is for the accommodation of the others.

- (5) When words of guaranty are used presentment, notice of dishonor and protest are not necessary to charge the user.
- (6) Any guaranty written on the instrument is enforceable notwithstanding any statute of frauds.

**Section 17. Warranties of Presentment and Transfer**

- (1) Any person who obtains payment or acceptance and any prior transferor warrants to a person who in good faith pays or accepts that
  - (a) He has a good title to the instrument or is authorized to obtain payment or acceptance on behalf of one who has a good title; and
  - (b) He has no knowledge that the signature of the maker or drawer is unauthorized, except that this warranty is not given by a holder in due course acting in good faith:
    - (i) To a maker with respect to the maker's own signature;
    - (ii) To a drawer with respect to the drawer's own signature, whether or not the drawer is also the drawee; or
    - (iii) To an acceptor of a draft if the holder in due course took the draft after the acceptance or obtained the acceptance without knowledge that the drawer's signature was unauthorized; and
  - (c) The instrument has not been materially altered, except that this warranty is not given by a holder in due course acting in good faith:
    - (i) To the maker of a note;
    - (ii) To the drawer of a draft whether or not the drawer is also the drawee; or
    - (iii) To the acceptor of a draft with respect to an alteration made prior to the acceptance if the holder in due course took the draft after the acceptance, even though the acceptance provided "payable as originally drawn" or equivalent terms; or
    - (iv) To the acceptor of a draft with respect to an alteration made after the acceptance.
- (2) Any person who transfers an instrument and receives consideration warrants to his transferee and if the transfer is by endorsement to any subsequent holder who takes the instrument in good faith that
  - (a) He has a good title to the instrument or is authorized to obtain payment or acceptance on behalf of one who has a good title and the transfer is otherwise rightful; and

- (b) All signatures are genuine or authorized;
  - (c) The instrument has not been materially altered;
  - (d) No defense of any party is good against him; and
  - (e) He has no knowledge of any insolvency proceeding instituted with respect to the maker or acceptor or the drawer of an unaccented instrument.
- (3) By transferring “without recourse” the transferor limits the obligation stated in subsection (2) (d) to a warranty that he has no knowledge of such a defense.
- (4) A selling agent or broker who does not disclose the fact that he is acting as such gives the warranties provided in this Section, but if he makes such disclosure warrants only his good faith and authority.

**Section 18. Finality of Payments or Acceptance.**

Except for recovery of bank payments as provided in other applicable law as provided under 7 N.T.C. §204 and except for liability for breach of warranty on presentment under the preceding section, payment or acceptance of any instrument is final in favor of a holder in due course, or a person who has in good faith changed his position in reliance on the payment.

**Section 19. Conversion of Instrument: Innocent Representative.**

- (1) An instrument is converted when:
- (a) A drawee to whom it is delivered for acceptance refuses to return it on demand;
  - (b) Any person to whom it is delivered for payment refuses on demand either to pay or to return it; or
  - (c) It is paid on a forged endorsement.
- (2) In an action against a drawee under subsection (1) the measure of the drawee’s liability is the facts amount of the instrument. In any other action under subsection (1) the measure of liability is presumed to be the face amount of the instrument.
- (3) Subject to the provisions of this Code concerning restrictive endorsements a representative, including a depository or collecting bank, who has in good faith and in accordance with the reasonable commercial standards applicable to the business of such representative dealt with an instrument or its proceeds on behalf of one who was not the true owner is not liable in conversion or otherwise to the true owner beyond the amount of any proceeds remaining in his hands.

- (4) An intermediary bank or payer bank which is not a depository bank is not liable in conversion solely by reason of the fact that proceeds of an item endorsed restrictively (Sections 3-205 and 3-206) are not paid or applied consistently with the restrictive endorsement of an endorser other than its immediate transferor.

## **PART 5: PRESENTMENT, NOTICE OF DISHONOR AND PROTEST**

### **Section 1. When Presentment, Notice of Dishonor, and Protest Necessary or Permissible**

- (1) Unless excused (Section 3-511) presentment is necessary to charge secondary parties as follows:
- (a) Presentment for acceptance is necessary to charge the drawer and endorsers of a draft where the draft so provides, or is payable elsewhere than at the residence or place of business of the drawee, or its date of payment depends upon such presentment. The holder may at his option present for acceptance any other draft payable at a stated date;
  - (b) Presentment for payment is necessary to charge any endorser;
  - (c) In the case of any drawer, the acceptor of a draft payable at a bank or the maker of a note payable at a bank, presentment for payment is necessary, but failure to make presentment discharges such drawer, acceptor or maker only as stated in Section 3-502 (1)(b).
- (2) Unless excused (Section 3-511)
- (a) Notice of any dishonor is necessary to charge any endorser;
  - (b) In the case of any drawer, the acceptor of a draft payable at a bank or the maker of a note payable at a bank, notice of any dishonor is necessary, but failure to give such notice discharges such drawer, acceptor or maker only as stated in Section 3-502 (1)(b).
- (3) Unless excused (Section 3-511) protest of any dishonor is necessary to charge the drawer and endorsers of any draft which on its face appears to be drawn or payable outside of the states, territories, dependencies and possessions of the United States, the District of Columbia and the Commonwealth of Puerto Rico. The holder may at his option make protest of any dishonor of any other instrument and in the case of a foreign draft may on insolvency of the acceptor before maturity make protest for better security.
- (4) Notwithstanding any provision of this Section, neither presentment nor notice of dishonor nor protest is necessary to charge an endorser who has endorsed an instrument after maturity.

### **Section 2. Unexcused Delay; Discharge**

- (1) Where, without excuse, any necessary presentment or notice of dishonor is delayed beyond the time when it is due:
  - (a) Any endorser is discharged; and
  - (b) Any drawer or the acceptor of a draft payable at a bank or the maker of a note payable at a bank who because the drawee or payer bank becomes insolvent during the delay is deprived of funds maintained with the drawee or payer bank to cover the instrument may discharge his liability by written assignment to the holder of his rights against the drawee or payer bank in respect of such funds, but such drawer; acceptor or maker is not otherwise discharged.
- (2) Where without excuse a necessary protest is delayed beyond the time when it is due any drawer or endorser is discharged.

**Section 3. Time of Presentment.**

- (1) Unless a different time is expressed in the instrument the time for any presentment is determined as follows:
  - (a) Where an instrument is payable at or a fixed period after a stated date any presentment for acceptance must be made on or before the date it is payable.
  - (b) Where an instrument is payable after sight it must either be presented for acceptance or negotiated within a reasonable time after date or issue whichever is later;
  - (c) Where an instrument shows the date on which it is payable presentment for payment is due on that date;
  - (d) Where an instrument is accelerated presentment for payment is due within a reasonable time after the acceleration;
  - (e) With respect to the liability of any secondary party presentment for acceptance or payment of any other instrument is due within a reasonable time after such party becomes liable thereon.
- (2) A reasonable time for presentment is determined by the nature of the instrument, any usage of banking or trade and the facts of the particular case. In the case of an uncertified check which is drawn and payable within the United States and which is not a draft drawn by a bank the following are presumed to be reasonable periods within which to present for payment or to initiate bank collection:
  - (a) With respect to the liability of the drawer, thirty days after date or issue whichever is later; and

- (b) With respect to the liability of an endorser, seven days after his endorsement.
- (3) Where any presentment is due on a day which is not a full business day for either the person making presentment or the party to pay or accept, presentment is due on the next following day which is a full business day for both parties.
- (4) Presentment to be sufficient must be made at a reasonable hour, and if at a bank, during its banking day.

**Section 4.           How Presentment Made.**

- (1) Presentment is a demand for acceptance or payment made upon the maker, acceptor, drawee or other payer by or on behalf of the holder.
- (2) Presentment may be made
  - (a) By mail, in which event the time of presentment is determined by the time of receipt of the mail;
  - (b) Through a clearing house; or
  - (c) At the place of acceptance or payment specified in the instrument or if there be none at the place of business or residence of the party to accept or pay. If neither the party to accept or pay nor anyone authorized to act for him is present or accessible at such place presentment is excused.
- (3) It may be made to:
  - (a) Any one of two or more makers, acceptors, drawees or other payers; or
  - (b) Any person who has authority to make or refuse the acceptance or payment.
- (4) A draft accepted or a note made payable at a bank in the United States must be presented at such bank.
- (5) In the case described below presentment may be made in the manner and with the result stated below.
  - (a) Unless otherwise instructed, a collecting bank may present an item not payable by, through or at a bank by sending to the party to accept or pay a written notice that the bank holds the item for acceptance or payment. The notice must be sent in time to be received on or before the day when presentment is due and the bank must meet any requirement of the party to accept or pay under Section 3-505 by the close of the bank's next banking day after it knows of the requirement.

- (b) Where presentment is made by notice and neither honor nor request for compliance with a requirement under Section 3-505 is received by the close of business on the day after maturity or in the case of demand items by the close of business on the third banking day after notice was sent, the presenting bank may treat the item as dishonored and charge any secondary party by sending him notice of facts.

**Section 5. Rights of Party to Whom Presentment is Made.**

- (1) The party to whom presentment is made may without dishonor require:
  - (a) Exhibition of the instrument;
  - (b) Reasonable identification of the person making presentment and evidence of his authority to make it if made for another;
  - (c) That the instrument be produced for acceptance or payment at a place specified in it, or if there be none at any place reasonable in the circumstances; and
  - (d) A signed receipt on the instrument for any partial or full payment and its surrender upon full payment.
- (2) Failure to comply with any such requirement invalidates the presentment but the person presenting has a reasonable time in which to comply and the time for acceptance or payment runs from the time of compliance.

**Section 6. Time Allowed for Acceptance or Payment.**

- (1) Acceptance may be deferred without dishonor until the close of the next business day following presentment. The holder may also in good faith effort to obtain acceptance and without either dishonor of the instrument or discharge of secondary parties allowed postponement of acceptance for an additional business day.
- (2) Except as a longer time is allowed in the case of documentary drafts drawn under a letter of credit, and unless an earlier time is agreed to by the party to pay, payment of an instrument may be deferred without dishonor pending reasonable examination to determine whether it is properly payable, but payment must be made in any event before the close of business on the day of presentment.

**Section 7. Dishonor; Holder's Right of Recourse; Term Allowing Re-Presentment.**

- (1) An instrument is dishonored when:
  - (a) A necessary or optional presentment is duly made and due acceptance or payment is refused or cannot be obtained within the prescribed time or in case of bank collections the instrument is seasonably returned by the midnight deadline (Section 3-102); or

- (b) Presentment is excused and the instrument is not duly accepted or paid.
- (2) Subject to any necessary notice of dishonor and protest, the holder has upon dishonor an immediate right of recourse against the drawers and endorsers.
- (3) Return of an instrument for lack of proper endorsement is not dishonor.
- (4) A term in a draft or an endorsement thereof allowing a stated time for re-presentment in the event of any dishonor of the draft by nonacceptance is a time draft or by nonpayment if a sight draft gives the holder as against any secondary party bound by the term an option to waive the dishonor without affecting the liability of the secondary party and he may present again up to the end of the stated time.

**Section 8. Notice of Dishonor.**

- (1) Notice of dishonor may be given to any person who may be liable on the instrument by or on behalf of the holder or any party who has himself received notice, or any other party who can be compelled to pay the instrument. In addition an agent or bank in whose hands the instrument is dishonored may give notice to his principal or customer or to another agent or bank from which the instrument was received.
- (2) Any necessary notice must be given by a bank before its midnight deadlines and by any other person before midnight of the third business day after dishonor or receipt of notice of dishonor.
- (3) Notice may be given in any reasonable manner. It may be oral or written and in any terms which identify the instrument and state that it has been dishonored. A misdescription which does not mislead the party notified does not vitiate the notice. Sending the instrument bearing a stamp, ticket or writing stating that acceptance or payment has been refused or sending a notice of debit with respect to the instrument is sufficient.
- (4) Written notice is given when sent although it is not received.
- (5) Notice to one partner is notice to each although the firm has been dissolved.
- (6) When any party is in insolvency proceedings instituted after the issue of the instrument notice may be given either to the party or to the representative of his estate.
- (7) When any party is dead or incompetent notice may be sent to his last known address or given to his personal representative.
- (8) Notice operates for the benefit of all parties who have rights on the instrument against the party notified.

**Section 9. Protest; Noting for Protest.**

- (1) A protest is a certificate of dishonor made under the hand and seal of a United States consul or vice consul or a notary public or other person authorized to verify dishonor by the law of the place where dishonor occurs. It may be made upon information satisfactory to such person.
- (2) The protest must identify the instrument and certify either that due presentment has been made or the reason why it is excused and that the instrument has been dishonored by nonacceptance or nonpayment.
- (3) The protest may also certify that notice of dishonor has been given to all parties or to specified parties.
- (4) Subject to subsection (5) any necessary protest is due by the time that notice of dishonor is due.
- (5) If, before protest is due, an instrument has been noted for protest by the officer to make protest, the protest may be made at any time thereafter as of the date of the noting.

**Section 10. Evidence of Dishonor and Notice of Dishonor.**

The following are admissible as evidence and create a presumption of dishonor and of any notice of dishonor therein shown:

- (1) A document regular in form as provided in the preceding Section which purports to be a protest;
- (2) The purported stamp or writing of the drawee, payer bank or presenting bank on the instrument or accompanying it stating that acceptance or payment has been refused for reasons consistent with dishonor;
- (3) Any book or record of the drawee, payer bank, or any collecting bank kept in the usual course of business which shows dishonor, even though there is no evidence of who made the entry.

**Section 11. Waived or Excused Presentment, Protest or Notice of Dishonor or Delay Therein.**

- (1) Delay in presentment, protest or notice of dishonor is excused when the party is without notice that it is due or when the delay is caused by circumstances beyond his control and he exercises reasonable diligence after the cause of the delay ceases to operate.
- (2) Presentment or notice or protest as the case may be is entirely excused when:

- (a) The party to be charged has waived it expressly or by implication either before or after it is due; or
  - (b) Such party has himself dishonored the instrument or has countermanded payment or otherwise has no reason to expect or right to require that the instrument be accepted or paid; or
  - (c) By reasonable diligence the presentment or protest cannot be made or the notice given.
- (3) Presentment is also entirely excused when
- (a) The maker, acceptor or drawee of any instrument except a documentary draft is dead or in insolvency proceedings instituted after the issue of the instrument; or
  - (b) Acceptance or payment is refused but not for want of proper presentment.
- (4) Where a draft has been dishonored by nonacceptance a later presentment for payment and any notice of dishonor and protest for nonpayment are excused unless in the meantime the instrument has been accepted.
- (5) A waiver of protest is also a waiver of presentment and of notice of dishonor even though protest is not required.
- (6) Where a waiver of presentment or notice of protest is embodied in the instrument itself it is binding upon all parties; but where it is written above the signature of an endorser it binds him only.

## PART 6: DISCHARGE

### **Section 1. Discharge of Parties.**

- (1) The extent of the discharge of any part from liability on an instrument is governed by the sections on:
- (a) Payment or satisfaction (Section 3-603);
  - (b) Tender of payment (Section 3-604);
  - (c) Cancellation or renunciation (Section 3-605);
  - (d) Impairment of right of recourse or of collateral (Section 3-606);
  - (e) Reacquisition of the instrument by a prior party (Section 3-208);
  - (f) Fraudulent and material alteration (Section 3-407);

- (g) Certification of a check (Section 3-411);
  - (h) Acceptance varying a draft (Section 3-412); or
  - (I) Unexcused delay in presentment or notice of dishonor or protest (Section 3-502).
- (2) Any party is also discharged from his liability on an instrument to another party by any other act or agreement with such party which would discharge his simple contract for the payment of money.
- (3) The liability of all parties is discharged when any party who has himself no right of action or recourse on the instrument:
- (a) Reacquires the instrument in his own rights; or
  - (b) Is discharged under any provision of this Chapter, except as otherwise provided with respect to discharge for impairment of recourse or of collateral (Section 3-606).

**Section 2. Effect of Discharge Against Holder in Due Course.**

No discharge of any party provided by this Chapter is effective against a subsequent holder in due course unless he has notice thereof when he takes the instrument.

**Section 3. Payment or Satisfaction.**

- (1) The liability of any party is discharged to the extent of his payment or satisfaction to the holder even though it is made with knowledge of a claim of another person to the instrument unless prior to such payment or satisfaction the person making the claim either supplies indemnity deemed adequate by the party seeking the discharge or enjoins payment or satisfaction by order of a court of competent jurisdiction in an action in which the adverse claimant and the holder are parties. This subsection does not, however, result in the discharge of the liability:
- (a) Of a party who in bad faith pays or satisfies a holder who acquired the instrument by theft or who (unless having the rights of a holder in due course) holds through one who so acquired it; or
  - (b) Of a party (other than an intermediary bank or a payer bank which is not a depository bank) who pays or satisfies the holder of an instrument which has been restrictively endorsed in a manner not consistent with the terms of such restrictive endorsement.
- (2) Payment or satisfaction may be made with the consent of the holder by any person including a stranger to the instrument. Surrender of the instrument to such a person gives him the rights of a transferee (Section 3-201).

**Section 4. Tender of Payment.**

- (1) Any party making tender of full payments to a holder when or after it is due is discharged to the extent of all subsequent liability for interest, costs and attorney's fees.
- (2) The holder's refusal of such tender wholly discharges any party who has a right of recourse against the party making the tender.
- (3) Where the maker or acceptor of an instrument payable otherwise than on demand is able and ready to pay at every place of payment specified in the instrument when it is due, it is equivalent to tender.

**Section 5. Cancellation and Renunciation.**

- (1) The holder of an instrument may even without consideration discharge any party:
  - (a) In any manner apparent on the face of the instrument or the endorsement, as by intentionally canceling the instrument or the party's signature by destruction or mutilation, or by striking out the party's signature; or
  - (b) By renouncing his rights by a writing signed and delivered or by surrender of the instrument of the party to be discharged.
- (2) Neither cancellation nor renunciation without surrender of the instrument affects the title thereto.

**Section 6. Impairment of Recourse or of Collateral.**

- (1) The holder discharges any party to the instrument to the extent that without such party's consent the holder
  - (a) Without express reservation of rights releases or agrees not to sue any person against whom the party has to the knowledge of the holder a right of recourse or agrees to suspend the right to enforce against such person the instrument or collateral or otherwise discharges such person, except that failure or delay in effecting any required presentment, protest or notice of dishonor with respect to any such person does not discharge any party as to whom presentment, protest or notice of dishonor is effective or unnecessary; or
  - (b) Unjustifiably impairs any collateral for the instrument given by or on behalf of the party or any person against whom he has a right of recourse.
- (2) By express reservation of rights against a party with a right of recourse the holder preserves:
  - (a) All his rights against such party as of the time when the instrument was originally due;

- (b) The right of the party to pay the instrument as of that time; and
- (c) All rights of such party to recourse against others.

## PART 7: ADVICE OF INTERNATIONAL SIGHT DRAFT

### **Section 1. Letter of Advice of International Sight Draft.**

- (1) A “letter of advice” is a drawer’s communication to the drawee that a described draft has been drawn.
- (2) Unless otherwise agreed when a bank receives from another bank a letter of advice of an international sight draft the drawee bank may immediately debit the drawer’s account and stop the running of interest pro tanto. Such a debit and any resulting credit to any account covering outstanding drafts leaves in the drawer full power to stop payment or otherwise dispose of the amount and creates no trust or interest in favor of the holder.
- (3) Unless otherwise agreed and except where a draft is drawn under a credit issued by the drawee, the drawee of an international sight draft owes the drawer no duty to pay an unadvised draft but if it does so and the draft is genuine, may appropriately debit the drawer’s account.

## PART 8: MISCELLANEOUS

### **Section 1. Draft in a Set.**

- (1) Where a draft is drawn in a set of parts, each of which is numbered and expressed to be an order only if no other part has been honored, the whole of the parts constitutes one draft but a taker of any part may become a holder in due course of the draft.
- (2) Any person who negotiates, endorses or accepts a single part of a draft drawn in a set thereby becomes liable to any holder in due course of that part as if it were the whole set, but as between different holders in due course to whom different parts have been negotiated the holder whose title first accrues has all rights to the draft and its proceeds.
- (3) As against the drawee the first presented part of a draft drawn in a set is the part entitled to payment, or if a time draft to acceptance and payment. Acceptance of any subsequently presented part renders the drawee liable thereon under subsection (2). With respect both to a holder and to the drawer payment of a subsequently presented part of a draft payable at sight has the same effect as payment of a check notwithstanding an effective stop order. The drawee of such part is surrogated to the rights (a) of any holder in due course thereof against the drawer or any other holder: (b) of the payee or other holder against the drawer either on the items or under the transaction out of which it arose; and (c) of the drawer

against the payee or any other holder of this part of the draft with respect to the transaction out of which it arose.

- (4) Except as otherwise provided in this section, where any part of a draft in a set is discharged by payment or otherwise the whole draft is discharged.

## **Section 2. Effect of Instrument on Obligation for Which It is Given.**

- (1) Unless otherwise agreed where an instrument is taken for an underlying obligation:
  - (a) The obligation is pro tanto discharged if a bank is drawer, maker or acceptor of the instrument and there is not recourse on the instrument against the underlying obligor; and
  - (b) In any other case the obligation is suspended pro tanto until the instrument is due or if it is payable on demand until its presentment. If the instrument is dishonored action may be maintained on either the instrument or the obligation; discharge of the underlying obligor on the instrument also discharges him on the obligation.
- (2) The taking in good faith of a check which is not postdated does not of itself so extent the time on the original obligation as to discharge a surety.

## **Section 3. Notice to Third Party.**

Where a defendant is sued for breach of an obligation for which a third person is answerable over under this Chapter he may give the third person written notice of the litigation, and the person notified may then give similar notice to any other person who is answerable over to him under this Chapter. If the notice states that the person notified may come in and defend and that if the person notified does not do so he will, in any action against him be the person giving the notice, be bound by any determination of fact common to the two litigation's, then unless after reasonable receipt of the notice the person notified does come in and defend, he is so bound.

## **Section 4. Lost, Destroyed or Stolen Instruments.**

The owner of an instrument which is lost, whether by destruction, theft or otherwise, may maintain an action in his own name and recover from any party liable thereon upon due proof of his ownership, the facts which prevent his production of the instrument and its terms. The court may require security indemnifying the defendant against loss by reason of further claims on the instrument.

## **Section 5. Instruments Not Payable to Order or to Bearer.**

This Chapter applies to any instrument whose terms do not preclude transfer and which is otherwise negotiable within this Chapter but which is not payable to order or to bearer, except that there can be no holder in due course of such an instrument.

**CHAPTERS 4 - 8  
(RESERVED)**

**CHAPTER NINE SECURED TRANSACTIONS**

**PART 1: SHORT TITLE, APPLICABILITY AND DEFINITIONS**

**Section 1. Short Title.**

This Chapter shall be known and may be cited as the Prairie Island Mdewakanton Dakota Commercial Code - Secured Transactions Chapter.

**Section 2. Policy and Scope of Chapter.**

- (1) Except as otherwise provided in Section 104 on excluded transactions, this Chapter applies:
  - (a) To any transaction (regardless of its form) which is intended to create a security interest in personal property or fixtures, including: goods, documents, instruments, general intangibles, chattel paper or accounts, and
  - (b) To any sale of accounts or chattel paper.
- (2) This Chapter applies to security interest created by contract including: a pledge, an assignment, a chattel mortgage, a chattel trust, a trust deed, a factor's lien, an equipment trust, a conditional sale, a trust receipt, a lien or title retention contract and a lease or consignment intended as security. This Chapter does not apply to statutory liens except as provided in Section 310.
- (3) The application of this chapter to a security interest in a secured obligation is not affected by the fact that the obligation is itself secured by a transaction or interest to which this Chapter does not apply.

**Section 3. Perfection of Security Interests In Transactions Involving More Than One Jurisdiction.**

- (1) Documents, instruments and ordinary goods.
  - (a) This subsection applies to documents and instruments and to goods other than those covered by a certificate of title described in subsection (2), mobile goods described in subsection (3) and minerals described in subsection (5).

- (b) Except as otherwise provided in this subsection, perfection and the effect of perfection or non-perfection of a security interest in collateral are governed by the law of the jurisdiction where the collateral is located when the last event occurs on which is based the assertion that the security interest is perfected or unperfected.
  - (c) If the parties to a transaction creating a purchase money security interest in goods understand at the time that the security interest attaches that the goods will be kept in another jurisdiction, then the law of the other jurisdiction governs the perfection and the effect of perfection or non-perfection of the security interest. This security interest runs from the time it attaches until 30 days after the debtor receives possession of the goods, and it becomes permanent if the goods are, in fact, taken to the other jurisdiction before the end of the 30 day period.
  - (d) When collateral is brought into and kept within the Prairie Island Mdewakanton Dakota Reservation, while subject to a security interest perfected under the law of the jurisdiction from which the collateral was removed, the security interest remains perfected. However, if action is required by Part 3 of this Chapter to perfect the security interest,
    - (i) And the action is not taken before the expiration of the period of perfection in the other jurisdiction or the end of four months after the collateral is brought into the Prairie Island Mdewakanton Dakota Reservation, whichever period first expires, the security interest becomes unperfected at the end of that period and it is thereafter deemed to have been unperfected as against a person who became a purchaser after removal;
    - (ii) And the action is taken before the expiration of the period specified in subparagraph (I), the security interest continue perfected thereafter;
    - (iii) For the purpose of priority over a buyer of consumer goods (subsection (2) of section 307), the period of the effectiveness of a filing in the jurisdiction from which the collateral is removed is governed by the rules with respect to pertyion in subparagraphs (i) and (ii).
- (2) Certificate of title
- (a) This subsection applies to goods covered by a certificate of title issued pursuant to Prairie Island Mdewakanton Dakota tribal law or a statute of another jurisdiction under the law of which indication of a security interest on the certificate is required as a condition of perfection.
  - (b) Except as otherwise provided in this subsection, perfection and the effect of perfection or non-perfection of the security interest are governed by the law (including the conflict of law rules) of the jurisdiction issuing the certificate until four months after the goods are removed from that jurisdiction and thereafter until the goods are registered in

another jurisdiction. After the expiration of that period, the goods are not covered by the certificate of title within the meaning of this section.

- (c) Except with respect to the rights of a buyer described in the next paragraph, a security interest, perfected in another jurisdiction otherwise than by notation on a certificate of title, in goods brought into the Prairie Island Indian Community and thereafter covered by a certificate of title issued pursuant to Prairie Island tribal law, is subject to the rules stated in paragraph (d) of subsection (1).
  - (d) If goods are brought into the Prairie Island Reservation while a security interest therein is perfected in any manner under the law of the jurisdiction from which the goods are removed, and a certificate of title is issued pursuant to Prairie Island tribal law, and the certificate does not show that the goods are subject to the security interest or that they may be subject to security interest not shown on the certificate, the security interest is subordinate to the rights of a buyer of the goods who is not in the business of selling goods of that kind to the extent that he gives value and receives delivery of the goods after issuance of the certificate and without knowledge of the security interest.
- (3) Accounts, general intangibles and mobile goods.
- (a) This subsection applies to accounts (other than an account described in subsection (5) on minerals) and general intangibles (other than uncertificated securities) and to goods which are mobile and which are of a type normally used in more than one jurisdiction, such as motor vehicles, trailers, rolling stock, airplanes, shipping containers, road building and construction machinery and commercial harvesting machinery and the like, if the goods are equipment or are inventory leased or held for lease by the debtor to others, and are not covered by a certificate of title described in subsection (2).
  - (b) The law (including the conflict of law rules) of the jurisdiction in which the debtor is located governs the perfection and the effect of perfection or nonperfection of the security interest.
  - (c) If, however, the debtor is located in a jurisdiction which is not a part of the United States, and which does not provide for perfection of a security interest by filing or recording in that jurisdiction, the law of the jurisdiction in the United States in which the debtor has its major executive office in the United States governs the perfection and the effect of perfection or non-perfection of the security interest through filing. In the alternative, if the debtor is located in a jurisdiction which is not a part of the United States or Canada and the collateral is accounts or general intangibles or money due or to become due, the security interest may be perfected by notification to the account debtor. As used in this paragraph, "United States" includes its territories and possessions including the Prairie Island Dakota Reservation, other federally-recognized Indian reservations and the Commonwealth of Puerto Rico.

- (d) A debtor shall be deemed located at his place of business, if he has one, at his chief executive office if he has more than one place of business, otherwise at his residence. If, however, the debtor is a foreign air carrier under the Federal Aviation Act of 1958, as amended, he shall be deemed located at the designated office of the agent upon whom service of process may be made on behalf of the foreign air carrier.
  - (e) A security interest perfected under the law of the jurisdiction of the location of the debtor is perfected until the expiration of four months after the debtor relocates to another jurisdiction, or until perfection would have ceased by the law of the first jurisdiction, whichever period first expires. Unless perfected in the new jurisdiction before the end of that period, it becomes unperfected thereafter and is deemed to have been unperfected as against a person who becomes a purchaser after the change.
- (4) Chattel Paper - The rules stated for goods in subsection (1) apply to a possessory security interest in chattel paper. The rules stated for accounts in subsection (3) apply to nonpossessory security interest in chattel paper, but the security interest may not be perfected by notification to the account debtor.
  - (5) Minerals - Perfection and the effect of perfection or nonperfection of a security interest which is created by a debtor who has an interest in minerals or the like (including oil and gas) before extraction and which attaches thereto as extracted, or which attaches to an account resulting from the sale thereof at the wellhead or minehead are governed by the law (including the conflict of law rules) of the jurisdiction wherein the wellhead or minehead is located.
  - (6) Uncertificated securities - The law (including the conflict of law rules) of the jurisdiction of organization of the issuer governs the perfection and the effect of perfection or nonperfection of a security interest in uncertificated securities.

#### **Section 4. Transactions Excluded From Chapter.**

This Chapter does not apply to:

- (1) A security interest which is subject to any statute of the United States, to the extent that such statute governs the rights of parties to and third parties affected by, transactions in particular types of property;
- (2) A landlord's lien;
- (3) A lien given by statute or other rule of law for services or materials except as provided in Section 310 on priority of such liens;
- (4) A transfer of a claim for wages, salary or other compensation of an employee;
- (5) A transfer by a government or governmental subdivision or agency;

- (6) A sale of accounts, contract rights of chattel paper sold as part of a sale of the business out of which they arose, or an assignment of accounts, contract rights or chattel paper which is for the purpose of collection only, or to a transfer of a contract right to an assignee who is also to do the performance under the contract;
- (7) A transfer of an interest or claim in or under any policy of insurance, except as provided with respect to proceeds (Section 306) and priorities (Section 312); or
- (8) As right represented by a judgment (other than a judgment taken on a right to payment which was collateral);
- (9) Any right of setoff;
- (10) Except to the extent that provision is made for fixtures in Section 313, to the creation or transfer of an interest in or lien on real estate, including a lease or rents thereunder;
- (11) A transfer in whole or in part of any claim arising out of tort;
- (12) A transfer of an interest in any deposit account (Subsection (1) of Section 105), except as provided with respect to proceeds (Section 306) and priorities in proceeds (Section 312); or
- (13) To an equipment trust covering railway rolling stock.

## **Section 5. Definitions and Index of Definitions.**

- (1) In this Chapter unless the context otherwise requires:
  - (a) “Account debtor” means the person who is obligated on an account, chattel paper, contract right or general intangible;
  - (b) “Chattel Paper” means a writing or writings which evidence both a monetary obligation and a security interest in or a lease of specific goods, but a charter or other contract involving the use or hire of a vessel is not chattel paper. When a transaction is evidenced both by such a security agreement or a lease and by an instrument or a series of instruments, the group of writings taken together constitutes chattel paper;
  - (c) “Collateral” means the property subject to a security interest and includes accounts, contract rights and chattel paper which have been sold;
  - (d) “Debtor” means the person who owed payment or other performance of the obligation secured, whether or not he owns or has rights in the collateral, and includes the seller of accounts or chattel paper. Where the debtor and the owner of the collateral are not the same person, the term “debtor” means the owner of the collateral in any provision of

the Chapter dealing with the collateral, the obligor in any provision dealing with the obligation, and may include both where the context so requires;

- (e) “Deposit account” means a demand, time, savings, passbook or like account maintained with a bank, savings and loan association, credit union or like organization, other than an account evidenced by a certificate of deposit;
- (f) “Document” means document of title as defined in the general definitions of Gen. Com. Prov. Ch. Section 201;
- (g) “Encumbrance” includes real estate mortgages and other liens on real estate and all other rights in real estate that are not ownership interests;
- (h) “Goods” includes all things which are movable at the time the security interest attaches or which are fixtures (Section 313) but does not include money, documents, instruments, accounts, chattel paper, general intangibles, or minerals or the like (including oil and gas before extraction). “Goods” also includes standing timber which is to be cut and removed under a conveyance or contract for sale, the unborn young of animals and growing crops;
- (i) “Improvements” means goods which are so incorporated into a permanent structure on real estate that they lose their essential separate nature and become an integral part of the structure itself, and includes permanent structures but does not include goods which are whole structures brought onto real estate and permanently affixed thereto and which retain their essential separate nature except for such permanent affixation. Example of structures which are usually not considered “improvements” under this subsection, assuming they qualify as “goods” under subsection (h) above, include but are not limited to mobile homes and movable buildings.
- (j) “Instrument” means a negotiable instrument or a certificated security or any other writing which evidences a right to payment of money and is not itself a security agreement or lease and is of a type which is in ordinary course of business transferred by delivery with any necessary indorsement or assignment;
- (k) “Mortgage” means a consensual interest created by a real estate mortgage, a trust deed on real estate, or the like;
- (l) An advance is made “pursuant to commitment” if the secured party has bound himself to make it, whether or not a subsequent event of default or other event not within his control has relieved or may relieve him from his obligation;
- (m) “Security agreement” means an agreement which creates or provides for a security interest;

- (n) “Secured party” means a lender, seller or other person in whose favor there is a security interest including a person to whom accounts or chattel paper have been sold. When the holders of obligations issued under an indenture of trust, equipment trust agreements or the like are represented by a trustee or other person, the representative is the secured party;
- (o) “Transmitting utility” means any person primarily engaged in the railroad, street railway or trolley bus business, the electric transmission of goods by pipeline or the transmission or the production and transmission of electricity, steam, gas or water or the provision of sewer service.
- (2) Other definitions applying to this Chapter and the sections in which they appear are:
- |                                    |                |
|------------------------------------|----------------|
| “Account”                          | Section 106    |
| “Attach”                           | Section 203    |
| “Construction Mortgage”            | Section 313(1) |
| “Consumer Goods”                   | Section 109(1) |
| “Equipment”                        | Section 109(2) |
| “Farm Production”                  | Section 109(3) |
| “Fixtures”                         | Section 313(1) |
| “Fixture Filing”                   | Section 313(1) |
| “General Intangibles”              | Section 106    |
| “Inventory”                        | Section 109(4) |
| “Lien Creditor”                    | Section 301(3) |
| “Proceeds”                         | Section 306(1) |
| “Purchase Money Security Interest” | Section 107    |
| “United States”                    | Section 103    |
- (3) The following definitions in other Chapters apply to this Chapter of the code:
- |                     |                           |
|---------------------|---------------------------|
| “Contract for Sale” | Sales Chapter Section 106 |
| “Sale”              | Sales Chapter Section 106 |
- (4) In addition the General Commercial Provisions Chapter contains general definitions and principles of construction and interpretation applicable throughout this Chapter.

**Section 6. Definitions: “Account”; “General Intangibles”.**

“Account” means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance. “General intangibles” means any personal property (including things in action) other than goods, accounts, chattel paper, documents, instruments and money. “Contract right” means any right to payment under a contract not yet earned by performance and not evidenced by an instrument or chattel paper.

**Section 7. Definitions: “Purchase Money Security Interest”.**

A security interest is a “purchase money security interest” to the extent that it is:

- (1) Taken or retained by the seller of the collateral to secure all or part of its purchase price; or
- (2) Taken by a person who by making advances or incurring an obligation gives value to enable the debtor to acquire rights in or the use of collateral if such value is in fact so used.

**Section 8. When After-Acquired Collateral Is Not Security For An Antecedent Debt.**

Where a secured party makes an advance, incurs an obligation, releases a perfected security interest, or otherwise gives new value which is to be secured in whole or in part by after-acquired property, his security interest in the after-acquired collateral is deemed to be taken for new value, and not as security for an antecedent debt, if and only if the debtor acquires his rights in that collateral either in the ordinary course of his business or under a purchase contract made pursuant to the security agreement within a reasonable time after new value is given.

**Section 9. Classification of Goods: “Consumer Goods”; “Equipment”; “Farm Products”; “Inventory”.**

Goods are:

- (1) “Consumer goods” if they are used or bought for use primarily for personal, family or household purposes;
- (2) “Equipment” if they are used or bought for use primarily in business (including farming or a profession) or by a debtor who is a non-profit organization or a governmental subdivision or agency or if the goods are not included in the definitions of inventory, farm products or consumer goods;
- (3) “Farm products” if they are crops, or livestock, or supplies used or produced in farming operations, or if they are products of crops or livestock in their unmanufactured states (such as ginned cotton, woolclip, maple syrup, milk and eggs) and if they are in the possession of a debtor engaged in raising, fattening, grazing or other farming operations. If goods are farm products they are neither equipment nor inventory.
- (4) “Inventory” if they are held by a person who holds them for sale or lease or to be furnished under contracts of service or if he has so furnished the, or if they are raw materials, work in process of materials used or consumed in a business. The inventory of a person is not to be classified as his equipment.

**Section 10. Sufficiency of Description.**

For the purpose of this Chapter any description of personal property or real estate is sufficient whether or not it is specific, if it reasonably identifies what is described.

**Section 11. Applicability of Bulk Transfers Laws.**

The creation of a security interest is not a bulk transfer as defined in Chapter 6 of the Uniform Commercial Code or Chapter 57A-6 of the South Dakota Code.

**Section 12. Where Collateral Is Not Owned By The Debtor**

Unless otherwise agreed, when a secured party knows that collateral is owned by a person who is not the debtor, the owner of the collateral is entitled to receive from the secured party any surplus under Section 502(20) or under Section 504(1) and is not liable for the debt or for any deficiency after resale, and he has the same right as the debtor to:

- (1) Receive statements under Section 208;
- (2) Receive notice of and object to a secured party's proposal to retain the collateral in satisfaction of the indebtedness under Section 505;
- (3) Redeem the collateral under Section 506;
- (4) Obtain injunctive or other relief under Section 507(1); and
- (5) Recover losses caused to him under Section 208(2).

**Section 13. Security Interest Arising Under Chapter On Sales.**

A security interest arising under the Chapter on Sales is subject to the provisions of this Chapter except that to the extent that and so long as the debtor does not have or does not lawfully obtain possession of the goods

- (1) No security agreement is necessary to make the security interest enforceable;
- (2) No filing is required to perfect the security interest; and
- (3) The rights of the secured party in default by the debtor are governed by the Chapter on Sales.

**Section 14. Consignment.**

- (1) A person who delivers goods under a consignment which is not a security interest and who would be required to file under this Chapter by paragraph (3)(c) of Section 326 of the Sales Chapter has priority over a secured party who is or becomes a creditor of the consignee and who would have a perfected security interest in the goods if they were the property of the consignee. This consignor also has priority with respect to identifiable cash proceeds received on or before delivery of the goods to the buyer, if

- (a) The consignor complies with the filing provision of the Chapter on Sales with respect to consignments (paragraph (3)(c) of Section 326 of the Sales Chapter) before the consignee receives possession of the goods;
  - (b) The consignor gives notification in writing to the holder of the security interest if the holder has filed a financing statement covering the same types of goods before the date of the filing made by the consignor;
  - (c) The holder of the security interest receives the notification within five years before the consignee receives possession of the goods; and
  - (d) The notification states that the consignor expects to deliver goods on consignment to the consignee and describes the goods by item or types.
- (2) In the case of a consignment which is not a security interest and in which the requirements of the preceding subsection have not been met, a person who delivers goods to another is subordinate to a person who would have a perfected security interest in the goods if they were the property of the debtor.

## PART 2: VALIDITY OF SECURITY AGREEMENT AND RIGHTS OF PARTIES THERETO

### **Section 1. General Validity of Security Agreements**

Except as otherwise provided by this Title, the terms of a security agreements are effective against the purchasers of the collateral and against the creditors of the debtor. Nothing in this Chapter is intended, however, to validate any practice illegal under any present or future tribal statute or regulation dealing with usury, small loans, retail installment or the like, nor to extend the application of any such statute or regulation to any transaction not otherwise subject to it.

### **Section 2. Title To Collateral Immaterial.**

Each provision of this Chapter with regard to rights, obligations and remedies applies whether title to collateral is in the secured party or in the debtor.

### **Section 3. Enforceability of Security Interest; Proceeds; Formal Requisites.**

- (1) Subject to the provisions of any applicable law regulating the security interests of a collecting bank and Section 113 on a security interest is not enforceable against the debtor or third parties with respect to the collateral and does not attach unless:
  - (a) The collateral is in the possession of the secured party pursuant to an agreement, or the debtor has signed a security agreement which contains a description of the collateral and in addition, when the security interest covers crops which are either growing or to

be grown or timber to be cut, the agreement must contain a description of the land concerned;

- (b) Value has been given; and
  - (c) The debtor has rights in the collateral.
- (2) A security interest attaches when it becomes enforceable against the debtor with respect to the collateral. Attachment occurs as soon as all of the events specified in subsection (1) have taken place unless an agreement explicitly postpones the time of attaching.
  - (3) Unless otherwise agreed, a security agreement gives the secured party the rights to proceed provided by Section 306.
  - (4) A transaction, although subject to this Chapter, is also subject to all applicable consumer finance laws, and in the case of a conflict between the provisions of this Chapter and any such statutes, the provisions of the consumer finance laws control. Failure to comply with any applicable statute has only the effect which is specified in that statute.

**Section 4. After-Acquired Property; Future Advances.**

- (1) Except as provided in subsection (2), a security agreement may provide that any or all obligations covered by the security agreement are to be secured by after-acquired collateral.
- (2) No security interest attaches under an after-acquired property clause to consumer goods other than accession (as defined in Section 314) when given as additional security unless the debtor acquires rights in them within ten days after the secured party gives value.
- (3) Obligations covered by a security agreement may include future advances or other value whether or not the advances or value are given pursuant to commitment (Subsection (1) of Section 105).

**Section 5. Use or Disposition of Collateral Without Accounting is Permissible.**

A security interest is not invalid or fraudulent against creditors simply because the debtor is at liberty to use, commingle or dispose of all or part of the collateral (including returned or repossessed goods) or to collect or compromise accounts or chattel paper, or to accept the return of goods or make repossessions, or to use commingle or dispose of proceeds, or by reason of the failure of the secured party to require the debtor to account for proceeds or replace collateral. This section does not relax the requirements of possession where perfection of a security interest depends upon possession of the collateral by the secured party or by a bailee.

**Section 6. Agreement Not to Assert Defenses Against and Assignee; Modification of Sales Warranties Where a Security Agreement Exists.**

- (1) Subject to any applicable statute or court decision which establishes a different rule for buyers or lessees of consumer goods, an agreement by a buyer or lessee that he will not assert against an assignee any claim or defense which he may have against the seller or lessor is enforceable by an assignee who takes his assignment for value, in good faith and without notice of a claim or defense, except as to defenses of a type which may be asserted against a holder in due course of a negotiable instrument. A buyer who as part of one transaction signs both a negotiable instrument and a security agreement makes such an agreement.
- (2) When a seller retains a purchase money security interest in goods the Sales Chapter governs the sale and any disclaimer, limitation or modification of the seller's warranties.

**Section 9.7. Rights and Duties When Collateral is in the Secured Party's Possession**

- (1) A secured party must use reasonable care in the custody and preservation of collateral in his possession. In the case of an instrument or chattel paper reasonable care includes taking necessary steps to preserve rights against prior parties unless otherwise agreed.
- (2) Unless otherwise agreed, when collateral is in the secured party's possession:
  - (a) Reasonable expenses (including the cost of any insurance and payment of taxes or other charges) incurred in the custody, preservation, use or operation of the collateral are chargeable to the debtor and are secured by the collateral;
  - (b) The risk of accidental loss or damages is on the debtor to the extent of any deficiency in any effective insurance coverage;
  - (c) The secured party may hold as additional security any increase or profits (except money) received from the collateral, but money so received, unless remitted to the debtor, shall be applied in reduction of the secured obligation;
  - (d) The secured party must keep the collateral identifiable but fungible collateral may be commingled;
  - (e) The secured party may repledge the collateral upon terms which do not impair the debtor's right to redeem it.
- (3) A secured party is liable for any loss caused by his failure to meet any obligation imposed by the preceding subsections but does not lose his security interest.
- (4) A secured party may use or operate the collateral for the purpose of preserving the collateral or its value or pursuant to the order of the Tribal Court or, except in the case of consumer goods, in the manner and to the extent provided in the security agreement.

**Section 8. Request for Statement of Account or List of Collateral.**

- (1) A debtor may sign a statement indicating what he believes to be the aggregate amount of his unpaid indebtedness as of a specified date and may send it to the secured party with a request that the statement be approved or corrected and returned to the debtor. When the security agreement or any other record kept by the secured party identifies the collateral a debtor may similarly request the secured party to approve or correct a list of the collateral.
- (2) The secured party must comply with such a request within two weeks after receipt by sending a written correction or approval. If the secured party claims a security interest in all of a particular type of collateral owned by the debtor he may indicate that fact in his reply and he need not approve or correct an itemized list of such collateral. If the secured party, without reasonable excuse, fails to comply he is liable for any loss caused to the debtor as a result of his failure; and if the debtor has properly included in his request a good faith statement of the obligation or a list of the collateral or both, the secured party may claim a security interest only as shown in the statement against persons misled by his failure to comply. If he no longer has an interest in the obligation or collateral at the time the request is received, he must disclose the name and address of any successor in interest know to him and he is liable for any loss caused to the debtor as a result of his failure to disclose. A successor in interest is not subject to this section until a request is received by him.
- (3) A debtor is entitled to such a statement once every six months without charge. The secured party may require payment of a charge not exceeding \$10 for each additional statement furnished.

### PART 3: RIGHTS OF THIRD PARTIES; PERFECTED AND UNPERFECTED SECURITY INTERESTS; RULES OF PRIORITY

#### **Section 1. Persons Who Take Priority Over Unperfected Security Interests; Rights of the "Lien Creditor".**

- (1) Except as otherwise provided in subsection (2), an unperfected security interest is subordinate to the rights of:
  - (a) A person entitled to priority under Section 312;
  - (b) A person who becomes a lien creditor before the security interest is perfected;
  - (c) In the case of goods, instruments, documents, and chattel paper, a person who is not a secured party and who is a transferee in bulk or other buyer not in ordinary course of business, or is a buyer of farm products in ordinary course of business to the extent that he gives value and receives a delivery of the collateral without knowledge of the security interest and before it is perfected;

- (d) In the case of accounts and general intangibles, a person who is not a secured party and who is a transferee to the extent that he gives value without knowledge of the security interest and before it is perfected.
- (2) If the secured party files with respect to a purchase money security interest before or within 20 days after the debtor receives possession of the collateral, he takes priority over the rights of a transferee in bulk or of a lien creditor which arise between the time the security interest attaches and the time of filing.
- (3) A “lien creditor” means a creditor who has acquired a lien on the property involved by attachment, levy or the like and includes an assignee for the benefit of creditors from the time of assignment, and a trustee in bankruptcy from the date of the filing of the petition or a receiver in equity from the time of appointment.
- (4) A person who becomes a lien creditor while a security interest is perfected takes subject to the security interest only to the extent that it secured advances made before he becomes a lien creditor or within 45 days thereafter, or made without knowledge of the lien, or pursuant to a commitment entered into without knowledge of the lien.

**Section 2. When Filing is Required to Perfect a Security Interest; Security Interests to Which the Filing Provisions of this Chapter do not Apply.**

- (1) A financing statement must be filed to perfect all security interests except the following:
  - (a) A security interest in collateral in possession of the secured party under Section 305;
  - (b) A security interest temporarily perfected in instruments or documents without delivery under Section 304 or in proceeds for a 10 day period under Section 306;
  - (c) A security interest created by an assignment of a beneficial interest in a trust or a decedent’s estate;
  - (d) A purchase money security interest in consumer goods; but filing is required for a motor vehicle required to be registered; and fixture filing is required for priority over conflicting interests in fixtures to the extent provided in Section 313;
  - (e) An assignment of accounts which does not alone or in conjunction with other assignments to the same assignee transfer a significant part of the outstanding accounts of the assignor;
  - (f) A security interest of a collecting bank or in securities or arising under the Sales Chapter (see Section 113) or covered in subsection (3) of this section;
  - (g) An assignment for the benefit of all the creditors of the transferor and subsequent transfers by the assignee thereunder.

- (2) If a secured party assigns a perfected security interest, no filing under this Chapter is required in order to continue the perfected status of the security interest against creditors of and transferees from the original debtor.
- (3) The filing of a financing statement otherwise required by this Chapter is not necessary or effective to perfect a security interest in property subject to:
  - (a) A statute or treaty of the United States which provides for a national or international registration or a national or international certificate of title or which specifies a place of filing different from that specified in this Chapter for filing of the security interest; or
  - (b) Any applicable tribal law governing certificates of title for automobiles, trailers, mobile homes, boats, farm tractors, or the like; but during any period in which the collateral is inventory held for sale by a person who is in the business of selling goods of that kind, the filing provisions of this Chapter (Part 4) apply to a security interest in that collateral created by him as debtor; or
  - (c) A certificate of title statute of another jurisdiction under the law of which indication of a security interest on the certificate is required as a condition of perfection (subsection(2) of Section 103).
- (4) Compliance with a statute or treaty described in subsection (3) is equivalent to the filing of a financing statement under this Chapter, and a security interest in property subject to that statute or treaty can be perfected only by compliance therewith except as provided in Section 103 on multiple jurisdictional transactions. The duration and renewal of perfection of a security interest perfected by compliance with a statute or treaty are governed by the provisions of the statute or treaty; in other respects the security interest is subject to this Chapter.

**Section 3. When a Security Interest Is Perfected; Continuity Of Perfection.**

- (1) A security interest is perfected when it has attached and when all of the applicable steps required for perfection have been taken. Such steps are specified in Section 302, 304, 305 and 306. If such steps are taken before the security interest attaches, it becomes perfected at the time when it attaches.
- (2) If a security interest is originally perfected in any way permitted under this Chapter and is subsequently re-perfected in some other way also permitted by this Chapter, without an intermediate period when it was unperfected, the security interest shall be deemed to be perfected continuously for the purposes of this Chapter.

**Section 4. Perfection of Security Interest In Instruments, Documents, and Goods Covered by Documents; Perfection By Permissive Filing; Temporary Perfection Without Filing or Transfer of Possession.**

- (1) A security interest in chattel paper or negotiable documents may be perfected by filing. A security interest in money or instruments (other than certificated securities or instruments which constitute part of chattel paper) can be perfected only by the secured party's taking possession, except as provided in subsections (4) and (5) of this section and subsections (2) and (3) of Section 306 on proceeds.
- (2) During the period while goods are in the possession of the issuer of a negotiable document representing those goods, a security interest in the goods is perfected by perfecting a security interest in the document, and any security interest in the goods otherwise perfected during such period is subject thereto.
- (3) A security interest in goods in the possession of a bailee other than one who has issued a negotiable document representing those goods is perfected by issuance of a document in the name of the secured party or by the bailee's receipt of notification of the secured party's interest or by filing as to the goods.
- (4) A security interest in instruments (other than certificated securities) or negotiable documents is perfected without filing or the taking of possession for a period of 21 days from the time it attaches to the extent that it arises for new value given under a written security agreement.
- (5) A security interest remains perfected for a period of 21 days without filing where a secured party having a perfected security interest in an instrument (other than a certificated security), a negotiable document or goods in possession of a bailee other than one who has issued a negotiable document representing those goods:
  - (a) Makes available to the debtor the goods or documents representing the goods for the purpose of ultimate sale or exchange or for the purpose of loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with them in a manner preliminary to their sale or exchange, but priority between conflicting security interests in the goods is subject to subsection (3) of Section 312; or
  - (b) Delivers the instrument to the debtor for the purpose of ultimate sale or exchange or of presentation, collection, renewal or registration of transfer.
- (6) After the 21 day period in subsection (4) and (5), perfection depends upon compliance with applicable provisions of this Chapter.

#### **Section 5. When Possession By Secured Party Perfects Security Interest Without Filing.**

A security interest in letters of credit and advice of credit, goods, instruments (other than certificate securities), money, negotiable documents or chattel paper may be perfected by the secured party's taking possession of the collateral. If such collateral, other than goods covered by a negotiable document, is held by a bailee, the secured party is deemed to have possession

from the time the bailee receives notification of the secured party's interest. A security interest is perfected by possession from the time the possession is taken without a relation back and continues only so long as possession is retained, unless otherwise specified in this Chapter. The security interest may be otherwise perfected as provided in other provisions in this Chapter before or after the period of possession by the secured party.

**Section 6. "Proceeds"; The Secured Party's Rights on Disposition of Collateral.**

- (1) "Proceeds" includes whatever is received upon the sale, exchange, collection or other disposition of collateral or proceeds. Insurance payments received as a result of the loss of or damage to collateral are proceeds, except to the extent that they are payable to a person who is not a party to the security agreement. Money, checks, deposit accounts and the like are "cash proceeds."
- (2) Except where this Chapter otherwise provides, a security interest continues in collateral even if it is sold, exchanged or otherwise disposed of, unless the disposition was authorized by the secured party in the security agreement or otherwise. In addition, a security interest continues in any identifiable proceeds including collections received by the debtor.
- (3) The security interest in proceeds is a continuously perfected security interest if the interest in the original collateral was perfected but it ceases to be a perfected security interest and becomes unperfected 20 days after receipt of the proceeds by the debtor unless:
  - (a) A filed financing statement covers the original collateral and the proceeds are collateral in which a security interest may be perfected by filing in the office or offices where the financing statement has been filed and, if the proceeds are acquired with cash proceeds, the description of collateral in the financing statement indicates the types of property constituting the proceeds;
  - (b) A filed financing statement covers the original collateral and the proceeds are identifiable cash proceeds; or
  - (c) The security interest in the proceeds is perfected before the expiration of the 20 day period.

Except as provided in this section, a security interest in proceeds can be perfected only by the methods or under the circumstances permitted in this Chapter for original collateral of the same type.

- (4) In the event of insolvency proceedings instituted by or against a debtor, a secured party with a perfected security interest in proceeds has a perfected security interest only in the following proceeds:
  - (a) In identifiable non-cash proceeds and in separate deposit accounts containing only proceeds;

- (b) In identifiable cash proceeds in the form of money which is neither commingled with other money nor deposited in a deposit account prior to the insolvency proceedings;
  - (c) In identifiable cash proceeds in the form of checks and the like which are not deposited in a deposit account prior to the insolvency proceedings; and
  - (d) In all cash and deposit accounts of the debtor in which proceeds have been commingled with other funds, but the perfected security interest under this paragraph (d) is
    - (i) Subject to any right to set-off; and
    - (ii) Limited to an amount not greater than the amount of any cash proceeds received by the debtor within 20 days before the institution of the insolvency proceedings less the sum of (I) the payments to the secured party on account of cash proceeds received by the debtor during such period and (II) the cash proceeds received by the debtor during such period to which the secured party is entitled under paragraphs (a) through (c) of this subsection (4).
- (5) If a sale of goods results in an account or chattel paper which is transferred by the seller to a secured party, and if the goods are returned to or are repossession by the seller or the secured party, the following rules determine priorities:
- (a) If the goods were collateral at the time of sale, for an indebtedness of the seller which is still unpaid, the original security interest attaches again to the goods and continues as a perfected security interest if it was perfected at the time when the goods were sold. If the security interest was originally perfected by a filing which is still effective, nothing further is required to continue the perfected status; in any other case, the secured party must take possession of the returned or repossessed goods or must file.
  - (b) An unpaid transferee of the chattel paper has a security interest in the goods against the transferor. Such security interest is prior to a security interest asserted under paragraph (a) to the extent that the transferee of the chattel paper was entitled to priority under Section 308.
  - (c) An unpaid transferee of the account has a security interest in the goods against the transferor. Such security interest is subordinate to a security interest asserted under paragraph (a).
  - (d) A security interest of an unpaid transferee asserted under paragraph (b) or (c) must be perfected for protection against creditors of the transferor and purchasers of the returned or repossessed goods.

**Section 7.           Protection of Buyers of Goods.**

- (1) A buyer in the ordinary course of business (subsection (9) of Gen.Com.Prov.Chapt. Section 201), other than a person buyer farm products from a person engaged in farming operations, takes free of a security interest is perfected and even though the buyer knows of its existence.
- (2) In the case of consumer goods, a buyer takes free of a security interest even though perfected if he buys without knowledge of the security interest for value and for his own person, family or household purposes unless, prior to the purchase, the secured party has filed a financing statement covering such goods.
- (3) A buyer other than a buyer in the ordinary course of business (subsection (1) of this section) takes free of a security interest to the extent that it secures future advances made after the secured party acquires knowledge of the purchase, or more than 45 days after the purchase, whichever first occurs, unless those advances are made pursuant to a commitment entered into without knowledge of the purchase and before the expiration of the 45 day period.

### **Section 8. Purchase of Chattel Paper and Instruments**

A purchaser of chattel paper or an instrument who gives new value and takes possession of it in the ordinary course of his business has priority over a security interest in the chattel paper or instrument:

- (1) Which is perfected under Section 304 (permissive filing and temporary perfection or under Section 306 (perfection as to proceeds)) if he acts without knowledge that the specific paper or instrument is subject to a security interest; or
- (2) Which is claimed merely as proceeds of inventory subject to a security interest (Section 306) even though he knows that the specific paper or instrument is subject to the security interest.

### **Section 9. Protection of Purchasers of Instruments, Documents, and Securities.**

Nothing in this Chapter limits the rights of a holder in due course of a negotiable instrument or a holder to whom a negotiable document of title has been duly negotiated or a bona fide purchaser of a security, and the holders or purchasers take priority over an earlier security interest even though perfected. Filing under this Chapter does not constitute notice of the security interest to such holders or purchasers.

### **Section 10. Priority of Certain Liens Arising by Operation of Law.**

When a person in the ordinary course of business furnishes services or materials with respect to goods subject to a security interest, a lien upon goods in the possession of such person given by statute or rule of law for such materials or services takes priority over perfected security interest unless the lien is statutory and the statute expressly provides otherwise.

## **Section 11. Alienability of Debtor's Rights: Judicial Process.**

The debtor's rights in collateral may be voluntarily or involuntarily transferred (by way of a sale, the creation of a security interest, an attachment, a levy, a garnishment or other judicial process) notwithstanding a provision in the security agreement prohibiting any transfer or making the transfer constitute a default.

## **Section 12. Priorities Among Conflicting Security Interests in the Same Collateral**

- (1) The rules of priority stated in other sections of this Part and in the following sections shall govern when applicable: Section 103 on security interests related to other jurisdictions, Section 114 on consignments.
- (2) A perfected security interest in crops for new value given to enable the debtor to produce the crops during the production season and given not more than three months before the crops become growing crops by planting or otherwise, takes priority over an earlier perfected security interest to the extent that such earlier interest secures obligations due more than six months before the crops become growing crops by planting or otherwise, even though the person giving new value had knowledge of the earlier security interest.
- (3) A perfected purchase money security interest in inventory has priority over a conflicting security interest in the same inventory. It also has priority in identifiable cash proceeds received on or before the delivery of the inventory to a buyer if:
  - (a) The purchase money security interest is perfected at the time the debtor receives possession of the inventory;
  - (b) The purchase money secured party gives notification in writing to the holder of the conflicting security interest if the holder has filed a financing statement covering the same types of inventory (i) before the date of the filing made by the purchase money secured party, or (ii) before the beginning of the 21 day period where the purchase money security interest is temporarily perfected without filing or possession (subsection (5) of Section 304);
  - (c) The holder of the conflicting security interest receives the notification within five years before the debtor receives possession of the inventory; and
  - (d) The notification states that the person giving the notice has or expects to acquire a purchase money security interest in the inventory of the debtor, describing such inventory of the debtor, describing such inventory by item or type.
- (4) A purchase money security interest collateral other than inventory has priority over a conflicting security interest in the same collateral or its proceeds if the purchase money security interest is perfected at the time the debtor receives possession of the collateral or within 20 days thereafter.

- (5) In all cases not governed by other rules stated in this section (including cases of purchase money security interests which do not qualify for the special priorities set forth in subsections (3) and (4) of this section), priority between conflicting security interests in the same collateral shall be determined according to the following rules:
  - (a) Conflicting security interests rank according to priority in time of filing or perfection. Priority dates from the time a filing is first made covering the collateral or the time the security interest is first perfected, whichever is earlier, provided that there is no period thereafter when there is neither filing nor perfection.
  - (b) So long as conflicting security interests are unperfected, the first to attach has priority.
- (6) For the purposes of subsection (5), a date of filing or perfection as to collateral is also a date of filing or perfection as to its proceeds.
- (7) If future advances are made while a security interest is perfected by filing, the taking of possession, or under the law of securities, the security interest has same priority of the purposes of subsection (5) with respect to the first advance. If a commitment is made before or while the security interest is so perfected, the security interest has the same priority with respect to advances made pursuant thereto. In other cases a perfected security interest has priority from the date the advance is made.

**Section 13. Priority of Secured Interests in Fixtures.**

- (1) In this section and in the provisions of Part 4 of this Chapter referring to fixture filing, unless the context otherwise requires:
  - (a) Goods are “fixtures” only when they become so related to particular real estate by virtue of permanent affixation thereto that a legally enforceable deed to the real estate would transfer title to the goods. Fixtures become real estate whenever:
    - (i) Their removal causes damages to the real estate which could only be repaired at a cost exceeding the value of the fixtures, excluding from such computation any diminution in value of the real estate caused by the absence of the fixtures removed or by any necessity of replacing them, or
    - (ii) They are improvements.
  - (b) A “fixture filing” is the filing in the office where a mortgage on the real estate would be filed or recorded, of a financing statement covering goods which are or are to become fixtures and conforming to the requirements of Section 402.

- (c) A mortgage is a “construction mortgage” to the extent that it secures an obligation incurred for the construction of or an improvement on land, including the acquisition cost of the land, if the recorded writing so indicates.
- (2) A security interest under this Chapter may be created in goods which are fixtures or may continue in goods which become fixtures, but no security interest exists under this Chapter in ordinary building materials incorporated into an improvement on land.
  - (3) This Chapter does not prevent the creation of an encumbrance upon fixtures pursuant to real estate law; provided, however, that an encumbrance upon real estate of the Prairie Island Mdewakanton Dakota Tribe or an individual which is held in trust by the United States or subject to a restriction against alienation pursuant to federal law, shall be valid only if it is approved by the Secretary of the Interior or his duly authorized representative.
  - (4) A perfected security interest in fixtures has priority over the conflicting interest of an encumbrancer or owner of the real estate where:
    - (a) The security interest is a purchase money security interest, the interest of the encumbrancer or owner arises before the goods become fixtures, the security interest is perfected by a fixture filing before the goods become fixtures or within ten (10) day thereafter, and the debtor has an interest of record in the real estate or is in possession of the real estate; or
    - (b) The security interest is perfected by a fixture filing before the interest of the encumbrancer or owner is of record, the security interest has priority over any conflicting interest of a predecessor in title of the encumbrancer or owner, and the debtor has an interest of record in the real estate or is in possession of the real estate; or
    - (c) The fixtures are readily removable factory or office machines or readily removable replacements of domestic appliances which are consumer goods, and before the goods become fixtures the security interest is perfected by any method permitted by this Chapter; or
    - (d) The conflicting interest is a lien on the real estate obtained by legal or equitable proceedings after the security interest was perfected by any method permitted by this Chapter.
  - (5) A security interest in fixtures, whether or not perfected, has priority over the conflicting interest of an encumbrancer or owner of the real estate where:
    - (a) The encumbrancer or owner has consented in writing to the security interest or has disclaimed an interest in the goods as fixtures; or

- (b) The debtor has a right to remove the goods as against the encumbrancer or owner. If the debtor's right terminates, the priority of the security interest continues for a reasonable time.
- (6) Notwithstanding paragraph (a) of subsection (4) but otherwise subject to subsections (4) and (5), a security interest in fixtures is subordinate to a construction mortgage recorded before the goods become fixtures if the goods become fixtures before the completion of the construction. To the extent that it is given to refinance a construction mortgage, a mortgage has this priority to the same extent as the construction mortgage.
- (7) In cases not within the preceding subsections, a security interest in fixtures is subordinate to the conflicting interest of an encumbrancer or owner of the related real estate who is not the debtor.
- (8) When the secured party has priority over all owners and encumbrances of the real estate, he may, on default, subject to the provisions of Part 5, remove his collateral from the real estate but he must reimburse any encumbrancer or owner of the real estate who is not the debtor and who has not otherwise agreed for the cost of repair of any physical injury, but not for any diminution in value of the real estate caused by the absence of the goods removed or by any necessity of replacing them. A person entitled to reimbursement may refuse permission to remove until the secured party gives adequate security for the performance of this obligation.

**Section 14. Accessions.**

- (1) A security interest in goods which attaches before they are installed in or affixed to other goods takes priority as to the goods installed or affixed (called in this section "accessions") over the claims of all persons to the whole except as stated in subsection (3) and subject to Section 315 (1).
- (2) A security interest which attaches to goods after they become part of a whole is valid against all persons subsequently acquiring interests in the whole except as stated in subsection (3), but is invalid against any persons with an interest in the whole at the time the security interest attaches to the goods who has not, in writing, consented to the security interest or disclaimed an interest in the goods as part of the whole.
- (3) The security interests described in subsections (1) and (2) do not take priority over:
  - (a) A subsequent purchaser for value of any interest in the whole; or
  - (b) A creditor with a lien on the whole subsequently obtained by judicial proceedings; or
  - (c) A creditor with a prior perfected security interest in the whole to the extent that he makes subsequent advances if the subsequent purchase is made, the lien by judicial proceedings obtained or the subsequent advance under the prior perfected security

interest is made or contracted for without knowledge of the security interest and before it is perfected. A purchaser of the whole at a foreclosure sale other than the holder of a perfected security interest purchasing at his own foreclosure sale is a subsequent purchaser within this section.

- (4) When under subsections (1) or (2) and (3) a secured party has an interest in accessions which has priority over the claims of all persons who have interests in the whole, he may on default subject to the provisions of Part 5 remove his collateral from the whole but he must reimburse any encumbrancer or owner of the whole who is not the debtor and who has not otherwise agreed for the cost of repair of any physical injury but not for any diminution in value of the whole caused by the absence of the goods removed or by any necessity for replacing them. A person entitled to reimbursement may refuse permission to remove until the secured party gives adequate security for the performance of this obligation.

**Section 15. Priority When Goods are Commingled or Processed.**

- (1) If a security interest in goods is perfected and subsequently the goods or a part thereof have become part of a product or mass, the security interest continues in the product or mass if:
  - (a) The goods are so manufactured, processed, assembled or commingled that their identity is lost in the product or mass; or
  - (b) A financing statement covering the original goods also covers the product into which the goods have been manufactured, processed or assembled. In a case to which paragraph (b) applies, no separate security interest in that part of the original goods which has been manufactured, processed or assembled into the product may be claimed under Section 314.
- (2) When under subsection (1) more than one security interest attaches to a product or mass, they rank equally according to the ratio that the cost of the goods to which each interest originally attached bears to the cost of the total product or mass.

**Section 16. Priority Subject to Subordination.**

Nothing in this Chapter prevents subordination by agreement by any person entitled to priority.

**Section 17. Security Party Not Obligated On Contract of Debtor.**

The mere existence of a security interest or authority given to the debtor to dispose of or use collateral does not impose contract or tort liability upon the secured party for the debtor's acts or omissions.

**Section 18. Defenses Against an Assignee; Modification of a Contract After Notification of Assignment; Term Prohibiting Assignment Ineffective; Identification and Proof of Assignment.**

- (1) Unless an account debtor has made an enforceable agreement not to assert defenses or claims arising out of a sale as provided in Section 206, the rights of an assignee are subject to:
  - (a) All the terms of the contract between the account debtor and assignor and any defense or claim arising therefrom; and
  - (b) Any other defense or claim of the account debtor against the assignor which accrues before the account debtor receives notification of the assignment.
- (2) So far as the right to payment or a part thereof under an assigned contract has not been fully earned by performance, and notwithstanding notification of the assignment, any modification of or substitution for the contract made in good faith and in accordance with reasonable commercial standards is effective against an assignee unless the account debtor has otherwise agreed but the assignee acquires corresponding rights under the modified or substituted contract. The assignment may provide that such modification or substitution is a breach by the assignor.
- (3) The account debtor is authorized to pay the assignor until the account debtor receives notification that the amount due or to become due has been assigned and that payment is to be made to the assignee. A notification which does not reasonably identify the rights assigned is ineffective. If requested by the account debtor, the assignee must reasonably furnish reasonable proof that the assignment has been made and unless he does so the account debtor may pay the assignor.
- (4) A term in any contract between an account debtor and an assignor is ineffective if it prohibits assignment of an account or prohibits creation of a security interest in a general intangible for money due or to become due or requires the account debtor's consent to such assignment or security interest.

#### PART 4: FILING

##### **Section 1. Filing Requirements.**

- (1) Except as provided in Section 402 of this chapter, a secured party or his assignee who complies in all respects with the requirements of Minnesota Statutes Annotated \_\_\_\_\_ including but not limited to the time, place and manner of filing and the form of financing statements or any assignment thereof, shall be recognized as having obtained a perfected security interest in accordance with this Chapter.
- (2) A security interest in vehicles or other property described in Chapter \_\_\_\_ of \_\_\_\_\_ Minnesota Statutes Annotated, as it now exists or shall be amended

thereafter, which has been perfected in accordance with that Chapter shall be recognized as a perfected security interest in accordance with this Chapter.

- (3) A person having rights in property subject to a security interest which has been perfected under subsections (1) or (2) above or section 402 of this chapter shall be entitled to enforce all of the obligations provided by Minnesota Statutes Annotated \_\_\_ against the secured party or his assignee, including the right to require the filing of a termination statement or other release of the security interest.

## **Section 2. Place of Filing for Fixtures on Trust or Restricted Land.**

Financing statements relating to goods which are to become fixtures on land which is held in trust by the federal government or land which is held subject to a restriction against alienation under federal law shall be filed in the land title and mortgage records maintained by the Bureau of Indian Affairs, United States Department of the Interior.

## **PART 5: DEFAULT**

### **Section 1. Default, Procedure when Security Agreement Covers Both Real and Personal Property.**

- (1) When a debtor is in default under a security agreement, a secured party has the rights and remedies provided in this Chapter and except as limited by subsection (3), those provided in the security agreement. He may reduce his claim to judgment, foreclose or otherwise enforce the security interest by any available judicial procedure. If the collateral is documents, the secured party may proceed either as to the documents or as to the goods covered thereby. A secured party in possession has the rights, remedies and duties provided in Section 207. The rights and remedies referred to in this subsection are cumulative.
- (2) After default, the debtor has the rights and remedies provided in this Part, those provided in the security agreement and those provided in Section 207.

### **Section 2. Collection Rights of Secured Party.**

- (1) When so agreed in a conspicuous manner in writing and, in any event, on default the secured party is entitled to notify an account debtor or the obligor on an instrument or deposit account to make payment to him whether or not the assignor was theretofore making collections on the collateral, and also to take control of any proceeds to which the secured party is entitled under Section 9-306.
- (2) A secured party who by agreement is entitled to charge back uncollected collateral or otherwise to full or limited recourse against the debtor and who undertakes to collect from the account debtors or obligors must proceed in a commercially reasonable manner and may

deduct his reasonable expense of realization from the collections. If the security agreement secures an indebtedness, the secured party must account to the debtor for any surplus, and, unless otherwise agreed, the debtor is liable for any deficiency. But, if the underlying transaction was a sale of accounts or chattel paper, the debtor is entitled to any surplus or is liable for any deficiency only if the security agreement so provides.

**Section 3. Secured Party's Right to Take Possession After Default.**

A secured party has on default the right to take possession of the collateral solely in accordance with the Prairie Island Dakota law which does not permit a secured party to repossess personal property of Prairie Island Indian Community Members without judicial process. See 7 N.T.C. §607. If the security agreement so provides, the secured party may require the debtor to assemble the collateral and make it available to the secured party at a place to be designated by the secured party which is reasonably convenient to both parties. Without removal, a secured party may, in accordance with applicable Prairie Island Dakota law, render equipment unusable, and may dispose of collateral on the debtor's premises under Section 9-504.

**Section 4. Secured Party's Right to Dispose of Collateral After Default; Effect of Disposition.**

- (1) A secured party after default may sell, lease or otherwise dispose of any or all of the collateral in its then condition or following any commercially reasonable preparation or processing. Any sale of goods is subject to the Chapter on Sales processing. Any sale of goods is subject to the Chapter on Sales (Chapter 2). Unless otherwise provided in the security agreement, the proceeds of disposition shall be applied in the order following to:
  - (a) The reasonable expenses of retaking, holding, preparing for sale or lease, selling, leasing and the like and, to the extent provided for in the agreement and not prohibited by law, the reasonable attorneys' fees and legal expenses incurred by the secured party;
  - (b) The satisfaction of indebtedness secured by the security interest under which the disposition is made; and
  - (c) The satisfaction of indebtedness secured by any subordinate security interest in the collateral if written notification of demand thereof is received before distribution of the proceeds is completed. If requested by the secured party, the holder of a subordinate security interest must seasonably furnish reasonable proof of his interest, and unless he does so, the secured party need not comply with his demand.
- (2) If the security interest secures an indebtedness, the secured party must account to the debtor for any surplus, and, unless otherwise agreed, the debtor is liable for any deficiency. But if the underlying transaction was a sale of accounts or chattel paper, the debtor is entitled to any surplus or is liable for any deficiency only if the security agreement so provides.

- (3) Disposition of the collateral may be by public or private proceedings and may be made by way of one or more contracts. Sale or other disposition may be as a unit or in parcels and at any time and place and on any terms, but every aspect of the disposition including the method, manner, time, place and terms must be commercially reasonable. Unless collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, reasonable notification of the time and place of any public sale or reasonable notification of the time after which any private sale or other intended disposition is to be made shall be sent by the secured party to the debtor if he has not signed after default a statement renouncing or modifying his right to notification of sale. In the case of consumer goods no other notification need be sent. In other cases notification shall be sent to any other secured party from whom the secured party has received (before sending his notification to the debtor or before the debtor's renunciation of his rights) written notice of a claim of an interest in the collateral. Such notices must be delivered personally or be deposited in the United States mail postage prepaid addressed (i) to the debtor at his address as set forth in the financing statement or in the security agreement or at such other address as may have been furnished to the secured party for such purpose, or if no address has been so set forth or furnished, at his last known address, and (ii) to any other secured party at the address set forth in his request for notice. Unless a debtor is entitled to greater notice and advertising by agreement, there is a rebuttable presumption that: (i) a private sale or disposition notice shall be commercially reasonable if it is given at least ten days in advance of the disposition, and (ii) a public sale or disposition notice shall be deemed commercially reasonable if it is given at least ten days in advance of the disposition and if notice of the time and place of such disposition is given at least five days before such disposition by publication at least twice in both a newspaper of general circulation in the county in which the sale is to be held and a newspaper of general circulation in the Prairie Island Dakota Country. Any public sale or disposition may be postponed from time-to-time by public announcement at the time and place last scheduled for the disposition and by commercially reasonable notice of the new sale or disposition. The secured party may buy at any public sale, and, if the collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, he may buy at private sale.
- (4) When collateral is disposed of by a secured party after default, the disposition transfers to a purchaser for value all of the debtor's rights therein, discharges the security interest under which it is made and any security interest or lien subordinate thereto. The purchaser takes free of all such rights and interests even though the secured party fails to comply with the requirements of this Part or of any judicial proceedings:
- (a) In the case of a public sale, if the purchaser has no knowledge of any defects in the sale and if he does not buy in collusion with the secured party, other bidders or the person conducting the sale; or
  - (b) In any other case, if the purchaser acts in good faith.

- (5) A person who is liable to a secured party under a guaranty, endorsement, repurchase agreement or the like and who receives a transfer of collateral from the secured party or is subrogated to his rights has thereafter the rights and duties of the secured party. Such a transfer of collateral is not a sale or disposition of the collateral under this Chapter.

**Section 5. Compulsory Disposition of Collateral; Acceptance of the Collateral as Discharge of Obligation.**

- (1) If the debtor has paid sixty percent of the cash price in the case of a purchase money security interest in consumer goods or sixty percent (60%) of the loan in the case of another security interest in consumer goods, and the debtor has not signed after default a statement renouncing or modifying his rights under this Part, a secured party who has taken possession of collateral must dispose of it under Section 9-504, and, if the secured party fails to do so within ninety days after he takes possession, the debtor at his option may recover in conversion or under Section 9-507(1) on secured party's liability.
- (2) In any other case involving consumer goods or any other collateral, a secured party in possession may, after default, propose to retain the collateral in satisfaction of the obligation (or, if agreed by the debtor after default, in satisfaction of an agreed part of the obligation). Written notice of such proposal shall be sent to the debtor and, except in the case of consumer goods, notice shall be sent to any other secured party from whom the secured party has received (before sending his notice to the debtor) written notice of a claim of an interest in the collateral. If the secured party receives objection in writing from the debtor or other secured party entitled to receive notification within thirty (30) days after the notice was sent, the secured party must dispose of the collateral under Section 9-504 or collect collateral consisting of rights to payment under Section 9-502. In the absence of such written objection, the secured party may retain the collateral in satisfaction of the debtor's obligation.

**Section 6. Debtor's Right to Redeem Collateral.**

At anytime before the secured party has disposed of collateral or entered into a contract for its disposition under Section 9-504 or before the obligation has been discharged under Section 9-505(2), the debtor or any other secured party may (unless otherwise agreed in writing after default) redeem the collateral by tendering fulfillment of all obligations secured by the collateral as well as the expenses reasonably incurred by the secured party in retaking, holding and preparing the collateral for disposition, in arranging for the sale, and, to the extent provided in the agreement and not prohibited by law, his reasonable attorneys' fees and legal expenses.

**Section 7. Secured Party's Liability for Failure to Comply with this Part.**

- (1) If it is established that the secured party is not proceeding in accordance with the provisions of this Part, disposition may be ordered or restrained on appropriate terms and conditions. If the disposition has occurred, the debtor or any person entitled to notification or whose security interest has been made known to the secured party prior to the disposition has a

right to recover from the secured party any loss caused by a failure to comply with the provisions of this Part. If the collateral is consumer goods, the debtor has a right to recover, in any event, an amount not less than the credit service charge plus ten percent of the principal amount of the debt or the time price differential plus ten percent (10%) of the cash price.

- (2) The fact that a better price could have been obtained by a sale at a different time or in a different method from that selected by the secured party is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. If the secured party either sells the collateral in the usual manner in any recognized market therefor, or if he sells at the price current in such market at the time of his sale, or if he has otherwise sold in conformity with reasonable commercial practices among dealers in the type of property sold, he has sold in a commercially reasonable manner. The principles stated in the two preceding sentences with respect to sales also apply as may be appropriate to other types of disposition. A disposition which has been approved in any judicial proceeding or by any bona fide creditors' committee or representative of creditors shall conclusively be deemed to be commercially reasonable, but this sentence does not indicate that any such approval must be obtained in any case nor does it indicate that any disposition not so approved is not commercially reasonable.