

Jurisdiction Review Problems

1) XYZ Co. ("XYZ") is an Illinois corporation with business locations in Illinois, Texas, and Michigan. The corporate headquarters of XYZ is in Detroit, Michigan. As collateral for a loan from Bank, XYZ executes a security agreement affecting the following: 1) accounts, 2) the rights to oil and gas from a number of wells in Texas upon their extraction, 3) inventory located in Texas, Michigan, and Illinois that is owned by XYZ for lease to third parties, and 4) equipment located in Michigan. XYZ maintains its business records at its Chicago, Illinois, location.

In which jurisdiction should Bank file the financing statement that is necessary to perfect its interest in XYZ's accounts, oil and gas rights, inventory, and equipment?

2) Juarez, who lives in Chicago, operates a circus in that city as a sole proprietorship. Juarez borrowed \$25,000 from Bank One and properly granted a security interest in the circus rides to Bank One to secure repayment of the loan. Bank One filed a complete and accurate UCC-1 financing statement in the Illinois Secretary of State's office, correctly identifying the debtor, secured creditor, and collateral.

Six months later, without informing Bank One, and in violation of his security agreement with Bank One, Juarez sold one of his rides, the "Rio Loco," for \$5000 to Smith, another local amusement park operator. Actually, the buyer of the Rio Loco was Smith's company, "Ride 'Em High, LLC," a single-member limited liability company (SMLLC) formed under Delaware law, through which Smith operates his amusement park in Chicago (Smith is the sole member and manager). Smith understood that Juarez had granted a security interest in the Rio Loco to Bank One, but relying on advice from his cousin, Smith disregarded this information.

Six months after the sale, Juarez has defaulted on his loan to Bank One, and Bank One asks you to advise it on the following:

A) Did Bank One properly perfect its original security interest in Juarez's rides?

B) Right now, does Bank One have a continuously perfected security interest in the ride in Smith's hands?

C) Should Bank One take any action to protect its rights in the future, and if so, what?