

MODEL LEASE CLAUSE

Set Events Triggering Alternative Security Right

The following lease clause was drafted by New Jersey attorney Marc L. Ripp. It protects you when a tenant has gotten an individual or a company to guaranty its lease obligations.

Paragraph a says that if the guarantor violates the terms of the guaranty or becomes bankrupt or insolvent, you can require the tenant to produce

an alternative form of security. Paragraph b gives you the right to terminate the lease if the tenant doesn't give you alternative security. Paragraph c discusses the different forms of alternative security.

Show this clause to your attorney before putting it in your lease.

ALTERNATIVE SECURITY FOR GUARANTY

- a. Events Affecting Guaranty.** If, in connection with the Guaranty being executed by Guarantor simultaneously with this Lease:
- (i) Landlord, in its sole judgment, determines that the creditworthiness, economic strength, or financial status of Guarantor falls below a level then acceptable to Landlord;
 - (ii) A bankruptcy proceeding is filed by or against Guarantor;
 - (iii) Guarantor breaches the Guaranty; or
 - (iv) Guarantor [*dies/dissolves*];
- then Landlord may, at any time and upon prior written demand to Tenant, require Tenant to deliver to Landlord the Alternative Security (as defined in Paragraph c hereof), within [*insert #, e.g., 30*] days after Tenant's receipt of such written demand;
- b. Termination if Tenant Fails to Comply.** Tenant's failure to provide the Alternative Security requested by Landlord shall be a material default of this Lease for which Landlord may terminate the Lease on [*insert #*] days' written notice to Tenant.
- c. Forms of Alternative Security.** The phrase "Alternative Security" shall mean one of the following, as selected by Landlord in its sole judgment:
- (i) \$[*insert #*] to be held as additional security;
 - (ii) A new letter of credit, in an amount to be determined in the sole judgment of Landlord, which complies with the terms of Clause [*insert # of letter of credit clause*] hereof; or
 - (iii) An original of a substitute guaranty agreement, signed by an individual or entity acceptable in the sole judgment of Landlord, having a form identical to that attached hereto as Exhibit [*insert #*] and made a part hereof.