

Inventory Security Agreement

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General Information

Inventory Security Agreement

This Inventory Security Agreement is between a secured party and a debtor who agrees to grant a security interest in inventory as collateral for a loan. This agreement spells out the details of the collateral arrangement including the specific inventory items held as collateral, where the inventory will be located and how it will be controlled. It also sets forth debtor's insurance requirements regarding the collateral and if this inventory acts as collateral for other debts.

It is imperative that this type of business agreement be memorialized in writing rather than by oral agreement. A well-written Inventory Security Agreement will prove invaluable in the event there are disagreements, misunderstandings or litigation between the parties regarding the use of inventory as security.

Instructions and Checklist

Inventory Security Agreement

- The parties should read the agreement carefully.
- Insert all requested information in the spaces provided on the form.
- Read the "Control of Inventory" provision carefully. If the provision is complicated or ambiguous, include examples to remove as much ambiguity as possible.
- This form contains the basic terms and language that should be included in similar agreements.
- Both the secured party and debtor must sign the agreement.
- Both parties should retain either an original or copy of the signed agreement.
- All legal documents should be kept in a safe location such as a fireproof safe or safe deposit box.

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INVENTORY SECURITY AGREEMENT

This Security Agreement is entered into this ____ day of _____ year, between _____ [Party A] hereinafter referred to as "Secured Party", and [Party B], whose place of business is _____ Street, _____ City, _____ County, _____ State, hereinafter referred to as "Debtor". The parties agree as follows:

1. Secured Party is hereby granted a security interest in:

a. Inventory. Inventory [specific item(s)] and other goods now owned or after-acquired by Debtor, which are: (i) held for sale or lease; (ii) to be furnished under service contracts; (iii) raw materials; (iv) work in progress; or (v) materials used or consumed in debtors business (collectively, "inventory").

b. Documents of Title. Documents of title evidencing or representing inventory now owned or after-acquired by Debtor.

c. Proceeds. All proceeds and products of the inventory.

2. The Collateral is security for the payment of principal and interest on all loans made by Secured Party to Debtor, now existing or made hereafter, as well as any other obligations of Debtor to Secured Party, whether several, joint, or joint and several, however they may have come about (collectively, "liabilities").

3. Debtor owns the Collateral, and will own any collateral acquired after the date of this Agreement, free of any liens, encumbrances, or other right, title, or interest of any party named in this Agreement.

4. Debtor will defend the Collateral against all claims or demands of any person claiming the same interest as Secured Party or an interest contrary to that of Secured Party.

5. Financing Statements.

a. Warranty. There is no financing statement covering the Collateral on file with a public office except that of Secured Party. As long as any of the liabilities of Debtor to Secured Party are outstanding, Debtor will not execute any such financing statement in favor of a third party.

b. Further Instruments. Debtor will execute and deliver any financing statements, amendments, and supplements thereof or other instruments that Secured Party requires to comply with the Uniform Commercial Code (UCC), and any other law applicable to the Collateral or to the liabilities, in order to preserve its security interest in the collateral.

6. The inventory will be kept a [address]. If its location is changed, Debtor will promptly notify Secured Party. Regardless of where the inventory and other collateral is located, Secured Party shall nevertheless retain a secured interest in it.

7. The amount, interest rate, and maturity dates of all loans and other extensions of credit by Secured Party to Debtor will be determined by Secured Party in Secured Party's sole discretion. Except as Secured Party may hereafter agree to, in writing, all such loans and extensions of credit will not, at any time, exceed (a)percent(..%) of the loan value of Debtor's raw material inventory, evidenced by warehouse receipts, which is part of the Collateral, plus (b) _____ percent(____%) of the loan value of Debtor's finished products inventory, evidenced by warehouse receipts, which is part of the Collateral. The loan value of raw material inventory will be computed at cost to Debtor. The loan value of finished products inventory will be computed as follows: [method of computation]

8. Debtor, at Debtor's own expense, will keep in force and comply with a field warehouse arrangement to warehouse such portion of Debtor's inventory that is Collateral as Secured Party stipulates. This arrangement must continue in force as long as credit is being extended by Secured Party to Debtor. Such arrangement must be with an independent field warehouse company satisfactory to Secured Party and by agreement satisfactory in form and substance to Secured Party. In addition, this independent field warehouse company must issue nonnegotiable warehouse receipts for the warehoused inventory in the name of Secured Party.

9. Control of Inventory.

a. Warehoused Inventory. The warehouse receipts for the warehoused inventory are to be delivered to Secured Party. Debtor has no right to the possession or use of such receipts or of such inventory, unless Secured Party decides to release a portion of it to Debtor in return for payment of Debtor's indebtedness to Secured Party.

b. Lists of Other Inventory. Secured Party may required Debtor to deliver to Secured Party lists, descriptions, and designations of Debtor's inventory not encompassed by the warehouse receipts, so that Secured Party may determine the nature, extent, and location of the Collateral.

c. Sale of Inventory. Any inventory released to Debtor or not represented by warehouse receipts may be used, consumed, or sold by Debtor in Debtor's ordinary courses of business; however, this does not include or permit any sale or transfer of inventory in complete or partial satisfaction of a debt owned by Debtor to a third party.

10. At Debtor's own expense, Debtor will keep the Collateral fully insured, with insurance companies satisfactory to Secured Party, against loss due to fire, and with extended coverage. All policies must contain a loss payable clause to Secured Party, to the extent of Secured Party's interest in the Collateral.

11. All taxes, assessments, and governmental charges on the Collateral are to be paid by Debtor as they come due, unless they are being contested in good faith by appropriate proceedings.

12. Additional Debts Secured Upon Default.

a. Payment by Secured Party for Debtor. If Debtor fails to pay taxes or other assessments and costs and expenses, maintain insurance, or keep the Collateral free from other liens, encumbrances, or security interest, as is required by this Agreement, Secured Party may make expenditures for such items. Whatever sums are expended by Secured Party, plus interest at the rate of ____ percent (____%) per year, will become immediately due and payable by Debtor to Secured Party. This debt is to be secured under this Agreement by the Collateral.

b. Costs of Realizing on Collateral. Any costs incurred by Secured Party in the event of default by Debtor on the liabilities, including costs of retaking, holding, and selling the Collateral, and including court costs, attorney fees, and legal expenses, will become additional debts of Debtor to Secured Party, payable on demand and secured by the Collateral.

13. Remedies on Default. Upon Any Event of Default:

a. Acceleration of Maturity. All liabilities become immediately due and payable, at the option of Secured Party. Secured Party will send written notice to the demand to Debtor, by registered mail.

b. Other Rights and Remedies. In addition to all other rights and remedies granted to Secured Party, it also has all the rights and remedies available to Secured Party under the UCC. Secured Party may require Debtor upon default to assemble the Collateral and make it available to Secured Party at a reasonably convenient place designated by Secured Party.

14. Any notice to resale of the Collateral by Secured Party to Debtor will be deemed reasonably and properly given if mailed at least [number] days before the disposition of the Collateral. This notice must be addressed to Debtor at the address noted in this Agreement, or at such other address designated in writing by Debtor.

15. Any debt of Secured Party to Debtor may be set off against the indebtedness of Debtor to Secured Party, without demand upon or notice to anyone.

16. This Agreement, and all rights and obligations under it, shall be construed and governed according to the laws of [state].

17. This Agreement may be terminated by [number] day's written notice of termination given by either Debtor or Secured Party to the other when the liabilities have been paid in full.. Such termination will not affect the right, duties, obligations, or liabilities of the parties in regards to all transactions prior to termination.

DEBTOR:

By _____