

03-08-1999

PATENT ONLY

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<p>1. Name of conveying party(ies): <u>American Film Technologies, Inc.</u></p> <p>Additional name(s) of conveying party(ies) attached? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO</p> <p>3. Nature of Conveyance:</p> <p><input type="checkbox"/> Assignment <input type="checkbox"/> Merger</p> <p><input checked="" type="checkbox"/> Security Agreement <input type="checkbox"/> Change of Name</p> <p><input type="checkbox"/> Correction of Assignment Recordation (previously recorded at Reel __, Frame __)</p> <p><input type="checkbox"/> Other</p> <p>Execution Date: <u>December 20, 1998</u></p>	<p>2. Name and address of receiving party(ies):</p> <p>Name: <u>Gerald M. Weitzler</u></p> <p>Internal Address: _____</p> <p>Street Address: <u>300 Park Avenue, 17th Floor</u></p> <p>City: <u>New York</u> State: <u>NY</u> ZIP: <u>10022</u></p> <p>Additional name(s) & address(es) attached? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO</p>
<p>4. Application number(s) or patent number(s):</p> <p>If this document is being filed together with a new application, the execution date of the application is: _____</p> <p>A. Patent Application Number(s) _____ B. Patent Number(s) <u>4,984,072 & 5,093,717</u></p> <p>Additional number(s) attached? <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO</p>	
<p>5. Name and address of party to whom correspondence concerning document should be mailed:</p> <p>Name: <u>Benjamin E. Leace</u></p> <p>Internal Address: <u>Ratner & Prestia</u></p> <p>Street Address: <u>Suite 301, One Westlakes, Berwyn</u></p> <p>P.O. Box <u>980</u></p> <p>City: <u>Valley Forge</u> State: <u>PA</u> ZIP: <u>19482-0980</u></p>	<p>6. Total number of applications and patents involved: <u>2</u></p> <p>7. Total fee (37 CFR 3.41): <u>\$ 80.00</u></p> <p><input checked="" type="checkbox"/> Enclosed</p> <p><input type="checkbox"/> Authorized to be charged to deposit account</p> <p>8. Deposit account number: <u>18-0350</u> (Attach duplicate copy of this page if paying by deposit account.)</p>

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DO NOT USE THIS SPACE

<p>9. Statement and signature.</p> <p>To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.</p> <p><u>Benjamin E. Leace</u> <u>Benjamin E. Leace</u> <u>2/24/99</u></p> <p>Name of Person Signing Signature Date</p> <p>33,412</p> <p>Registration. No.</p> <p>Total number of pages including cover sheet, attachments, and document: <u>10</u></p> <p>OMB No. 0651-0011 (exp. 4/94)</p> <p>Do not detach this portion</p> <p>Mail documents to be recorded with required cover sheet information to:</p> <p>Commissioner of Patents and Trademarks</p> <p>Box Assignments</p> <p>Washington, D.C. 20231</p>		
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USPTO Form 1595 [R&P]

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SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement"), dated as of December 20, 1998, is entered into among AMERICAN FILM TECHNOLOGIES, INC., a Delaware corporation, with offices at 300 Park Avenue, 17th Floor, New York, New York 10022 (the "Debtor"), and Gerald M. Wetzler (the "Secured Party" or "Secured Parties").

The parties agree as follows:

1. DEFINITIONS

In addition to the definitions set forth above, the following terms as used in this Agreement shall have the following definitions:

- 1.1 The term "the Code" means and refers to the California Uniform Commercial Code, and any and all terms used in this Agreement which are defined in the Code shall be construed and defined in accordance with the meaning and definition ascribed to such terms under the Code.
- 1.2 The term "Collateral" means and includes all of the assets of the Company whether tangible or intangible, currently owned or hereinafter acquired including but not limited to:
 - A. all patents, patent applications, inventions and improvements owned by Debtor and listed on Schedule A attached hereto;
 - B. all copyrighted films owned by Debtor and listed on Schedule B attached hereto;
 - C. all cash, securities, deposits or cash equivalents;
 - D. all accounts receivable;
 - E. all real estate, furniture, fixtures and equipment
 - F. all inventory, raw materials and work in process; and
 - G. all proceeds of any of the foregoing.
- 1.3 The term "Event of Default" means the occurrence of any one of the events set forth in Section 4 of this Agreement.
- 1.4 The term "Insolvency Proceeding" means and includes any proceeding commenced by or against any person or entity under any provision of the federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including, but not limited to, assignment for the benefit of

creditors, formal or informal moratoriums, compositions or extensions or extensions generally with its creditors.

- 1.5 The term "Notes" means and refers to the up to an aggregate of Thirteen Thousand Dollars (\$13,000) of Senior Secured Convertible Promissory Notes issued to the Secured Party by the Debtor pursuant to that certain Senior Secured Note Purchase Agreement dated December 20, 1998 (the "Notes") and any amendments, modifications, substitutions or restatements of the Notes.
- 1.6 The Term "Obligations" means and refers to the obligations evidenced by the Notes, \$400,000 principal amount of a zero interest Senior Secured Note (the "Old Senior Note") issued to the Secured Party by the Debtor pursuant to that certain Senior Secured Note Purchase Agreement dated October 14, 1997 ("Old Note Agreement") and all Secured Party Expenses which Debtor is required to pay or reimburse by this Agreement.
- 1.7 The term "Secured Party Expenses" means and includes: costs, fees (including reasonable attorneys' fees) and expenses incurred by Secured Party to correct any default or enforce any provision of this Agreement or the Note or any of the Obligations, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale and/or advertising to sell the Collateral, whether or not a sale is consummated.

2. **CREATION OF SECURITY INTEREST**

- 2.1 Debtor hereby grants to the Secured Party a continuing first priority security interest in all of the Collateral in order to secure prompt repayment of any and all Obligations, which security interest is pari passu with the security interests granted to the holders of the notes issued pursuant to the Old Note Agreement (the "Old Notes").
- 2.2 Debtor shall execute and deliver to the Secured Party, concurrent with Debtor's execution of this Agreement, and at any time or times hereafter at the request of Secured Party, all financing statements, continuation financing statements, security agreements, Secured Party may reasonably request, in form satisfactory to Secured Party, to perfect and maintain perfected Secured Party's security interest in the Collateral.

3. **EVENTS OF DEFAULT**

Any one of more of the following events shall constitute an Event of Default by Debtor under this Agreement:

3.1 Any Event of Default by Debtor under any of the Notes or the Old Note or the Old Note Agreement or any notes issued pursuant thereto;

3.2 If Debtor, within five (5) days following written notice to Debtor, fails to cure any default in payment, when due and payable or when declared due and payable, of all or any portion of the Obligations owing to the Secured Party; or

3.3 If Debtor, within thirty (30) days following written notice to Debtor, fails to cure any breach of any term, provision, condition, covenant, agreement, warranty or representation contained in this Agreement.

4. SECURED PARTY'S RIGHTS AND REMEDIES

4.1 Upon the occurrence of an Event of Default by Debtor under this Agreement, the Secured Party may, at its election do any one or more of the following, all of which are authorized by Debtor:

- A. Declare all Obligations immediately due and payable;
- B. Endorse Debtor's name on all applications, documents, papers and instruments necessary or desirable for Debtor in its use of the Collateral;
- C. Take any other action with respect to the Collateral as Secured Party deems in its best interest;
- D. Grant or issue any exclusive or non-exclusive license under the Collateral;
- E. Assign, pledge, convey, or otherwise transfer title in or dispose or any of the Collateral to anyone; and
- F. (i) Require Debtor to take such other action as Secured Party may request to grant, perfect and protect the assignment to a purchaser at a foreclosure proceeding of all right, title and interest in and to the Collateral, and exercise Debtor's rights and remedies with respect to such assigned Collateral, and (ii) without notice, except as specified below, sell the Collateral or any part thereof in one or more parcels at a public or private sale, at any of the Secured Party's offices or elsewhere for cash, on credit, or for future delivery, and upon such other terms as Secured Party may deem commercially reasonable. Secured Party shall not be obligated to make any sales of the Collateral, regardless of any notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. Subject to the rights of the holders of the Old Notes as set forth in Section 2.1 above, the Secured Party may apply proceeds of the Collateral against the Obligations in such order and manner as Secured Party may elect.

4.2 Secured Party shall give notice of any action described in Section 4.1 hereof as follows:

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A. Secured Party shall give Debtor, the holders of any outstanding Old Notes and each holder of a security interest in the Collateral who has filed with Secured Party a written request for notice, a notice in writing of the occurrence of such Event of Default and the action which Secured Party intends to take as a result thereof;

B. The notice shall be personally delivered or mailed, postage prepaid, to Debtor as provided in Section 6 of this Agreement, at least fifteen (15) calendar days before the date fixed for the sale (if applicable), or at least fifteen (15) calendar days before the date on or after which a private sale or other disposition of the Collateral is to be made. Notice to persons other than Debtor claiming an interest in the Collateral shall be sent to such addresses as they have furnished to Secured Party;

C. If Secured Party intends to make a public sale of the Collateral, Secured Party shall also give notice of the time and place by publishing a notice one time at least fifteen (15) calendar days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held.

4.3 Debtor shall pay all Secured Party Expenses incurred in connection with Secured Party's enforcement and exercise of any of its rights and remedies as herein provided.

4.4 Any deficiency which exists after disposition of the Collateral as provided above will be paid by Debtor. Any excess will be returned to Debtor by Secured Party.

4.5 Secured Party's rights and remedies under this Agreement and all other agreements shall be cumulative. No exercise by Secured Party of one right or remedy shall be deemed an election, and no waiver by Secured Party of any default on Debtor's part shall be deemed a continuing waiver. No delay by Secured Party shall constitute a waiver, election or acquiescence by it.

5. NOTICES

All notices or demands by any party relating to the Note or this Agreement shall be in writing and either personally served or sent by regular United States mail, postage prepaid, to Debtor or each of the Secured Party at their respective addresses set forth below. The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 5 shall be deemed received on the earlier of the date of actual receipt or three (3) days after the deposit thereof in the mail.

To the Secured Party:

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Gerald M. Wetzler
c/o American Film Technologies, Inc.
300 Park Avenue
17th Floor
New York, NY 10022

To the Debtor:

American Film Technologies, Inc.
Gerald M. Wetzler
300 Park Avenue
17th Floor
New York, NY 10022

With a copy to:

Lee Mermelstein, Esq.
Jacobson & Mermelstein
52 Vanderbilt Avenue
14th Floor
New York, NY 10017

or to such other address as the addressee shall have furnished to the other parties hereto in the manner prescribed by the section.

6. CHOICE OF LAW

The validity of this Agreement, its construction, interpretation and enforcement, and the rights of the hereunder and concerning the Collateral, shall be determined under, governed by, and construed in accordance with the laws of the State of California.

7. GENERAL PROVISIONS

- 7.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns or each of the parties; provided, however, Party's or the Secured Party's prior written consent.
- 7.2 Heading. Section headings and section numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each section applies equally to this entire Agreement.

7 8.3 Severability. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

7 8.4 Amendment. This Agreement cannot be changed or terminated orally. All prior agreements, understandings, representations, warranties and negotiations, if any, are merged into this Agreement.

7 8.5 Representation by Counsel. The parties hereto, and each of them, represent and warrant that in executing this Agreement, they have had an opportunity to read and understand this Agreement and to discuss and review the Agreement and their legal rights and obligations with respect thereto and the subject matter thereof with independently selected legal counsel ("Counsel") and in negotiating and executing this Agreement have relied solely upon their own judgment, belief and knowledge, and on the advice and recommendations of Counsel concerning the nature, extent and duration of their rights and claims.

7 8.6 Construction. Interpretation. This Agreement shall not be construed against the party preparing it. Accordingly, any uncertainty or ambiguity shall not be interpreted against any one party and any rule of construction that a document is to be construed against the drafting party shall not be applicable.

7 8.7 Counterparts. This Agreement may be executed in Counterparts, each of which, when so executed and delivered, shall be an original; however, such counterparts together shall constitute but one and the same Agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed this Security Agreement as of the date first hereinabove written.

DEBTOR:

AMERICAN TECHNOLOGIES, INC., a California corporation

By: GERALD M. WETZLER
Name: Gerald M. Wetzler
Title: CHAIRMAN & CEO

Secured Party:

By: Gerald M. Wetzler

Schedule A

Patents and Patent Applications

Patent No. 4,984,072
Patent No. 5,093,717

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Schedule B

Copyrighted Films

Terror By Night
Dressed to Kill
Woman in Green
Sherlock Holmes & the Secret Weapon
Outpost in Morocco
Gung Ho
Eternally Yours
The Scarlet Pimpernel
Black Dragons
Scared to Death
White Zombie

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RECORDED: 03/01/1999

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