

01-28-2002

FORM PT-1595 (Substitute)

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HEET

U.S. DEPARTMENT OF COMMERCE

Patent Office

101962859

To the Director of U.S. Patent and Trademark Office: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):

Dennis D. Gold

1-16-02

Additional name(s) of conveying party(ies) attached? Yes No

2. Name and address of receiving party(ies):

Name: Pilgrim Coal Company

Address: 9 Parkway Center

City: Pittsburgh State: PA Zip: 51220

Additional name(s) & address(es) attached? Yes No

3. Nature of conveyance:

- Assignment
- Security Agreement
- Other
- Merger
- Change of Name

Execution Date: February 16, 1999

4. Application number(s) or patent number(s)

If this document is being filed together with a new application, the execution date of the application is: _____

A. Patent Application No(s).

B. Patent No(s).

U.S. Patent No. 5,759,411

Additional numbers attached? Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: Frederick H. Colen

REED SMITH LLP

Address: P.O. Box 488

City: Pittsburgh State: PA Zip: 15230

6. Total number of applications and patents involved: 2

7. Total fee (37 CFR 3.41): \$ 80.00

- Enclosed
- Authorized to be charged to deposit account
- Charge any deficiency to deposit account

8. Deposit account number: 18-0582

(Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

9. Statement and signature

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true and copy of the original document.

Frederick H. Colen
Name of Person Signing

Frederick H. Colen
Signature

11/29/99
Date

Total number of pages including cover sheet, attachments, and document: 16

Mail documents to be recorded with required cover sheet information to:
Director of the U.S. Patents & Trademark Office, Box Assignments
Washington, D.C. 20231

1. Additional Conveying Party(ies) Name(s) To Be Recorded

4.A Additional Patent Application Serial Numbers To Be Recorded

4.B Additional Patent Registration Numbers To Be Recorded

5,560,834

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made as of February 16TH, 1999, by SLURRY TECHNOLOGIES OPERATING, LLC, a Pennsylvania limited liability company, whose address is P.O. Box 209, 191 Howard Street, Franklin, Venango County, Pennsylvania 16323 ("STO"), SLURRY TECHNOLOGIES, INC., a Pennsylvania corporation having the same address as STO ("STI"), and DENNIS D. GOLD, an individual residing at 215 Big Oak Drive, Franklin, Pennsylvania 16323 ("Gold"), for the benefit of PILGRIM COAL COMPANY, a Pennsylvania corporation having an address of 9 Parkway Center, Pittsburgh, Pennsylvania 15220 ("Pilgrim").

BACKGROUND

On this date, STO, STI and Pilgrim have entered into a Loan Agreement pursuant to which Pilgrim, on and subject to the conditions stated in the Loan Agreement, has committed to lend \$ _____ to STO, in exchange for which STO and STI have issued a Judgment Installment Note in the principal amount of _____ (as the same may be amended from time to time, the "Note"), and STO, STI and Gold have entered with Pilgrim into a Patent Agreement (as the same may be amended from time to time, the "Patent Agreement"). By this Agreement, STO, STI and Gold are granting to Pilgrim a security interest to secure STO's and STI's performance of the Loan Agreement and the Note and STO's, STI's and Gold's performance of the Patent Agreement.

Gold is a 51% shareholder and the president of STI, and is the vice chairman and chief operating officer of STO, of which his wife, Bonny L. Gold, owns the controlling membership interest. As such, Gold will benefit from the loan and the other transactions contemplated by the Loan Agreement and the other documents executed and delivered in connection therewith.

AGREEMENT

In consideration of the aforesaid loan, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, STO, STI and Gold, for the benefit of Pilgrim, hereby covenant, agree and do as follows:

Article 1

DEFINITIONS AND GRANT OF SECURITY INTEREST

1.01 *Definitions.* As used in this Agreement:

(A) "UCC" means the Uniform Commercial Code as enacted in the Commonwealth of Pennsylvania and as the same may be amended from time to time, and any successor statute thereto.

(B) Capitalized terms not otherwise defined in this Agreement shall have the meaning given them in the UCC.

(C) "Secured Obligations" means:

(i) all indebtedness, together with all interest thereon, evidenced by the Loan Agreement or the Note, and any renewals, modifications and extensions thereof;

(ii) all obligations, together with all interest thereon, evidenced by the Patent Agreement, and any renewals, modifications and extensions thereof;

(iii) any sums advanced by Pilgrim under this Agreement, the Loan Agreement, the Note or the Patent Agreement or which may otherwise become due pursuant to the provisions of this Agreement, the Loan Agreement, the Note or the Patent Agreement.

(D) "FMRS" means Fine Material Recovery System as defined in the Patent Agreement.

(E) "Collateral" means:

(i) all STO's and STI's Inventory (including but not limited to FMRSs and component parts therefor, raw materials and work in progress therefor, finished goods thereof, and materials used or consumed in the manufacture, production, operation, maintenance or servicing thereof, but excluding Inventory installed or stored on property owned, leased or operated by any customer of STO or STI for the purpose of STO's or STI's providing goods or services to such customer, for which, under the Patent Agreement, either full payment has been made or no payment is due);

(ii) all FMRSs and FMRS components which STO or STI uses as Equipment, but excluding FMRSs installed or stored on property owned, leased or operated by any customer of STO or STI for the purpose of STO's or STI's providing goods or services to such customer, for which, under the Patent Agreement, either full payment has been made or no payment is due);

(iii) all STO's and STI's Accounts, whether arising from the sale or lease of FMRSs, the providing of fine material recovery services, or the sale or lease of other goods or services; provided, however, that STO's and STI's Accounts from the sale or rendering of services and chemicals (but not from the sale or lease of FMRSs or other inventory, equipment or other goods) shall cease to be Collateral upon termination of, and resolution of all claims and disputes arising under, that certain License Agreement made March 2, 1994, by STI and McLanahan Corporation, such that STI shall have the right to manufacture, use, sell, and service, and to license STO to manufacture, use, sell, and service, the "Particle Bonding Machine" and the "Automated Dredging System" (as those terms are defined in the aforementioned License Agreement), free and clear of all liens, claims, and encumbrances arising under or in connection with the aforementioned License Agreement;

(iv) United States Patent Number 5,759,411, dated June 2, 1998, issued to Gold and entitled "Mixing Drum for Slurry with High Suspended Solids Concentration"; and

(v) United States Patent Number 5,560,834, dated October 1, 1996, issued to Gold and entitled "Machine for Dewatering a Slurry of Ultrafine Solids";

together with all replacements, renewals, extensions, substitutes, accessions, additions and improvements thereto and Proceeds thereof (including insurance proceeds, whether now existing or hereafter acquired).

(F) "Guaranty" means that certain Instrument of Guaranty and Suretyship of even date herewith, given by Gold and Bonny L. Gold (the "Guarantors"), pursuant to which the Guarantors jointly and severally guarantee and become sureties for all of STO's, STI's and Gold's obligations hereunder and under the Loan Agreement, the Patent Agreement and the Note.

1.03 *Grant of Security Interest.* In accordance with the provisions of the UCC, to secure payment and performance of the Secured Obligations, STO, STI and Gold, as and to the extent that each has any rights in the Collateral, hereby grant and convey to Pilgrim a continuing security interest in and lien upon the Collateral.

1.04 *Subordination of Security Interest in Certain Accounts.* Pilgrim agrees that STO may grant to David J. Kellogg ("Kellogg") a security interest in 71% of the Accounts of STO arising from the management fee under that certain Fine Material Recovery Contract, dated October 1, 1997, as amended, subject to the following limitations:

(a) Kellogg shall be granted a security interest in only such of the foregoing Accounts as arise from and after the date that all obligations owing from STO to New England Capital Corporation under that certain Equipment Financing Agreement made as of November 2, 1998, have been paid in full;

(b) The security interest shall be granted only to secure payment of the outstanding principal balance under that certain \$ face-amount Judgment Note, dated June 30, 1997, made by STI, DBG Enterprises, Inc., and Gold in favor of Kellogg; and

(c) The amount secured shall not in any event exceed \$

Pilgrim agrees, for the benefit of Kellogg, that Pilgrim's security interest in the Accounts in which Kellogg is granted a security interest pursuant to the foregoing shall be subordinate to Kellogg's security interest in such Accounts to the extent provided in this Section 1.04. The granting of a security interest to Kellogg only in accordance with the provisions of this Section 1.04 shall not breach any covenant or condition of, or constitute an Event of Default under, the Loan Agreement or any of the other agreements, instruments and documents executed and delivered pursuant to the Loan Agreement, any provision therein to the contrary notwithstanding.

Article 2 COVENANTS

Until all of the Secured Obligations shall have been fully paid, satisfied and discharged:

2.01 *Payment and Performance of Secured Obligations.* Each of STO, STI and Gold shall pay or perform all Secured Obligations to be paid or performed by it, when due, as provided in the Loan Agreement, the Note, the Patent Agreement and this Agreement.

2.02 *Maintenance of Existence.* STO shall maintain its existence and good standing as a Pennsylvania limited liability company, and STI shall maintain its existence and good standing as a Pennsylvania corporation.

2.03 *Change of Name, Address or Principal Place of Business.* Neither STO nor STI will change its name, employer identification number, address or principal place of business without the written consent of Pilgrim first had and received. Gold will not change his name, social security number, or residence address without thirty (30) days' advance written notice to Pilgrim.

2.04 *Transfer of Collateral.* None of STO, STI or Gold shall remove any of the Collateral from Venango County, Pennsylvania, or sell, assign, give, lien, grant a security interest in, mortgage, pledge, hypothecate, encumber, lease, or otherwise transfer the Collateral, or any part of or interest in the Collateral, voluntarily or involuntarily, except in the ordinary course of STO's business or as provided in the Patent Agreement, without Pilgrim's prior written consent first had and received.

2.05 *Filing Fees.* STO, STI and Gold shall pay or reimburse to Pilgrim all filing fees payable in connection with the filing of the financing statements and continuation statements necessary to perfect or continue the perfection of Pilgrim's security interest in the Collateral.

2.06 *Insurance* STO, STI and Gold shall keep the Inventory and Equipment included in the Collateral insured by carriers at all times satisfactory to Lender against loss by fire, and other hazards as is normally maintained by prudent manufacturers, with customary deductibles, with insurance companies having a Best's Rating of A+ and licensed to do business in the Commonwealth of Pennsylvania and otherwise as Pilgrim shall from time to time reasonably require. Pilgrim shall be named an "additional insured" under each such policy maintained by STO, STI and Gold. STO, STI and Gold shall promptly furnish to Pilgrim a certificate evidencing the existence of such insurance, and all renewal notices and all receipts of paid premiums. At least thirty (30) days prior to the expiration date of a policy, STO, STI and Gold shall deliver to Pilgrim a renewal certificate in form satisfactory to Pilgrim. In the event of loss, STO, STI and Gold shall give immediate written notice to the insurance carrier and to Pilgrim.

2.07 *Inspection.* Pilgrim may make or cause to be made reasonable entries upon and inspections of STO's and STI's manufacturing facilities and other properties, provided that such inspections will not unreasonably disturb the conduct of STO's and STI's respective businesses.

2.08 *Books and Records; Financial Reports.* STO and STI shall each keep and maintain at all times at its address stated above, or such other place as Pilgrim may approve in writing, complete and accurate books of accounts and records adequate to reflect correctly the results of its operations and copies of all written sales contracts, equipment leases, purchase orders, invoices, shipping records and other instruments pertaining thereto. Such books, records,

contracts, leases, purchase orders, invoices and other instruments shall be subject to examination and inspection at any reasonable time by Pilgrim. STO and STI shall each furnish to Pilgrim within thirty (30) days after the end of each of the first three month quarters of each fiscal year, a balance sheet, a statement of income and expenses and a statement of changes in financial position, each in reasonable detail, each prepared in accordance with generally accepted accounting principles, consistently applied ("GAAP"), and each certified by Gold. STO and STI shall each furnish to Pilgrim within thirty (30) days after the end of each fiscal year, a balance sheet, a statement of income and expenses and a statement of changes in financial position, each in reasonable detail, each prepared in accordance with GAAP and each certified by an independent certified public accountant acceptable to Pilgrim.

2.09 *Additional Covenants.* STO, STI and Gold hereby covenant, agree and undertake to:

(a) from time to time, at the request of Pilgrim, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Agreement, the Loan Agreement, the Note, the Patent Agreement and/or any UCC Financing Statement executed, delivered and filed in connection with the transactions contemplated hereby, or by the Loan Agreement, the Note or the Patent Agreement; (ii) execute, acknowledge, deliver and record and/or file such further documents or instruments (including, without limitation, further security agreements, financing statements and continuation statements, and collateral assignments in form acceptable for filing with the United States Patent and Trademark Office) and perform such further acts and provide such further assurances as may be necessary, desirable or proper, in Pilgrim's opinion, to carry out more effectively the purposes of this Security Agreement, the Loan Agreement, the Note and/or the Patent Agreement and such other documents and instruments and to subject to the liens and security interests hereof and thereof any property intended by the terms hereof or thereof to be covered hereby or thereby, including specifically, but without limitation, any renewals, extensions, additions, substitutions, replacements, or appurtenances to the Collateral; provided that such documents or instruments do not materially increase STO's, STI's or Gold's liability under the Loan Agreement, the Note, the Patent Agreement or this Agreement; and (iii) execute, acknowledge, deliver, procure, and file and/or record any document or instrument (including specifically, but without limitation, any financing statement or collateral assignment in form acceptable for filing with the United States Patent and Trademark Office) deemed advisable by Pilgrim to protect the liens and the security interests herein granted against the rights or interests of third persons; provided that such documents or instruments do not materially increase STO's, STI's or Gold's liability under the Loan Agreement, the Note, the Patent Agreement or this Agreement. STO, STI or Gold will pay all reasonable costs connected with any of the foregoing;

(b) at any time any law shall be enacted imposing or authorizing the imposition of any tax upon this Agreement, or upon any rights, titles, liens or security interests created hereby, or upon the obligations secured hereby or any part thereof (other than a tax on Pilgrim's income), immediately pay all such taxes; provided that, if such law as enacted makes it unlawful for STO, STI or Gold to pay such tax, such party shall not pay nor be

obligated to pay such tax, and in the alternative, if no such party may lawfully pay such tax, each of STO, STI, and Gold may, in the event of the enactment of such a law, and must, if it is unlawful for such party to pay such taxes, prepay or perform the obligations to be paid or performed by it or him secured hereby in full within sixty (60) days after demand therefor by Pilgrim;

(c) pay on demand all reasonable and bona fide out-of-pocket costs, fees and expenses and other expenditures, including, but not limited to, reasonable attorneys' fees and expenses, paid or incurred by Pilgrim to third parties incident to the enforcement of, or the exercise of any right or remedy under, this Agreement, the Loan Agreement, the Note, the Patent Agreement, or the Guaranty (including, but not limited to, reasonable attorneys' fees and expenses in connection with the negotiation, preparation and execution of any amendment to the Loan Agreement, the Note, the Patent Agreement, or the Guaranty requested by STO, STI or Gold, or in connection with any release hereof or thereof, or any consent, approval or waiver hereunder or thereunder);

(d) not allow any lien, security interest, pledge or other encumbrance to be perfected against the Collateral or any portion thereof, whether superior or inferior to Pilgrim's security interest therein and thereon, and promptly discharge any such lien, security interest, pledge or other encumbrance;

(e) operate, maintain and keep the Collateral and all STO's and STI's real and personal property in compliance with all applicable laws; and

(f) generally operate STO's and STI's businesses in a manner designed to maximize sales and leases of FMRSs and the sale of services in which FMRSs are used.

Article 3

REPRESENTATIONS AND WARRANTIES

3.01 *Representations and Warranties of STO, STI and Gold.* Each of STO, STI and Gold hereby represents and warrants to Pilgrim, its successors and assigns, as follows:

(a) STO is a limited liability company, duly formed, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. There are no proceedings or actions pending, threatened or contemplated for the liquidation, termination or dissolution of STO. STI is a corporation, duly formed, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. There are no proceedings or actions pending, threatened or contemplated for the liquidation, termination or dissolution of STI.

(b) The Collateral is owned by STO, STI and/or Gold and is free and clear of any and all liens, claims, encumbrances, security interests, pledges and rights of third persons whatsoever and whomsoever.

(c) Neither STI nor STO owns any real property or presently contemplates the acquisition of any real property. To the knowledge of STO, STI and Gold: the current and contemplated uses of all of real property leased by STO or STI are in compliance with

all applicable federal, state and municipal laws, rules, regulations or ordinances; no governmental authority having jurisdiction over any aspect of such property has made a claim or determination that there is any such violation.

(d) There have been no material adverse changes, financial or otherwise, in the condition of STO, STI or the Guarantors from that previously disclosed to Pilgrim, or in any supporting data submitted to Pilgrim in connection with the transactions contemplated hereby, or by the Loan Agreement, the Note or the Patent Agreement, and all of the information contained therein was true and correct when submitted and is now substantially and materially true and correct on the date hereof.

(e) There is no claim, litigation or condemnation proceeding pending, or, to the knowledge of the STO, STI or Gold, threatened, against any real or personal property of STO, STI or either Guarantor, which would affect the Collateral, or affect the ability of any of STO, STI or Gold to perform its or his obligations hereunder or under the Loan Agreement, the Note or the Patent Agreement, or the Guarantors' ability to perform their obligations under the Guaranty.

(f) Bankruptcy proceedings were filed in 1989 against the Guarantors and against a business in which they were principals, Golden Pride Farms, Ltd., which proceedings were dismissed in 1990. No other proceeding in bankruptcy or insolvency has ever been instituted by or against STO or STI or any affiliate of either of them, or by or against either Guarantor, and no such proceeding is now pending or contemplated.

(g) STO, STI and the Guarantors are solvent pursuant to the laws of the United States, as reflected, in the case of STI and STO, by the entries in their respective books and records and as reflected by the actual facts.

(h) The Loan Agreement, the Note, the Patent Agreement and this Agreement have been duly authorized, executed and delivered by STO and STI and constitute valid and binding obligations of STO and STI, enforceable against STO and STI in accordance with their respective terms. No approval, consent, order or authorization of any governmental authority and no designation, registration, declaration or filing with any governmental authority is required in connection with the execution and delivery of the Loan Agreement, the Note, the Patent Agreement, this Agreement or any other document or instrument executed and delivered in connection with the transactions contemplated hereby and by the Note and the Patent Agreement, except for the filing and approval of Forms 203-D with the Pennsylvania Securities Commission and the possible filing of Forms D with the United States Securities and Exchange Commission.

(i) The execution and delivery of this Agreement, the Loan Agreement, the Note and the Patent Agreement will not violate or contravene in any way the certificate of organization or operating agreement of STO, the articles of incorporation or bylaws of STI, or any indenture, agreement or instrument to which STO, STI or either Guarantor is a party or by which it, they, its or their property may be bound, or be in conflict with, result in a breach of or constitute a default under any such indenture, agreement or other instrument, result in the creation or imposition of any lien, charge or encumbrance of any

nature whatsoever upon any of the property or assets of STO, STI or either Guarantor, except as contemplated by the provisions of this Agreement, the Note, the Loan Agreement, the Patent Agreement and the Guaranty, and no action or approval with respect thereto by any third person is required.

(j) The Loan Agreement and the other agreements, instruments, certificates and documents made or to be made pursuant to the Loan Agreement contain no untrue statement of a material fact and do not omit to state a material fact necessary in order to make the statements made not misleading. In connection with the negotiation and making of the Loan Agreement and the other agreements, instruments, certificates and documents made or to be made pursuant to the Loan Agreement, none of STO, STI or Gold has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

Article 4 DEFAULT AND REMEDIES

4.01 *Events of Default.* The occurrence of any of the following events shall constitute an "Event of Default" hereunder:

(a) There occurs any Event of Default under the Loan Agreement, the Note or the Patent Agreement;

(b) Any representation or warranty of STO, STI or Gold contained herein, or in the Loan Agreement, the Note or the Patent Agreement, or any representation of either Guarantor contained in the Guaranty, shall be or have been false or misleading in any material respect;

(c) STO, STI or Gold shall default in the performance or observance of any of the provisions of Sections 2.02 through 2.06 hereof; or

(d) Any of STO, STI or Gold fails to cure any failure to perform its or his obligations under this Agreement within fifteen (15) days after Pilgrim has given STO written notice of such failure.

4.02 *Rights and Remedies of Pilgrim.* If an Event of Default occurs, Pilgrim may, at the option of Pilgrim and notwithstanding any contrary provisions in the Loan Agreement, the Note, the Patent Agreement or this Agreement, (i) exercise the rights of a secured party under Division 9 of the UCC, including without limitation the right to require STO, STI and Gold to assemble the Collateral and make it available to Pilgrim at a designated place reasonably convenient for disposition; (ii) cure the default in any reasonable manner and add the cost of any such cure to the Secured Obligations and accrue interest thereon at the rate then being charged by Pilgrim under the Note; (iii) upon five days prior written notice to STO (or sixty (60) days prior written notice with respect to the patents which are included in the Collateral), which notice STO, STI and Gold acknowledge is sufficient, proper and commercially reasonable, sell, lease or otherwise dispose of the Collateral, at any time and from time to time, in whole or in part, at public or private sale, without advertisement or notice of sale (except in

the case of the patents, the sale or assignment of which shall be made only upon sixty (60) days prior written notice stating the terms of the sale or assignment), all of which are hereby waived (subject to the limitations stated parenthetically herein); (iv) institute and maintain an action on any instruments evidencing the Secured Obligations or any portion thereof; (v) pay or perform, for STO's, STI's or Gold's account, any such obligation and add the cost thereof (including, without limitation, reasonable attorneys' fees) to the obligations secured hereby, and (vi) take such other action at law or in equity for the enforcement of the Loan Agreement, the Note, the Patent Agreement or this Agreement as the law may allow.

4.03 Remedies Cumulative, Waiver, Marshaling of Collateral. All remedies contained in this Agreement are cumulative, and Pilgrim also shall have all other remedies provided by law or in equity. No delay or failure by Pilgrim to exercise any right or remedy under this Agreement will be construed to be a waiver of that right or remedy or a waiver of any Event of Default. The waiver of any Event of Default, or Pilgrim's failure to exercise any right or remedy hereunder, shall not be deemed a waiver of any subsequent Event of Default or of the right to exercise that or any other right or remedy available to Pilgrim. Pilgrim may exercise any one or more of their rights and remedies without any obligation to STO, STI, Gold or any third party to marshal its collateral.

4.04. Action by Pilgrim. In addition to the foregoing, if any of STO, STI or Gold fails to perform the covenants and agreements to be performed by it or him as provided in this Agreement, the Loan Agreement the Note or the Patent Agreement, or if any action or proceeding is commenced which affects the Collateral or title thereto or the interest of Lender therein, including, but not limited to, insolvency, or arrangements or proceedings involving a bankrupt or decedent, then Pilgrim at Pilgrim's option may make such appearances, disburse such sums and take such action as Pilgrim deems necessary, in its sole discretion, to protect Pilgrim's interest, including, but not limited to, (a) disbursement of attorneys' fees and (b) procurement of satisfactory insurance as provided in Section 2.05 hereof. Any amounts disbursed by Pilgrim pursuant to this Section 4.04, with interest thereon, shall become additional indebtedness of STO, STI and Gold secured by this Agreement. Unless Pilgrim agrees to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at the Default Rate stated in the Note unless collection of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from the party in question under applicable law. STO, STI and Gold hereby covenant and agree that Pilgrim shall be subrogated to any lien discharged, in whole or in part, by the indebtedness secured hereby. Nothing contained in this Section 4.04 shall require Pilgrim to incur any expense or take any action hereunder.

Article 5 MISCELLANEOUS MATTERS

5.01 Further Assurances. Each party hereto agrees to execute such further assurances as may be requested by any other party for the purpose of further evidencing, carrying out or confirming this Agreement, the satisfaction thereof, or any other purpose intended by this Agreement. Each of STO, STI and Gold agrees to execute financing statements and con-

tinuation statements in recordable form to evidence the security interest granted to Pilgrim by this Agreement, and to cause the same to be filed at the expense of STI, STO or Gold.

5.02 Notices. All notices hereunder shall be given in the manner provided in the Note.

5.03 Status of Parties. It is understood and agreed that the relationship of the parties is that of debtor and creditor and that nothing herein shall be construed to constitute a partnership, joint venture, co-tenancy or any other similar arrangement between Pilgrim, on the one hand, and STO, STI or Gold, on the other hand.

5.04 Severability. In the event any one or more of the provisions contained in this Agreement shall for any reason be held to be inapplicable, invalid, illegal or unenforceable in any respect, such inapplicability, invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such inapplicable, invalid, illegal or unenforceable provision had never been contained herein.

5.05 Waiver of Statute of Limitations. Each of STO, STI and Gold hereby waives the right to assert any statute of limitations as a bar to the enforcement of the security interest granted by and the lien of this Agreement or to any action brought to enforce the Loan Agreement, the Note, the Patent Agreement or any other obligation secured by this Agreement

5.06 Waiver of Jury Trial. EACH OF STO, STI AND GOLD HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT OR HE MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONJUNCTION WITH THE LOAN AGREEMENT, THE NOTE, THE PATENT AGREEMENT, THIS AGREEMENT, ANY OTHER DOCUMENT OR INSTRUMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF PILGRIM.

5.07 Successors and Assigns. All of the grants, covenants, terms, provisions and conditions herein shall run with the land and shall apply to, bind and inure to the benefit of the heirs, personal representatives, successors and assigns of STO, STI, Gold and Pilgrim; provided, however, that none of STO, STI or Gold shall have any right to assign his or its rights or delegate his or its duties hereunder or under the Loan Agreement, the Note or the Patent Agreement.

5.08 Headings. The headings in this Agreement are for convenience of reference only, are not part of this Agreement, and are not to be used in interpreting this Agreement.

5.09 No Oral Modification. This Agreement may be modified, amended, discharged or waived only by an agreement in writing, signed by all of the parties hereto.

5.10 Defeasance. Upon satisfaction in full of the Secured Obligations, this Agreement shall become void.

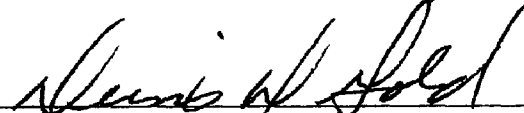
5.11 Conditions Precedent to Pilgrim's Obligations. Pilgrim's obligation to fund the loan evidenced by the Note, and to otherwise consummate the transactions contemplated by the Loan Agreement, the Note, the Patent Agreement and this Agreement shall be subject to

the delivery to Pilgrim, on or prior to the date of closing the first advance under the Loan Agreement of (a) an opinion of counsel for STO, STI, and Guarantors, in substantially the form attached hereto as Exhibit A, (b) UCC, judgment and lien searches of all applicable public records in Venango County, Pennsylvania and the Office of the Secretary of State of the Commonwealth of Pennsylvania showing the complete absence of UCC-1 financing statements, liens and judgments filed against STO, STI, the Guarantors and/or any of their respective properties (other than liens and judgments with respect to which STO, STI or Gold has obtained releases or which secure obligations to be satisfied in full out of the proceeds of such first advance, as contemplated in the Loan Agreement), (c) a search of the records of the applicable federal bankruptcy court, showing no bankruptcy filings, whether past or current, by or against STO, STI, or either Guarantor, except as provided in Section 3.01(f) hereof, (d) a certificate issued by the Secretary of State of the Commonwealth of Pennsylvania showing STO to be a duly formed and subsisting limited liability company in said Commonwealth, and (e) a printout of the on-line records of the Secretary of State of the Commonwealth of Pennsylvania showing STI to be a duly formed and subsisting corporation in said Commonwealth. Pilgrim's obligation to make further advances shall be subject to the fulfillment of the conditions specified in Section 3 of the Loan Agreement.

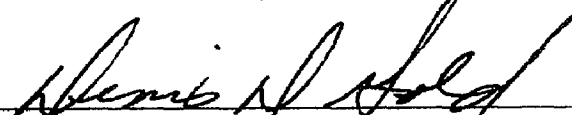
5.12 *Joint and Several Liability.* The obligations of STO, STI and Gold under this Agreement are both joint and several.

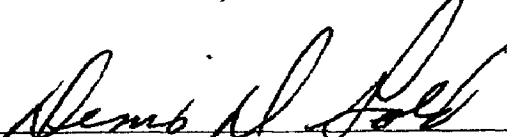
IN WITNESS WHEREOF, STO, STI, Gold and Pilgrim, intending to be legally bound hereby, have executed this Agreement as of the day and year first above written with the intention that this Agreement shall constitute a sealed instrument.

SLURRY TECHNOLOGIES OPERATING, LLC

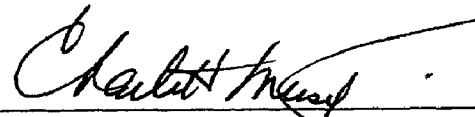
By: 
Dennis D. Gold, Vice Chairman

SLURRY TECHNOLOGIES, INC.

By: 
Dennis D. Gold, President


Dennis D. Gold

PILGRIM COAL COMPANY

By: 
Charles H. Muse, President