

BOX ASSIGNMENTS JUL 29 2003

08-01-2003

DO NOT USE FOR TRADEMARKS



102514241

TO THE DIRECTOR OF THE U.S. PATENT AND
SIR: PLEASE RECORD THE ATTACHED ORIGINAL

1. NAME OF CONVEYING PARTY(IES) (ASSIGNOR(S)):

1. MARINE DESALINATION SYSTEMS, L.L.C.

3.

5.

7.

ADDITIONAL NAME(S) OF CONVEYING PARTY(IES) ATTACHED? ☐ YES ☒ NO

2. PARTY(IES) (ASSIGNEE(S)) RECEIVING INTEREST:

NAME: Thomas J. Bauch

ADDRESS: One Maritime Plaza, Suite 1450, San Francisco CA 94111

ADDITIONAL NAME(S) & ADDRESS(ES) ATTACHED? ☐ YES ☒ NO

3. NATURE OF CONVEYANCE (DOCUMENT):

(Submit herewith only one document for recordation—multiple copies of same Assignment signed by different inventors is one document)☐ ASSIGNMENT OF☐ WHOLE☐ PART INTEREST☐ ORIGINAL☒ FACSIMILE/PHOTOCOPY☐ CHANGE OF NAME☐ VERIFIED TRANSLATION☒ SECURITY ☐ MERGER☒ OTHER: Plus first Amendment thereto.

EXEC. DATE: August 28, 2001

EXECUTION DATE(S) ON THE DECLARATION IF FILED HEREWITH: (NOTE: IF DATES ON DECLARATION AND ASSIGNMENT DIFFER SEE ATTY!)

4.5 APPL. NO.(S) OR PAT NO.(S). OTHERS ON ADDITIONAL SHEET(S) attached? ☐ YES ☐ NO

| A. PAT. APP. NO.(S) series code/serial no. | M# | 1 st INVENTOR if not in item 1 | B. PATENT NO(S) | M# | 1 st INVENTOR if not in item 1 |
|---|---------|--|-----------------|----|--|
| 10/603,600 | 0304000 | MAX | | | |

5. Name & Address of Party to Whom Correspondence
Concerning Document Should be Mailed:Pillsbury Winthrop LLP
Intellectual Property Group
P.O. Box 10500 McLean, VA 22102

6. NUMBER INVOLVED:

APPLNS 1 + PATS 0 = TOTAL = 1

7. AMOUNT OF FEE DUE: (Code 581)

ABOVE TOTAL x \$40 = \$40

5.5 ATTY DKT:

P 0304000

8. PLEASE CHARGE TO OUR DEPOSIT ACCOUNT

NUMBER: 03-3975

UNDER ORDER NO

018984

0304000

MATTER NO.

CLIENT REF.

dup. sheet not required

CLIENT NO.

MATTER NO.

9. 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.

10. Total number of pages including this
cover sheet, attachments and document
(do not file dup. Cover sheet)

14

Signature

Attorney: Kenneth M. Fagin

Reg. No. 37,615

Date: July 29, 2003

Atty/Sec: KMF/emg

TEL: (703) 905-2066

FAX: (703) 905-2500

FILE WITH PTO RETURN RECEIPT (PAT-103A)

07/31/2003 LNUELLER 00000131 033975 10603600

01 FC:8021

40.00 BA

SECURITY AGREEMENT

This Security Agreement is made effective August 28, 2001, by and among Thomas J. Bauch, an individual (the "Secured Party"), and Marine Desalination Systems, LLC, a Delaware limited liability company ("Grantor").

WHEREAS, the parties hereto are parties to a Loan Agreement dated as of the date hereof (the "Loan Agreement");

WHEREAS, a Promissory Note (the "Note"), dated as of the date hereof, is being executed pursuant to the Loan Agreement;

WHEREAS, the Secured Party is the "Lender" under the Loan Agreement and the Grantor is the "Borrower" under the Note;

WHEREAS, the execution of this Security Agreement is a condition to the Secured Party making the loan in the aggregate of up to \$250,000.00 under the Loan Agreement and Note (the "Loan"); and

WHEREAS, the Grantor will derive benefit from the Loan and desires to execute this Security Agreement.

NOW THEREFORE, pursuant to the terms of the Loan Agreement and in consideration of the premises and for other good and sufficient consideration, the receipt and sufficiency of which is acknowledged, the Grantor and the Secured Party, intending to be legally bound, agree as follows:

1. Grant of Security Interest and Collateral. The Grantor, on the terms set forth in this Agreement, hereby pledges, assigns and grants to the Secured Party a continuing, first-priority security interest in and lien on all of the following described properties, assets and rights of the Grantor (hereinafter sometimes called, collectively, the "Collateral"):

1.1. All Accounts, as defined by Section 28:9-106 of the D.C. Code;

1.2. All intellectual property, including, but not limited to, any patents, copyrights, trademarks or service marks, whether registered or not, and any pending or subsequent registration applications for same; and

1.3. All contract rights to intellectual property, including, but not limited to, any licenses for such rights,

in each and every case whether now owned or hereafter acquired by the Grantor and howsoever its interests may arise or appear

2. Obligations Secured. The Collateral hereunder constitutes and will constitute continuing security for and secures the payment and performance in full of all of the Grantor's

obligations under the Loan Agreement, the Note, and this Security Agreement (the "Obligations").

3. Security: Covenant and Warranty as to Priority. The security provided by this Security Agreement shall not in any way be affected by the existence or creation at any time or times on or after the date of this Security Agreement of any claim, defense, right of set-off or counterclaim of any nature whatsoever of the Grantor against the Secured Party. All costs and expenses specified in sections 4 and 13 hereof shall first be paid before any proceeds of the Collateral are applied to any other Obligations. The Grantor covenants and warrants to the Secured Party that, except for financing statements expressly consented to by the Secured Party, there shall be no financing statement, security agreement or similar document on file in any public office covering any of the Collateral and signed by or on behalf of the Grantor which names any person other than the Secured Party as secured party; and, so long as any amount remains unpaid with respect to any of the Obligations, the Grantor will not execute and there shall not be on file in any public office any financing statement or statements signed by or on behalf of the Grantor covering any of such Collateral, except the financing statements filed or to be filed in respect of the security interests herein granted.

4. Option to Perform Obligations of the Grantor in Respect of Collateral. The Secured Party may at any time (but shall not be obligated to) discharge taxes, liens or security interests or other encumbrances at any time levied or placed on the Collateral, pay for insurance on the Collateral, and pay for the maintenance and preservation of the Collateral; and, should the Grantor fail or refuse to make any other payment or perform any other action which the Grantor is obligated hereunder or under the Loan Agreement or the Note, to make, observe, take or do, then the Secured Party may, at its option, without notice to or demand upon the Grantor and without releasing the Grantor from any obligation, covenant or condition hereof, make, perform, observe, take or do the same in such manner and to such extent as the Secured Party may in its discretion reasonably deem necessary to protect the security of this Agreement. The Grantor agrees to reimburse the Secured Party, on demand by the Secured Party, for any payments made or any expenses incurred by the Secured Party pursuant to the foregoing authorization, and the Grantor agrees further to pay interest on such payments or expenses at the annual rate of interest, which shall at all times be equal to eighteen percent (18%) per annum (or, if less, the maximum rate permitted by applicable law) from the date of said payments or expenditures to the date of such reimbursement.

5. Perfection and Administration. In order to perfect the rights of the the Secured Party in the security interests granted and to be granted hereunder and to assure to the Secured Party the further protection and effective administration of its interests hereunder, Borrower shall:

5.1. execute and deliver to the Secured Party for filing such financing statements, amendments, and continuation statements as the Secured Party may, from time to

time, present to Borrower, including the UCC-1 Financing Statement, attached hereto as Exhibit 1, and Form PTO-1595 (Recordation Form Cover Sheet), attached hereto as Exhibit 2, and execute and deliver to the Secured Party any assignment, endorsement, hypothecation agreement, instrument or other writing that the Secured Party may determine to be necessary or convenient in order to perfect or protect the security interests in, or facilitate the collection of, the Collateral, or that may be necessary otherwise to carry out the terms of this Agreement; and

5.2. permit the Secured Party, by its representatives and agents, upon reasonable notice to the Grantor, to inspect any of the properties, including, without limitation, corporate or company books, computer files and tapes and financial records of the Grantor, to examine and make copies of the books of account and other financial records of the Grantor, and to discuss the affairs, finances and accounts of the Grantor with, and to be advised as to the same by, its officers at such reasonable times and intervals as the Secured Party may designate; provided that the confidentiality of such books, records, receipts and other data, maintained as confidential by Grantor, shall be protected against any disclosure that is not relevant to the protection or enforcement of the Secured Party's interests hereunder or required by legal process or by governmental authorities having jurisdiction over the Secured Party; and provided that no disclosures prohibited by law shall be made.

6. Grantor's Representations, Warranties, and Covenants. The Grantor hereby represents, warrants and covenants to and with the Secured Party that on the date hereof and at all times during the term hereof, and so long as any Obligation is outstanding, unless the Secured Party otherwise agrees in writing it shall be bound by each of the following:

6.1. The Grantor is and will be at all times validly existing and in good standing under the laws of the Delaware.

6.2. The Grantor will not assign, transfer, forfeit, surrender or otherwise dispose of any rights constituting Collateral without ten (10) days' prior written notice to the Secured Party. The Grantor will not remove any documents evidencing any Collateral from the Grantor's principal office without ten (10) days' prior written notice to the Secured Party. The Grantor shall promptly furnish to the Secured Party written notice of each patent, copyright, trademark or service mark, or any applications for same, in which the Grantor may acquire any right, title or interest.

7. Further Assurances.

7.1. By the Grantor. The Grantor agrees that, at any time and from time to time, it will make, execute or endorse, acknowledge, deliver and/or file all such vouchers, invoices, notices and certifications and additional agreements, undertakings, conveyances, transfers, assignments, financing statements, continuation statements or further assurances and take any and all such action, as and when the Secured Party may from time to time, in good faith.

reasonably deem necessary or proper to perfect and/or otherwise protect the security interests and liens created hereby or to enable the Secured Party to obtain the full benefit of this Security Agreement and the rights and powers herein granted, accompanied by such endorsements or powers as the Secured Party may request. All filing or other fees or costs relating to the foregoing and for prior lien searches shall be expenses payable by the Grantor on demand under section 13 hereof. The Grantor agrees to execute and deliver to the Secured Party from time to time, upon the Secured Party's request, all such documents and instruments, including financing statements, supplemental security agreements, notices of assignments under statutes and regulations, and to take all such action, as the Secured Party may, in good faith, reasonably deem necessary or proper to perfect or otherwise preserve and protect the security interests and liens created hereby.

7.2. By the Secured Party. Upon the termination of the security interests created by this Agreement and provided that no proceedings in the bankruptcy, insolvency or liquidation of the Grantor shall be continuing at the time, the Secured Party shall, at the Grantor's expense, return to the Grantor all (if any) Collateral then held by the Secured Party hereunder, together with Uniform Commercial Code Form UCC-3 termination statements and reassignments relating thereto.

8. Power of Attorney. The Grantor hereby irrevocably constitutes and appoints the Secured Party as its attorney in fact, with full power of attorney and full power of substitution, in the Secured Party's discretion and without any further act of the Grantor, to take any or all action and to execute and deliver in the name and on behalf of the Grantor any and all financing statements, mortgages, supplemental security agreements and other documents to perfect and otherwise protect and preserve the security interests created hereunder, and, from and after the time the Secured Party shall have given the Grantor written notice of the occurrence of any Event of Default and of the Secured Party's decision to exercise certain of its rights and remedies hereunder (a "Notice of Default"), to convert the Collateral into cash pursuant to section 9 below, at the sole cost and expense of the Grantor, but solely for the benefit of the Secured Party. The rights and powers granted the Secured Party by this appointment include, but are not limited to, the rights and powers to compromise, settle or execute releases with any of the Grantor's account debtors, and to prosecute, defend, compromise or release any action relating to the Collateral; to receive and open all mail addressed to the Grantor and to take therefrom any remittances on or proceeds of the Collateral in which the Secured Party has a security interest; to notify Post Office authorities to change the address for delivery of mail addressed to the Grantor to such address as the Secured Party shall designate; to endorse the name of the Grantor in favor of the Secured Party upon any and all checks, drafts, money orders, notes, acceptances or other instruments of the same or different nature; to sign and endorse the name of the Grantor on, and to receive as secured party, any of the Collateral, any invoices, schedules of Collateral, freight or express receipts, or bills of lading, storage receipts, warehouse receipts or other documents of title of a same or different nature relating to the Collateral; to sign the name of the Grantor on any notice to the account debtors or on verification of the Collateral; and to sign and file or record on behalf of

the Grantor any financing or other statements in order to perfect or protect the Secured Party's security interests. The Secured Party shall not be obligated to do any of the acts or exercise any of the powers hereinabove authorized, but, if the Secured Party elects to do any such act or exercise any such powers, it shall not be accountable for more than it actually receives as a result of such exercise of power, and it shall not be responsible to the Grantor except for gross negligence, willful misconduct or bad faith. All powers conferred upon the Secured Party by this Agreement, being coupled with an interest, shall be irrevocable so long as this Agreement remains in effect and/or as long as any Obligation shall remain unpaid, whichever is longer. In particular, the Grantor acknowledges the Secured Party's continuing right, to the extent permitted by applicable law, singly to execute and file financing statements without execution by the Grantor. The Secured Party shall promptly notify the Grantor of each action taken by it in reliance on the powers granted hereunder; provided, however, that any failure by the Secured Party to give such notice shall not affect the validity of any such action.

9. Event of Default and Remedies. As used herein, "Event of Default" means any "Event of Default" as defined in the Note, or any other occurrence which, alone or with the giving of notice or the lapse of time or both, would give the holder of the Note the right to declare the amount of the Note to be immediately due and payable. At any time after a notice of an Event of Default shall have been given to the Grantor, then, to the fullest extent permitted by applicable law:

9.1. The Secured Party shall have, in addition to all other rights and remedies given to the Secured Party by this Agreement and otherwise allowed by law, the rights and remedies of a secured party under the Uniform Commercial Code as enacted in any jurisdiction in which the Collateral may be located, and, without limiting the generality of the foregoing, the Secured Party may immediately, without (to the fullest extent permitted by law) demand of performance or advertisement or notice of intention to sell or of the time or place of sale or of redemption or other notice or demand whatsoever to the Grantor, all of which are hereby expressly and irrevocably waived by the Grantor to the fullest extent permitted by law, sell at public or private sale or otherwise realize upon, in any place or at any location, the whole or from time to time any part of the Collateral in or upon which the Secured Party shall have a security interest or lien hereunder, or any interest which the Grantor may have therein, and, after deducting from the proceeds of sale or other disposition of the Collateral all costs and expenses (including all reasonable expenses for legal services) as provided in sections 4 and 12, the Secured Party shall apply the residue of such proceeds toward the payment of the Obligations, the Grantor remaining absolutely liable for any deficiency remaining unpaid after such application. The Secured Party shall notify the Grantor, in writing, at least ten (10) days before the time of any intended public sale, private sale or other disposition of the Collateral is to be made. The Grantor agrees to assemble the Collateral at such place or places as the Secured Party designates by written notice and consents to the entry by the Secured Party or its agents upon the premises where any of the Collateral may be and the taking of possession thereof. At any such sale or other disposition, the Secured Party may itself purchase the whole or any part of the Collateral

sold, free from any right of redemption on the part of the Grantor, which right is hereby waived and released to the fullest extent permitted under applicable law:

9.2. The Grantor recognizes that the Collateral may not be readily marketable and may not be marketable at all if any Event of Default shall occur and be continuing. In order, therefore, to enable the Secured Party to use such means as the Secured Party may determine necessary or advisable to realize upon the Collateral from time to time, and in order to induce the Secured Party to extend credit to the Borrowers pursuant to the Loan Agreement and Note, the Grantor hereby absolutely and irrevocably consents that the Secured Party may use whatever means the Secured Party may reasonably consider necessary or advisable to sell any or all of the Collateral at any time or times after the security constituted by this Agreement shall have become enforceable, including, without limitation, the giving of options to purchase any or all of the Collateral and the sale on credit to any purchaser of any of such Collateral. Because there may be no established market for the Collateral and because it may be unlikely that any person will become or be interested in purchasing any of the Collateral as a result of the giving of any notice of public sale, the Grantor agrees that any sale of any of the Collateral may be private and without competitive bidding;

9.3. The Grantor shall, upon the request of the Secured Party, take or cause to be taken, in good faith and promptly, and without any cost or expense to the Secured Party, all such action as may be necessary or desirable to sell or to effect the sale of all or a part of the Collateral as soon as reasonably practicable. Such action shall include but shall not be limited to the following:

9.3.1. the Grantor shall use its best efforts to prepare and deliver to the Secured Party within thirty (30) days after a request by the Secured Party a written plan for the sale or other disposition of such Collateral, which plan shall be reasonably satisfactory in form and substance to the Secured Party;

9.3.2. the Grantor shall retain such accountants, appraisers and other consultants and experts who are reasonably acceptable to the Secured Party to make recommendations with respect to and to assist the Grantor in such sale, and the Grantor shall cause such accountants, appraisers and other consultants and experts to furnish the Secured Party with all such financial reports, appraisals, opinions and other documents which the Secured Party shall reasonably request; and

9.3.3. if (and on each occasion that) the Grantor shall receive from any person an offer to purchase any of the Collateral, the Grantor shall furnish or cause to be furnished to the Secured Party a written notice setting forth the full particulars thereof, including, but not limited to, (a) the name and address of such person, and (b) the terms of such offer to purchase.

9.4. Each purchaser of all or any part of the Collateral, and the agreement entered into between such purchaser and the Grantor providing for the purchase and sale of such Collateral, shall be subject to the prior written agreement, consent or approval of the Secured Party. The Grantor shall deliver forthwith to the Secured Party in the form received, except for the addition of any endorsement or assignment necessary to effect transfer of all rights therein to the Secured Party, any payment received by the Grantor on account of any such purchase and sale of any such Collateral. Until so delivered, each such payment shall be held in trust for the Secured Party and shall not be commingled with any other funds of the Grantor.

9.5. Furthermore, without limiting the generality of any of the rights and remedies conferred upon the Secured Party under this section 9, except as limited by applicable law, the Secured Party may enter upon the premises of the Grantor, exclude the Grantor therefrom and take immediate possession of the Collateral, either personally or by means of a receiver appointed by a court therefor, using all necessary reasonable force to do so, and may, at the Secured Party's option, use, operate, manage and control the Collateral in any lawful manner and may collect and receive all rents, income, revenue, earnings, issues and profits therefrom, and may maintain, repair, renovate, alter or remove the Collateral as the Secured Party may determine in its discretion, and any moneys so collected or received by the Secured Party shall be applied to, or may be accumulated for application upon, the Obligations in accordance with sections 2, 3 and 10 of this Agreement.

9.6. Until a request by the Secured Party that debtors on accounts or notes receivable or in respect of contract rights (collectively "accounts") of the Grantor be notified of the security interest of the Secured Party, the Grantor shall continue to collect such accounts. After the making of such a request, the Grantor shall hold the proceeds received from collection as trustee for the benefit of the Secured Party without commingling the same with other funds of the Grantor and shall turn the same over to the Secured Party immediately upon receipt in the identical form received. The Grantor shall, following the making of such a request by the Secured Party, notify the account debtors of the security interest of the Secured Party in any account and that payment thereof is to be made directly to the Secured Party, and the Secured Party may itself, without notice to or demand upon the Grantor, so notify account debtors. The making of such a request or the giving of any such notification shall not affect the duties of the Grantor described above with respect to proceeds of collection of accounts received by the Grantor.

9.7. To the fullest extent permitted by law, the Grantor hereby unconditionally and irrevocably waives any and all rights that they may have to any judicial or other hearing in advance of the enforcement of any of the Secured Party's rights or remedies hereunder, including, without limitation, the Secured Party's rights following the giving of a Notice of Default to take immediate possession of the Collateral and to exercise the Secured Party's rights and remedies as aforesaid with respect thereto.

10. Application of Monies. All monies realized by the Secured Party after the security constituted by this Agreement shall have become enforceable as well as all monies then held or at any time or times thereafter received by the Secured Party as realizations of all or any part of the Collateral shall be held, applied and/or disbursed by the Secured Party in accordance with the terms of this Security Agreement

11. The Grantor's Obligations Not Affected. The Obligations of the Grantor under this Agreement shall remain in full force and effect without regard to, and shall not be impaired by: (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Grantor; (b) any exercise or non-exercise, or any waiver, by the Secured Party of any right, remedy, power or privilege under or in respect of any of the Obligations or any security therefor (including this Agreement); (c) any amendment to any agreement, instrument or contract evidencing any of the Obligations or pursuant to which any of the Obligations were issued or secured; (d) any amendment to or modification of any agreement, instrument or contract (other than this Agreement) securing any of the Obligations; or (e) the taking of additional security for or any guaranty of any of the Obligations or the release or discharge or termination of any security for or guaranty of any of the Obligations; in every case whether or not the Grantor shall have had any notice or knowledge of any of the foregoing.

12. No Waiver; Marshalling. No failure on the part of the Secured Party to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the Secured Party of any right, remedy, power or privilege hereunder preclude any other or future exercise of any other right, remedy, power or privilege. Each and every right, remedy, power and privilege hereby granted to the Secured Party or allowed to it by law or other agreement shall be cumulative and not exclusive of any other, and may be exercised by the Secured Party from time to time. The Secured Party shall not be required to marshal any present or future collateral security for (including but not limited to this Security Agreement and the Collateral), or other assurances of payment or satisfaction of, any amounts due under the Note, or this Security Agreement, or to resort to such collateral security or other assurances of payment or satisfaction in any particular order; and all of the Secured Party's rights hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, the Grantor hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights under this Security Agreement and the Grantor hereby irrevocably waives the benefits of all such laws.

13. Costs and Expenses. The Grantor agrees to pay, on demand by the Secured Party, all costs and expenses (including reasonable attorneys' fees and expenses for legal services of every kind) incurred or sustained by the Secured Party incidental to the sale of, or realization upon, any of the Collateral or in any way relating to the enforcement or protection of all or any of the rights or remedies of the Secured Party hereunder; and the Secured Party may at any time

apply to the payment of all such costs and expenses all monies of the Grantor or other proceeds arising from the possession or disposition of all or any portion of the Collateral.

14. Consent to Jurisdiction and Service. The parties hereto agree for the benefit of the Secured Party that any suit, action or proceeding against the Grantor with respect to this Agreement or the Obligations may be brought in any state or federal court in Washington, D.C. and the Grantor hereby submits to the non-exclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding. The Grantor hereby irrevocably consents to the service of process in any suit, action or proceeding in said courts by the mailing or hand delivery thereof to the Grantor in the manner described in the "Notices" section hereof. Nothing herein shall in any way be deemed to limit the ability of the Secured Party to serve any such writ, complaint, process or summons in any other manner permitted by applicable law or to obtain jurisdiction over the Grantor in such other jurisdictions, and in such manner, as may be permitted by applicable law.

15. Consents, Amendments, Waivers, Etc. Any term of this Agreement may be modified or amended, and the performance or observance by the Grantor of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the express prior written consents of the Grantor and the Secured Party. This Agreement and all rights and obligations hereunder shall inure to the benefit of the Secured Party and its successors and assigns, and shall be binding upon the Grantor and their successors in title and assigns.

16. Notices. All notices, requests, claims, demands and other communications which are required or may be given hereunder shall be in writing and shall be deemed to have been duly given when received if personally delivered; when transmitted if transmitted by facsimile, electronic or digital transmission method; the day after it is sent; if sent for next-day delivery to a domestic address by recognized overnight delivery service (e.g., Federal Express); and upon receipt, if sent by certified or registered mail, return receipt requested. In each case, notice shall be sent to:

If to the Grantor, as follows:

Marine Desalination Systems, LLC
Attention: Michael D. Max or Bob Pellenbarg
1120 Connecticut Avenue, N.W.
Suite 461
Washington, D.C. 20036
Facsimile: (202) 466-7445

with a copy to:

Lowell D. Turnbull, Esquire
Simon, Turnbull & Martin, Chartered
2000 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
Facsimile: (202) 785-2273

If to the Secured Party, to it at the following address:

Thomas J. Bauch
One Maritime Plaza, Suite 1450
San Francisco, California 94111
Facsimile: (415)288-0543

17. Secured Party's Responsibility. The Secured Party shall not be liable for any acts, omissions, errors of judgment or mistakes of fact or law, including, without limitation, acts, omissions, errors or mistakes with respect to the Collateral, except for those arising out of or in connection with the Secured Party's (a) gross negligence or willful misconduct, or (b) failure to use reasonable care with respect to the safe custody of any Collateral that is in the physical possession of the Secured Party. Without limiting the generality of the foregoing, the Secured Party shall be under no obligation to take any steps necessary to preserve rights in the Collateral against any other persons, but may do so at its option, and all expenses incurred in connection therewith shall be for the sole account of the Grantor and shall be added to the Obligations secured hereby.

18. Termination of Agreement; Released Collateral. This Agreement shall terminate upon the payment and satisfaction in full of all of the Obligations.

19. Governing Law. This Agreement is intended to take effect as a sealed instrument. Except as otherwise required by the laws of any jurisdiction in which any Collateral is located, this Agreement shall be governed by and construed in accordance with the laws of the District of Columbia, without application of any conflicts-of-laws principles.

20. Headings. The descriptive section headings have been inserted for convenience of reference only and do not define or limit the provisions hereof.

21. Partial Invalidity or Unenforceability. If any term of this Security Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall be in no way affected thereby, and this Security Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein.

22. No Rule of Construction. The Grantor and Secured Party acknowledge and agree that this Security Agreement was drafted initially by the Grantor solely as a convenience, that all parties hereto have been represented by legal counsel, that each party and/or his or its legal counsel have read and fully negotiated all of the language used in this Security Agreement, and that no rule of construction should or shall apply to this Security Agreement that construes any language, whether ambiguous, unclear, or otherwise, in favor of, or against, any party by reason of any party's role in drafting this Security Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Grantor and the Secured Party have caused this Security Agreement to be duly executed as of the date first written above.

GRANTOR:

Marine Desalination Systems, LLC,
a Delaware Limited Liability Company

By: 
Michael Max, Member
and Chief Executive Officer

SECURED PARTY:

Thomas J. Bauch



\\STMSTV2\CLIENTS\Marine Desalination Systems\Bauch loan\MDS Security Agreement (final).doc

FIRST AMENDMENT TO SECURITY AGREEMENT

This First Amendment ("Amendment") to that certain Security Agreement ("Security Agreement") effective August 28, 2001, by and between Thomas J. Bauch and Marine Desalination Systems, LLC, is entered into as of December 7, 2001. All capitalized terms not defined in this Amendment shall have the meanings set forth in the Security Agreement.

WHEREAS, the Grantor and Secured Party have agreed to amend the Loan Agreement, *inter alia*, to increase the maximum amount of the Loan to \$350,000.00 (the "Amended Loan Agreement"); and

WHEREAS, the Grantor has agreed to execute an Allonge to the Note to reflect the increased amount of the Loan (the "Amended Note").

NOW, THEREFORE, for good and sufficient consideration, the Grantor and Secured Party, intending to be legally bound, agree as follows:

All references in the Security Agreement to the Loan Agreement and the Note shall mean the Amended Loan Agreement and Amended Note respectively, and the reference to "\$250,000.00" in the fourth "WHEREAS" clause shall be amended to read "\$350,000.00."

[SIGNATURES BEGIN ON FOLLOWING PAGE]

IN WITNESS WHEREOF, intending to be legally bound, the Grantor and the Secured Party have caused this Amendment to be duly executed as of the date first written above.

GRANTOR:


Marine Desalination Systems, LLC,
a Delaware Limited Liability Company

By: 

Michael Max, Chief Executive Officer

SECURED PARTY:

Thomas J. Bauch



K:\CLIENTS\Marine Desalination Systems\Bauch loan\First Amendment to Security Agreement.doc