

Form PTO-1595 (Rev. 08/05)  
OMB No. 0651-0027 (exp. 6/30/2008)

U.S. DEPARTMENT OF COMMERCE  
United States Patent and Trademark Office

## RECORDATION FORM COVER SHEET PATENTS ONLY

To the Director of the U.S. Patent and Trademark Office: Please record the attached documents or the new address(es) below.

### 1. Name of conveying party(ies)

Zarc International, Inc., an  
Illinois corporation

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

### 3. Nature of conveyance/Execution Date(s):

Execution Date(s) 9/30/05

- ☐ Assignment ☐ Merger  
☒ Security Agreement ☐ Change of Name  
☐ Joint Research Agreement  
☐ Government Interest Assignment  
☐ Executive Order 9424, Confirmatory License  
☐ Other \_\_\_\_\_

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

Name: Newtek Small Business Finance, Inc.

Internal Address: \_\_\_\_\_

Street Address: 462 Seventh Ave., 14th FL

City: New York

State: New York

Country: USA Zip: 10018

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

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

A. Patent Application No.(s)

10/036,546  
10/372,888

☐ This document is being filed together with a new application.

B. Patent No.(s)

D469,014  
6,145,654  
6,595,393

Additional numbers attached? ☐ Yes ☒ No

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

Name: Billi Jo Hummel

Internal Address: Thomas J. Colven, III, P.C.

Street Address: 5420 LBJ Freeway, #300

City: Dallas

State: Texas Zip: 75240

Phone Number: 972-788-5300

Fax Number: 972-770-2156

Email Address: billihummel@yahoo.com

### 6. Total number of applications and patents involved: 5

### 7. Total fee (37 CFR 1.21(h) & 3.41) \$ 200.00

- ☒ Authorized to be charged by credit card  
☐ Authorized to be charged to deposit account  
☐ Enclosed  
☐ None required (government interest not affecting title)

### 8. Payment Information

a. Credit Card Last 4 Numbers 2007  
Expiration Date 01/2009

b. Deposit Account Number \_\_\_\_\_

Authorized User Name Thomas J. Colven, III

### 9. Signature:



Signature

Date

David T. Froelich, President

Name of Person Signing

Total number of pages including cover sheet, attachments, and documents: ☐

Documents to be recorded (including cover sheet) should be faxed to (571) 273-0140, or mailed to:  
Mail Stop Assignment Recordation Services, Director of the USPTO, P.O.Box 1450, Alexandria, V.A. 22313-1450

OP \$200.00 10036546

Loan #14343

**SECURITY AGREEMENT**

**Date:** September 30, 2005

**Debtor:** Zarc International, Inc.,  
an Illinois corporation

**Debtor's Mailing Address:** 430 North Chestnut Street, Suite 2  
Minonk, Illinois 61760

**Secured Party:** Newtek Small Business Finance, Inc.

**Secured Party's Mailing Address  
(including county):** 462 Seventh Avenue, 14<sup>th</sup> Floor  
New York, New York 10018

**Classification of Collateral:** Accounts Receivable, Equipment, Inventory,  
Fixtures, General Intangibles, Patents and  
Trademarks

**Collateral (including all accessions and substitutions):**

See Schedule 1 attached hereto and incorporated herein for all  
purposes.

**Obligation:****Note:**

**Date:** September 30, 2005

**Amount:** \$2,000,000.00

**Maker:** Zarc International, Inc.,  
an Illinois corporation

**Payee:** Newtek Small Business Finance, Inc.

**Terms of Payment:** Payable as to principal and interest as therein provided.

Subject to the terms of this Security Agreement, Debtor grants to Secured Party a first and superior security interest in the Collateral and all its proceeds (as described on Schedule 1 attached hereto), to secure payment and performance of Debtor's Obligation in this Security Agreement and all renewals and extensions of the Obligation.

### **Debtor's Warranties**

1. **Financing Statement.** No financing statement covering the Collateral is filed in any public office, except for financing statements in favor of Secured Party.
2. **Ownership.** Debtor owns the Collateral and has the authority to grant this security interest. Ownership is free from any setoff, claim, restriction, lien, security interest, or encumbrance except this security interest and liens for taxes not yet due.
3. **Financial Statement.** All information about Debtor's financial condition provided to Secured Party was accurate when submitted, as will be any information subsequently provided.
4. **Setoffs.** No obligors whose debts or obligations are part of the Collateral have any right to setoffs, counterclaims, or adjustments or any defenses in connection with their debts or obligations.

### **Debtor's Covenants**

1. **Protection of Collateral.** Debtor will defend the Collateral against all claims and demands adverse to Secured Party's interest in it and will keep it free from all liens except those for taxes not yet due and from all security interests except this one. Debtor will maintain the Collateral in good condition and protect it against misuse, abuse, waste, and deterioration except for ordinary wear and tear resulting from its intended use.
2. **Financial Statements and Other Information.** The Debtor shall furnish, in form and content as shall be satisfactory to the Secured Party in its sole discretion, the following:
  - (a) Promptly upon receipt thereof, copies of all financial reports, if any, submitted to the Debtor, by their auditors in connection with each annual or interim audit of their financial books and records by such auditors.
  - (b) Promptly upon the commencement thereof, written notice of any litigation, including arbitrations, and of any proceedings before any governmental agency which would, if successful, materially affect the Debtor or where the amount involved exceeds \$25,000.00 and is not acknowledged by any insurance carrier to be covered in full by insurance required to be maintained under Section 3 of this Security Agreement;
  - (c) With reasonable promptness, such other information respecting the business, operations and financial condition of the Debtor as the Secured Party may from time to time require, including, but not limited to, balance sheets, statements of

profits and losses, statements or change in financial position, and tax returns, and in a form acceptable to the Secured Party. The Secured Party is hereby authorized to deliver a copy of any financial statement or any other information relating to the business, operations, or financial condition of the Debtor which may be furnished to it or come to its attention to any regulatory body or agency having jurisdiction over the Secured Party or to any person which shall succeed to all or any part of the Secured Party's interest in the Obligation and this Security Agreement.

3. Insurance. Debtor will insure the Collateral in accordance with Secured Party's reasonable requirements regarding choice of carrier, casualties insured against, and amount of coverage. Policies will be written in favor of Debtor and Secured Party according to their respective interests or according to Secured Party's other requirements. All policies will provide that Secured Party will receive at least thirty (30) days' prior written notice before cancellation, and the policies or certificates evidencing them will be provided to Secured Party when issued. Debtor assumes all risk of loss and damage to the Collateral to the extent of any deficiency in insurance coverage. Debtor irrevocably appoints Secured Party as attorney-in-fact to collect any unearned premiums and proceeds of any insurance on the Collateral and to endorse any draft or check deriving from the policies and made payable to Debtor or jointly payable to Debtor and Secured Party.

4. Secured Party's Costs. Debtor will pay all expenses incurred by Secured Party in obtaining, preserving, perfecting, defending, and enforcing this security interest or the Collateral and in collecting or enforcing the Obligation. Expenses for which Debtor is liable include, but are not limited to, taxes, assessments, reasonable attorney's fees, and other legal expenses. These expenses will bear interest from the dates of payment at the highest rate stated in the promissory note that is part of the Obligation, and Debtor will pay Secured Party this interest on demand at a time and place reasonably specified by Secured Party. These expenses and interest will be part of the Obligation and will be recoverable as such in all respects.

5. Additional Documents. Debtor shall execute such other documents that Secured Party considers necessary to obtain, maintain, and perfect this security interest or to comply with any relevant law.

6. Notice of Changes. Debtor shall immediately notify Secured Party of any material change in the Collateral; change in Debtor's name, address or location; change in the location of all or any part of the Collateral; change in any matter warranted or represented in this Security Agreement; change that may affect this security interest; and any event of default.

7. Use and Removal of Collateral. Debtor will use the Collateral primarily according to the stated classification unless Secured Party consents otherwise in writing. Debtor shall not permit the Collateral to become an accession to any goods, to be commingled with other goods, or to become an accession or part of a product or mass with other goods except as expressly provided in this Security Agreement.

8. Sale. Debtor shall not sell, transfer, or encumber any of the Collateral without the prior written consent of Secured Party, except in the normal conduct of Debtor's business.

9. Modification of Collateral. Without the written consent of Secured Party, Debtor shall not agree to any modification of terms in any instruments constituting Collateral, or securing same.

10. Disposition of Collateral. Debtor shall immediately assign or endorse to Secured Party on request any future instruments constituting Collateral, or securing same.

11. Parties Liable on the Collateral. Debtor shall preserve the liability of all obligors on the Collateral, preserve the priority of all liens and security for the Collateral, and deliver to the Secured Party all instruments constituting Collateral, or securing same. Debtor shall not release any lien or interest securing the Collateral without the prior written consent of Secured Party.

12. Delivery of Receipts to Secured Party. In the event of a default under the terms of the Obligation, and on Secured Party's demand, Debtor will deposit all payments received as proceeds of and payments on Collateral in a special bank account designated by Secured Party, who alone will have power of withdrawal. Debtor will deposit the payments on receipt, in the form received, and with any necessary endorsements as security for the Obligation. Secured Party may make any endorsements in Debtor's name and behalf. Between receiving and depositing these payments, Debtor shall not mingle them with any of Debtor's other funds or property but shall hold them separate in an express trust for Secured Party. Secured Party shall apply these funds against the Obligation.

13. Default in Collateral. Debtor shall cause all obligors on the Collateral to pay and perform all obligations under the Collateral. Debtor shall immediately inform Secured Party in writing of the default in the payment or performance of any obligation under the Collateral.

14. Consumer Credit. If any Collateral or proceeds include obligations of third parties to Debtor, the transactions creating those obligations will conform in all respects to applicable state and federal consumer credit law.

15. Collateral Records. Debtor shall keep accurate and complete records of the Collateral (including proceeds). Secured Party may at any time have access to, examine, audit, make extracts from and inspect, without hindrance or delay, Debtor's records, files and the Collateral.

16. Taxes. Debtor agrees to pay prior to delinquency all taxes, charges, liens and assessments against the Collateral, and upon the failure of Debtor to do so, Secured Party, at its option, may pay any of them and shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same. Any such payment by Secured Party shall become part of the Obligation secured hereunder and shall be paid to Secured Party by Debtor immediately and without demand, with interest thereon at the rate of interest charged under the Obligation.

17. Modification of Contracts. Debtor shall not modify, extend or substitute any contract the terms of which shall at any time have given rise to accounts receivable secured hereby, except in the ordinary course of Debtor's business or with the prior written consent of Secured Party.

### **Events of Default**

Each of the following conditions is an event of default:

- (a) if Debtor defaults in the timely payment or performance of the terms of the Note evidencing the Obligation, or in the performance of any terms of this Security Agreement;
- (b) if any warranty, covenant, or representation made to Secured Party or on behalf of the Debtor proves to have been false in any material respect when made;
- (c) if a receiver is appointed for the Debtor or any of the Collateral; and any receivership is not dismissed within thirty (30) days;
- (d) if Debtor makes an assignment for the benefit of its creditors or, to the extent permitted by law, if bankruptcy or insolvency proceedings commence against the Debtor; or any other person liable on or for any part of the Obligation;
- (e) if any financing statement regarding the Collateral but not related to this security interest and not favoring Secured Party is filed;
- (f) if any lien attaches to any of the Collateral other than that created by this Security Agreement;
- (g) if there shall occur any material uninsured damage to or loss, theft or destruction of any of the Collateral; or
- (h) any Event of Default under any other written agreement securing the Obligation.

### **Remedies of Secured Party on Default**

During the existence of any Event of Default, Secured Party may declare the unpaid principal and earned interest of the Obligation immediately due and payable in full, enforce the Obligation in accordance with its terms, and exercise any rights and remedies granted a secured party by the Illinois Uniform Commercial Code (the "Code") or by this Security Agreement, including, but not limited to, the following:

- (a) require Debtor to deliver to Secured Party all books and records relating to the Collateral;

- (b) require Debtor to assemble the Collateral and make it available to Secured Party at a place reasonably convenient to both parties;
- (c) take possession of any of the Collateral and of this purpose enter any premises where it is located if this can be done without breach of the peace;
- (d) sell, lease, or otherwise dispose of any of the Collateral in accordance with the rights, remedies, and duties of a secured party under of the Code after giving notice as required by those chapters; and unless the Collateral threatens to decline speedily in value, is perishable, or would typically be sold on a recognized market, Secured Party will give Debtor reasonable notice of any public sale of the Collateral or of a time after which it may be otherwise disposed of without further notice to Debtor; in this event, notice will be deemed reasonable if it is mailed, postage prepaid, to Debtor at the address specified in this Security Agreement at least ten (10) days before any public sale or ten (10) days before the time which the Collateral may be otherwise disposed of without further notice to Debtor;
- (e) surrender any insurance policies covering the Collateral and receive the unearned premium;
- (f) apply any proceeds from disposition of the Collateral after default in the manner specified in the Code, including payment of Secured Party's reasonable attorneys' fees, costs of collection and court expenses;
- (g) at Secured Party's discretion, retain the Collateral in satisfaction of the Obligation wherever the circumstances are such that the Secured Party is entitled to do so under the Code, or otherwise; and
- (h) if disposition of the Collateral leaves the Obligation unsatisfied, collect the deficiency from Debtor and any guarantors of the Obligation.

### **General Provisions**

#### **1. Collection Rights.**

- (a) So long as an Event of Default has occurred and is continuing, Secured Party may at any time notify the account debtor on any accounts receivable of Debtor of its security interest, if any, therein, and may demand that monies due or to become due to be paid directly to Secured Party. In connection with the right of Secured Party to collect accounts receivable under this paragraph, Debtor hereby irrevocably appoints Secured Party or any person designated by Secured Party, its true and lawful attorney-in-fact to endorse for Debtor or Debtor's name any check, draft or other order for payment of money payable to Debtor in payment of any accounts receivable owing to Debtor. Secured Party's costs and collection and enforcement, including attorneys' fees and out-of-pocket expenses, shall be borne

solely by Debtor. Secured Party shall not be liable for any act of omission on the part of Secured Party, or its officers, agents or employees, except gross negligence or willful misconduct.

- (b) So long as any Event of Default has occurred and is continuing, and after exercising its right under this Section, Secured Party may, without notice to Debtor, renew, modify or extend any accounts receivables, grant waivers or indulgences with respect thereto, accept partial payments thereon, release, surrender or substitute any customer security or make compromises with or release Debtor or any other party liable thereon in such manner as Secured Party may, in its sole discretion, deem advisable, without affecting or diminishing Debtor's continuing obligations upon such accounts receivable.

2. Parties Bound. Secured Party's rights under this Security Agreement shall inure to the benefit of its successors and assigns. Assignment of any part of the Obligation and delivery by Secured Party of any part of the Collateral shall fully discharge Secured Party from responsibility for that part of the Collateral. If Debtor is more than one entity, all their representations, warranties, and agreements are joint and several. Debtor's obligations under this Security Agreement shall bind Debtor's successors and assigns.

3. Waiver. Neither delay in exercise nor partial exercise of any of Secured Party's remedies or rights shall waive further exercise of those remedies or rights. Secured Party's failure to exercise remedies or rights does not waive subsequent exercise of those remedies or rights. Secured Party's waiver of any Event of Default does not waive its right to demand strict compliance with the terms of this Security Agreement. Secured Party's waiver of any right in this Security Agreement or of any Event of Default is binding only if it is in writing.

4. Reimbursement. If Debtor fails to perform any of Debtor's obligations under this Security Agreement, Secured Party may perform those obligations and be reimbursed by Debtor on demand at the place where the Obligation is payable for any sums so paid, including attorney's fees and other legal expenses, plus interest on those sums from the dates of payment at the rate stated in the Obligation for matured, unpaid amounts. The sum to be reimbursed shall be secured by this Security Agreement.

5. Interest Rate. Interest included in the Obligation shall not exceed the maximum amount of nonusurious interest that may be contracted for, taken, reserved, charged, or received under law; any interest in excess of that maximum amount shall be credited to the principal of the Obligation or, if that has been paid, refunded. Upon any acceleration or permitted prepayment of the Obligation, any excess interest shall be canceled automatically as of the acceleration or prepayment or, if already paid, credited on the principal amount of the Obligation or, if the principal amount has been paid, refunded.

6. Modifications. No provisions of this Security Agreement shall be modified or limited except by written agreement between the Debtor and Secured Party.



7. Severability. The unenforceability of any provision of this Security Agreement will not affect the enforceability or validity of any other provision.

8. Applicable Law; Placement of Performance. This Security Agreement will be construed according to Illinois laws, and shall be performable in Woodford County, Illinois.

9. Presumption of Truth and Validity. If the Collateral is sold after the occurrence of an Event of Default, recitals in the bill of sale or transfer will be prima facie evidence of their truth, and all prerequisites to the sale specified by this Security Agreement and by the Code will be presumed satisfied.

10. Singular and Plural. When the context requires, singular nouns and pronouns include the plural.

11. Priority of Security Interest. This security interest shall neither affect nor be affected by any other security for any of the Obligation. Neither extensions of the Obligation, nor releases of any of the Collateral will affect the priority or validity of this security interest with reference to any third person.

12. Cumulative Remedies. Foreclosure of this security interest created by this Security Agreement by suit does not limit Secured Party's remedies, including the right to sell the Collateral under the terms hereof. All remedies of Secured Party may be exercised at the same or different times, and no remedy shall be a defense to any other. Secured Party's rights and remedies include all those granted by law or otherwise, in addition to those specified in this Security Agreement.

13. Power of Attorney. The Secured Party is hereby appointed the attorney-in-fact of the Debtor for the limited purpose of carrying out the default and remedy provisions of this Security Agreement and taking any action and executing any instruments which the Secured Party may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest.

14. After Acquired Property. The security interest granted Secured Party extends to all collateral that is of the same classification as this Collateral and that Debtor acquires at any time during the continuation of this Security Agreement.

15. Future Advances. This security interest granted Secured Party also secures all other present and future debts and liabilities of Debtor to Secured Party, including future advances.

16. Loan Guaranty. The Note secured by this Agreement was made under a United States Small Business Administration (SBA) nationwide program which uses tax dollars to assist small business owners. If the United States is seeking to enforce this document, then under SBA guidelines:

NOV. 19. 2005 4:35PM

ATTORNEY'S OFFICE

NO. 2474 P. 10

- (a) When the SBA is the holder of the Note, this Agreement and all documents evidencing or securing the Note will be construed in accordance with federal law.
- (b) Secured Party or the SBA may use local or state procedures for purposes such as filing papers, recording documents, giving notice, foreclosing liens and other purposes. By using these procedures, SBA does not waive any federal immunity from local or state control, penalty, tax or liability. Neither Debtor nor any guarantor may claim or assert against the SBA any local or state law to deny any obligation of Debtor or defeat any claim of the SBA in respect to the Note and this Agreement.

Any clause in this Agreement requiring arbitration is not enforceable when the SBA is the holder of the Note secured by this Agreement.

**DEBTOR:**

**ZARC INTERNATIONAL, INC.**  
an Illinois corporation

By: 

David T. Froelich, President

**SECURED PARTY:**

**NEWTEK SMALL BUSINESS FINANCE, INC.**

By: Title: Underwriter Manager

SCHEDULE 1 TO UCC FINANCING STATEMENT

All of Debtor's presently owned and existing and hereafter acquired and arising (1) accounts receivable, whether or not earned by performance, (b) inventory; (c) general intangibles; (d) fixtures now or hereafter located upon any part of the Property described on Exhibit "A", attached hereto and incorporated herein for all purposes (the "Land"), in which the Debtor (or the Debtor's successors or assigns) now has, or at any time hereafter acquires, an interest, and which are now, or at any time hereafter, either a part of the Land or situated in, on or about the Land and utilized in connection with the operation of the Land, or acquired or delivered to the Land for use or incorporation in construction of any improvements on the Land including, but not limited to: (a) building and construction materials and equipment; all plans, specifications and drawings for any improvements to be placed on the Land; all deposits (including tenant security deposits), funds, accounts, contract rights, instruments, documents, general intangibles (including trademarks, trade names and symbols used in connection with the land or the improvements thereon) and notes or chattel paper arising from or by virtue of any transactions related to the Land; all permits, licenses, franchises, certificates and other rights and privileges obtained in connection with the Land; all proceeds arising from or by virtue of the sale, lease or other disposition of any of the real or personal property described herein; all heating, lighting, refrigeration, plumbing, ventilation, incineration, water heating, transportation, communications, electrical and air conditioning systems and equipment, sprinkler and fire extinguishing systems, computers and computer systems and maintenance equipment; (b) rentals, deposits and other sums as may become due Debtor as landlord under any leases, written or verbal, with respect to the Land or any improvements now or hereafter erected thereon; and (iii) deposits for taxes, insurance or otherwise, made under any deed of trust or other instrument securing payment of the indebtedness of Debtor to Secured Party; (e) equipment; (f) All patents, pending applications and trademarks, including, but not limited to

U.S. Patent Application No. 10/036,546 - Non-Lethal Temporary  
Incapacitation Formulation and Novel Solvent System

U.S. Patent Application No. 10/372,888 - Spray Delivery System  
and Method for Aerosol Products

U.S. Patent No. D469,014 - Aerosol Actuator

U.S. Patent No. 6,145,654 - Spray Container Storage and Retrieval  
System

U.S. Patent No. 6,595,393 - Spray Delivery System and Method for  
Aerosol Products

U.S. Trademark Application No. 76/100,078 - VEXOR

U.S. Registered Trademark No. 1,254,993 - CAP-STUN

U.S. Registered Trademark No. 1,596,294 - ZARC

U.S. Registered Trademark No. 1,598,484 - Z (Stylized)

U.S. Registered Trademark No. 2,860,775 - VEXOR V7 and design

U.S. Registered Trademark No. 2,860,776 - VEXOR T7 and design;

(g) replacements, betterments, substitutions and renewals of, and additions to, any of the Collateral;  
(h) proceeds, including without limitation, condemnation or insurance proceeds, arising out of or with  
respect to the Collateral or the Land; and, (i) all products of the Collateral.

PATENT