

**PATENT ASSIGNMENT**

Electronic Version v1.1  
 Stylesheet Version v1.1

<b>SUBMISSION TYPE:</b>	NEW ASSIGNMENT
<b>NATURE OF CONVEYANCE:</b>	SECURITY AGREEMENT

**CONVEYING PARTY DATA**

Name	Execution Date
Sanijet Corporation	03/26/2009

**RECEIVING PARTY DATA**

<b>Name:</b>	Christopher T. Jones
<b>Street Address:</b>	6200 Maple Avenue
<b>City:</b>	Dallas
<b>State/Country:</b>	TEXAS
<b>Postal Code:</b>	75235

**PROPERTY NUMBERS Total: 1**

Property Type	Number
Patent Number:	4853987

**CORRESPONDENCE DATA**

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<b>NAME OF SUBMITTER:</b>	David B. Giles
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## LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (as amended, modified, or restated from time to time, this "Agreement"), signed on March 26, 2009 but effective as of January 1, 2009 (the "Closing Date"), will serve to set forth the terms of the Credit Facility between CHRISTOPHER T. JONES (together with his successors and assigns, "Lender") and SANJET CORPORATION, a Texas corporation ("Debtor").

### RECITALS

WHEREAS, Debtor has requested that Lender extend the Credit Facility to Debtor on the terms described in the Loan Documents; and

WHEREAS, Lender is willing to make the Credit Facility available to Debtor upon and subject to the provisions, terms, and conditions set forth in the Loan Documents;

NOW THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. **Definitions.** As used in this Agreement, all exhibits, appendices and schedules hereto, and in any other Loan Documents, the following terms will have the meanings given such terms in this Section 1 or in the provisions, sections, or recitals herein:

(a) "Business Day" means any day other than a Saturday, Sunday, or any other day on which the Federal Reserve Bank of Dallas, Texas, is closed.

(b) "Code" means the Uniform Commercial Code as the same may, from time to time, be enacted and in effect in the State of Texas; provided, that to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different articles or divisions of the Code, the definition of such term contained in Article 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender's lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of Texas, the term "Code" shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions related to such provisions.

(c) "Collateral" means:

(i) United States Patent #4,853,987 for a unitized hydrotherapy jet and pump assembly (This patent has expired);

(ii) United States Patent #5,414,878 for a sanitary whirlpool jet apparatus;

(iii) United States Patent #5,587,023 for a method of removing a whirlpool jet apparatus for inspection, cleaning or repair;

(iv) all drawings and designs relating to the inventions covered by said patents;

(v) all tools and molds and the drawings and designs thereof relating to the design and/or production of inventions covered by said patents or of whirlpool bathtub shells and any other products or components;

(vi) all furniture, fixtures, equipment, supplies, raw materials and inventory;

(vii) all accounts receivable, contract rights and general intangibles now owned or hereafter acquired;

(viii) all shares of stock now owned or hereafter acquired in Hydravac Corporation; and

(ix) all patent rights, trademark rights, copyrights, and other intellectual property and rights.

The term "Collateral", as used herein, shall also include (i) any other property or assets of any Obligor that may at any time be subject to a security interest in favor of Lender, and (ii) all SUPPORTING OBLIGATIONS, PRODUCTS and PROCEEDS of all of the foregoing.

(d) "Constituent Documents" means its articles or certificate of incorporation and bylaws.

(e) "Debt" means as to any Person at any time (without duplication) all items of indebtedness, obligation, or liability of such Person, that should be classified as liabilities in accordance with GAAP.

(f) "GAAP" means generally accepted accounting principles, applied on a consistent basis, as set forth in Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and/or in statements of the Financial Accounting Standards Board and/or their respective successors and which are applicable in the circumstances as of the date in question. Accounting principles are applied on a "consistent basis" when the accounting principles applied in a current period are comparable in all material respects to those accounting principles applied in a preceding period.

(g) "Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank, or other entity exercising executive, legislative, judicial, taxing, regulatory, or administrative powers or functions of or pertaining to government.

(h) "Indebtedness" means (i) the Credit Facility Loans, (ii) all accrued but unpaid interest on the Credit Facility Loans, (iii) all obligations of the other Obligors, if any, to Lender under the Loan Documents, (iv) all costs and expenses incurred by Lender in connection with the collection of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including without limitation all reasonable attorneys' fees, and (v) all renewals, extensions, modifications and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

(i) "Loan Documents" means this Agreement, the Note evidencing this Credit Facility and lien perfection instruments such as UCC-1 Financing Statement(s) and all other

agreements, instruments, and documents evidencing, securing, governing, or guaranteeing the Credit Facility Loans.

(j) "Investment Agreement" means that certain Investment Agreement by and between Debtor and Lender dated to be effective as of November 7, 2008.

(k) "Loans" means all advances under the Credit Facility from time to time.

(l) "Material Adverse Effect" means an effect that poses an imminent threat to Debtor's ability to sustain day-to-day business operations without more than temporary interruption. An interruption is temporary if it does not exceed thirty (30) days in length and may be longer in cases where such interruption is caused by fire or other casualties of a similar nature, caused by act of God, accident, criminal act, terrorism, or similar events beyond Debtor's control.

(m) "Note" means the promissory note of even date herewith in the original principal sum of \$450,000.00 evidencing the maximum amount of loans made and to be made under the Credit Facility (as any such Note may be amended, modified or restated from time to time).

(n) "Obligor(s)" means Debtor or any other Person who guaranteed or is otherwise obligated to pay or perform all or any portion of indebtedness.

(o) "Permitted Encumbrances" means the following encumbrances: (i) liens for taxes, assessments or governmental charges or levies not yet due and payable or liens for taxes, assessments, or governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves have been established in accordance with GAAP; (ii) liens in respect of the property or assets of a Person imposed by law which were incurred in the ordinary course of business and which have not arisen to secure Debt for borrowed money, such as carriers', materialmen's, warehousemen's, and mechanics' liens, statutory and common law landlord's liens, and other similar liens arising in the ordinary course of business, and which either (1) do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of a Person, or (2) are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to such lien; (iii) liens arising from judgments, decrees, awards, or attachments in circumstances not constituting an Event of Default; (iv) liens (1) incurred or deposits made in the ordinary course of business in connection with general insurance maintained by a Person, (2) incurred or deposits made in the ordinary course of business of a Person in connection with workers' compensation, unemployment insurance, and other types of social security, (3) to secure the performance by any Person of tenders, statutory obligations (other than excise taxes), surety, stay, customs and appeal bonds, statutory bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds, and other similar obligations (exclusive of obligations for the payment of borrowed money) to the extent incurred in the ordinary course of business, and (4) to secure the performance by a Person of leases of real property, to the extent incurred or made in the ordinary course of business consistent with past practices; (v) licenses, sublicenses, leases, or subleases granted to third Persons in the ordinary course of business not interfering in any material respect with the business of a Person; (vi) liens arising from precautionary Code financing statements regarding operating leases; (vii) liens created pursuant to or in connection with capital leases permitted pursuant to this Agreement, provided that (1) such liens only serve to secure the payment of rent or indebtedness arising under such capital leases, and (2) the liens encumbering the assets leased or purported to be leased under such capital leases do not encumber any other assets of a Person; (viii) liens in equipment and fixtures arising pursuant to purchase money security interests securing indebtedness representing the purchase price of assets acquired after

the Closing Date; provided that (1) any such liens attach only to the assets so purchased, upgrades thereon and, if the asset so purchased is an upgrade, the original asset itself (and such other assets financed by the same financing source), (2) the indebtedness secured by any such lien does not exceed the purchase price of the property being purchased at the time of the incurrence of such indebtedness, and (3) the indebtedness secured thereby is expressly permitted to be incurred pursuant to this Agreement; (ix) prior interests and liens described in the Security Agreement securing the Pre-Existing Loans; (x) liens securing the Pre-existing Loans; (xi) subordinate liens that now exist; (xii) subordinate liens hereafter arising to secure obligations that now exist or hereafter accrue under existing rights or obligations; and (xiii) liens arising with Lender's prior written consent; provided however, such requirement of written consent shall not be deemed satisfied by a Board of Directors Resolution but shall only be satisfied by a separate written consent executed by Lender referencing this subsection.

(p) "Person" means any individual, corporation, limited liability company, business trust, association, company, partnership, joint venture, Governmental Authority, or other entity, and shall include such Person's heirs, administrators, personal representatives, executors, successors, and assigns.

(q) "PO Loans" means third-party loans to Debtor secured by the pledge of purchase orders, receivables arising therefrom and proceeds of such receivables.

(r) "Pre-existing Loans" means two loans Lender previously made to Debtor which are documented by the Investment Agreement, two Promissory Notes referred to in the Investment Agreement as "New Note" and "Old Note" in the original principal sums of \$450,000.00 and \$405,000.00 respectively, a Loan Modification and Extension relating to the Old Note, a Security Agreement securing the New Note and Old Note, all dated November 7, 2008, which Promissory Notes are the same as those referred to as Note 1 and Note 2 in Schedule A attached.

All words and phrases used herein shall have the meaning specified in the Code except to the extent such meaning is inconsistent with this Agreement. All definitions contained in this Agreement are equally applicable to the singular and plural forms of the terms defined. The words "hereof", "herein", and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Any accounting term used in the Loan Documents shall have, unless otherwise specifically provided therein, the meaning customarily given such term in accordance with GAAP, and all financial computations thereunder shall be computed, unless otherwise specifically provided therein, in accordance with GAAP consistently applied; provided, that all financial covenants and calculations in the Loan Documents shall be made in accordance with GAAP as in effect on the Closing Date unless Debtor and Lender shall otherwise specifically agree in writing. That certain items or computations are explicitly modified by the phrase "in accordance with GAAP" shall in no way be construed to limit the foregoing.

## 2. Terms of Credit Facility.

(a) Credit Facility. Subject to the terms and conditions set forth in the Loan Documents, Lender hereby agrees to lend to Debtor an aggregate sum not to exceed an amount equal to FOUR HUNDRED FIFTY THOUSAND AND NO/100 DOLLARS (\$450,000.00) (the "Credit Facility"), as set forth herein, and continuing until: (i) the acceleration of the Indebtedness pursuant to the terms of the Loan Documents; (ii) April 1, 2010; or (iii) such other date as may be established by a written instrument between Debtor and Lender from time to time (the "Maturity Date"). Debtor and Lender acknowledge that Lender has advanced \$350,000.00 under the Credit Facility. Subject to the express provisions of Section 5(b) herein, Lender shall

make available an additional \$50,000.00 for each of April and May 2009. Debtor may not reborrow any repaid funds under the Credit Facility.

(b) **Funding.** Lender reserves the right to require not less than THREE (3) Business Days prior notice of each Loan under the Credit Facility, specifying the aggregate amount of such Loan together with any documentation relating thereto as Lender may reasonably request. Debtor shall give Lender notice of each Loan under the Credit Facility by no later than 1:00 p.m. (Dallas, Texas time) on the date provided herein. Lender at its option may accept telephonic requests for such Loan, provided that such acceptance shall not constitute a waiver of Lender's right to require delivery of a written request in connection with subsequent Loans.

(c) **Use of Proceeds.** The Loans under the Credit Facility shall be used by Debtor for working capital in the ordinary course of business.

3. **Note, Rate, and Computation of Interest.** The Credit Facility shall be evidenced by a Note duly executed by Debtor and payable to the order of Lender, in form and substance acceptable to Lender. Interest on the Note shall accrue at the rates set forth therein. The principal of and interest on the Note shall be due and payable in accordance with the terms and conditions set forth in the Note and in this Agreement.

4. **Collateral.**

(a) **Grant of Security Interest.** As collateral security for the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the Indebtedness, Debtor hereby pledges to and grants Lender, a security interest in all of Debtor's right, title, and interest in the Collateral, whether now owned by Debtor or hereafter acquired and whether now existing or hereafter coming into existence. If Debtor at any time holds or acquires a commercial tort claim, Debtor shall notify Lender in writing within FIVE (5) Business Days of such occurrence with the details thereof and grant to Lender a security interest therein or lien thereon and in the proceeds thereof, in form and substance reasonably satisfactory to Lender. Debtor and Lender acknowledge that the Collateral has previously been pledged to secure the Pre-Existing Loans, and nothing herein is intended to modify, replace, or alter any other Security Agreement, or the terms thereof, by and between Debtor and Lender.

(b) **Additional Documents.** To secure full and complete payment and performance of the Indebtedness, Debtor shall execute and deliver or cause to be executed and delivered all of the Loan Documents reasonably required by Lender covering the Collateral. Debtor shall execute and cause to be executed such further documents and instruments, as Lender, in its reasonable discretion, deems necessary or desirable to create, evidence, preserve, and perfect its liens and security interests in the Collateral. In the event any of the Loan Documents evidencing or securing the Indebtedness misrepresents or inaccurately reflects the correct terms and/or provisions of the Indebtedness, Debtor shall upon request by Lender and in order to correct such mistake, execute such new documents or initial corrected, original documents as Lender may reasonably deem necessary to remedy said errors or mistakes. Debtor's failure to execute such documents as reasonably requested by Lender shall constitute an Event of Default under this Agreement.

5. **Conditions Precedent.**

(a) **All Loans.** Debtor acknowledges and agrees that any further Loans under the Credit Facility (other than the \$350,000.00 already advanced hereunder) shall be at the sole discretion of Lender and that Lender may decline to loan all or part of the remaining Credit

Facility at any time (notwithstanding any prior Loans under the Credit Facility). The obligation of Lender to make any Loan shall be subject to the following additional conditions precedent:

(i) **Request for Loan.** Lender shall have received, in accordance with this Agreement, a request for a Loan dated as of the date of request and executed by an authorized officer of Debtor;

(ii) **No Event of Default, Etc.** No Event of Default, event which with the passage of time and/or notice would be an Event of Default, or event which would have a Material Adverse Effect shall have occurred and be continuing or would result from or after giving effect to such Loan;

(iii) **Representations and Warranties.** All of the representations and warranties contained in the Loan Documents shall be true and correct in material respects on and as of the date of such Loan with the same force and effect as if such representations and warranties had been made on and as of such date; and

(iv) **Other Matters.** Such other documents and agreements as may be required by Lender in its reasonable discretion.

6. **Representations and Warranties.** Debtor hereby represents and warrants, and upon each request for a Loan represents and warrants to Lender as follows:

(a) **Existence.** Debtor (i) is duly organized, validly existing, and in good standing under the laws of the jurisdiction of its organization; (ii) has all requisite power and authority to own its property and assets and carry on its business as now being or as proposed to be conducted; and (iii) is qualified to do business in all jurisdictions in which the nature of its business makes such qualification necessary and where failure to so qualify would have a Material Adverse Effect. Debtor has the power and authority to execute, deliver, and perform its obligations under the Loan Documents to which it is or may become a party. The federal tax identification number and state organizational number for Debtor are set forth below:

<i>Federal Tax Identification Number</i>	<i>State Filing Number</i>
75-2553228	0126565300

(b) **Binding Obligations.** The execution, delivery, and performance of the Loan Documents by Obligor have been duly authorized by all necessary action by such Obligor, and constitute legal, valid, and binding obligations of such Obligor, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, or similar laws of general application relating to the enforcement of creditors' rights and except to the extent specific remedies may generally be limited by equitable principles.

(c) **No Consent.** The execution, delivery, and performance of the Loan Documents, and the consummation of the transactions contemplated thereby, do not (i) conflict with, result in a violation of, or constitute a default under (1) any provision of the Constituent Documents (if any) or other instrument binding upon any Obligor, (2) any law, governmental regulation, court decree, or order applicable to any Obligor, or (3) any contractual obligation, agreement, judgment, license, order, or permit applicable to or binding upon any Obligor, (ii) require the consent, approval, or authorization of any third party, or (iii) result in or require the creation of any lien, charge, or encumbrance upon any property or assets of any Obligor except in favor of Lender.





(d) **Financial Condition.** Each financial statement of each Debtor supplied to Lender truly discloses and fairly presents Debtor's financial condition as of the date of each such statement. There has been no material adverse change in such financial condition or results of operations of any Obligor subsequent to the date of the most recent financial statement supplied to Lender.

(e) **Operation of Business.** Debtor will (i) possess all contracts, licenses, permits, franchises, patents, copyrights, trademarks, and trade names, or rights thereto, necessary to conduct its businesses substantially as now conducted and as presently proposed to be conducted, and (ii) not be in violation of any valid rights of others with respect to any of the foregoing.

(f) **Litigation and Judgments.** There is no action, suit, investigation, or proceeding before or by any Governmental Authority or arbitrator pending, or to the knowledge of Debtor, threatened against or affecting any Obligor that would, if adversely determined, have a Material Adverse Effect. There are no outstanding judgments against Debtor.

(g) **Rights in Properties; Liens.** Subject to the first lien rights to the Collateral under Pre-Existing Loans and prior interests and liens described in the Security Agreement securing the Pre-Existing Loans, Debtor has good title to or valid leasehold interests in its properties and other assets, and none of the properties or assets of Debtor are subject to any lien (except those liens expressly subordinated to Lender), except Permitted Encumbrances.

(h) **Disclosure.** No statement, information, report, representation, or warranty made by any Obligor in the Loan Documents or furnished to Lender in connection with the Loan Documents or any of the transactions contemplated hereby contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to any Obligor which could reasonably be expected to have a Material Adverse Effect that has not been disclosed in writing to Lender.

(i) **Agreements.** Debtor is not a party to any agreement or instrument, or subject to any charter or corporate or other organizational restriction, which could reasonably be expected to have a Material Adverse Effect. Except as disclosed in writing to Lender, Debtor is not in default in any material respect in the performance, observance, or fulfillment of any of the obligations, covenants, or conditions contained in any agreement or instrument material to its business.

(j) **Compliance with Laws.** Debtor is not in violation of any law, rule, regulation, order, or decree of any Governmental Authority or arbitrator, the violation of which could reasonably be expected to have a Material Adverse Effect.

(k) **Taxes; Governmental Charges.** Obligor has filed all federal, state, and local tax reports and returns required by any law or regulation to be filed by it and has either duly paid all taxes, duties, and charges indicated due on the basis of such returns and reports, or made adequate provision for the payment thereof, and the assessment of any material amount of additional taxes in excess of those paid and reported is not reasonably expected, except as disclosed in writing to Lender on Schedule B attached hereto.

(l) **Security Interest.** Debtor has and will have at all times full right, power, and authority to grant a security interest in the Collateral to Lender in the manner provided herein, free and clear of any lien, security interest, or other charge or encumbrance other than for the Permitted Encumbrances. This Agreement creates a legal, valid, and binding second priority security interest (subject to Permitted Encumbrances in Section 1(o)(i)-(ix)) in favor of Lender in the Collateral.

(m) **Location.** Debtor's chief executive office and the office where the records concerning the Collateral are kept are at its address set forth on the signature page hereof.

7. **Covenants.** Until all Indebtedness of Debtor under the Loan Documents is indefeasibly paid or performed, and Lender has no further commitment to lend under the Credit Facility, Debtor agrees and covenants as follows:

(a) **Compliance with Laws.** Debtor will comply with all applicable statutes, rules, regulations, or ordinances imposed by any Governmental Authority upon Debtor and its business, operations, and properties (including without limitation, all applicable environmental statutes, rules, regulations, and ordinances) where the failure to perform or comply could have a Material Adverse Effect.

(b) **Payment of Obligations.** Debtor will use its best efforts to pay its obligations, including tax liabilities, that, if not paid, could become a lien on any of its property or assets, before the same shall become delinquent or in default, except where (i) the validity or amount thereof is being contested in good faith by appropriate proceedings, and (ii) Debtor has set aside on its books adequate reserves with respect thereto in accordance with GAAP.

(c) **Maintenance and Conduct of Business.** Debtor will keep, maintain, and preserve all property and assets material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(d) **Books and Records; Inspection Rights.** Debtor will keep proper books of record and account in which full, true, and correct entries are made of all dealings and transactions in relation to its business and activities. Debtor will permit any representatives designated by Lender, upon reasonable prior notice, to visit and inspect its properties and assets, to examine and make extracts from its books and records, and to discuss its affairs, finances, and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested. If the credit facility is dependent on the collateral (i.e., the credit facility is tied to a borrowing base), certain covenants relating to collateral may be appropriate (such as ones that relate to accounts receivable). However, if the credit is a term loan or a "free" revolving credit facility, what the lender wants is correct books and records (which would include accurate entries relating to accounts receivable).

(e) **Insurance.** Debtor will maintain insurance, including but not limited to, fire insurance, comprehensive property damage, public liability, worker's compensation, business interruption, Director and Officer error and omissions coverage ("D & O"), and other insurance deemed reasonably necessary by Lender. Debtor will, at its own expense, maintain insurance with respect to all Collateral in such amounts, against such risks, in such form and with such insurers, as shall be reasonably satisfactory to Lender from time to time.

(f) **Compliance with Agreements.** Debtor will comply with and keep in full force and effect all material licenses, permits, agreements, contracts, and instruments binding on it or affecting its properties, assets, or business.

(g) **Notices of Material Events.** Debtor will furnish to Lender prompt written notice of the following: (i) the occurrence of any Event of Default; (ii) the filing or commencement of any action, suit, or proceeding by or before any arbitrator or Governmental Authority against or affecting any Obligor that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect; (iii) any and all (1) material adverse changes in

any Obligor's business affairs or operations or the financial condition of such Obligor, and (2) claims made against any Obligor that could materially affect the financial condition of such Obligor. Each notice delivered under this Section shall be accompanied by a statement of an executive officer of Debtor setting forth the details of the event or development requiring such notice.

(h) **Ownership and Liens.** Debtor will maintain good and indefeasible title to the Collateral free and clear of all liens, security interests, encumbrances, or adverse claims, except for Permitted Encumbrances. Debtor will use its best efforts to cause any financing statement or other security instrument with respect to the Collateral to be terminated, except for Permitted Encumbrances. Debtor will defend at its expense Lender's right, title, and security interest in and to the Collateral against the claims of any third party except for claims, should any ever arise, as to existing Permitted Encumbrances more particularly identified in Schedule A.

(i) **Indebtedness.** Debtor will not voluntarily create, incur, assume, or permit to exist any Debt except for the following ("Permitted Indebtedness"):

- (i) The Indebtedness created hereunder;
- (ii) Other Debt set forth in Schedule A; and
- (iii) Debt within the scope of Section 10(l).

(j) **Loans, Guaranties, and Investments.** Debtor will not (i) lend money or make advances to any Person, (ii) guarantee any obligation of any other Person or entity, or (iii) purchase or acquire any stock, obligations, or securities of, or any other interest in, or make any capital contribution to, any Person.

(k) **Transfer or Encumbrance.** Debtor will not (i) sell, assign (by operation of law or otherwise), transfer, exchange, lease, or otherwise dispose of any of the Collateral, except in the ordinary course of business, (ii) grant a lien or security interest in or execute, file, or record any financing statement or other security instrument with respect to the Collateral other than the Permitted Encumbrances, or (iii) deliver actual or constructive possession of any of the Collateral to any Person other than Lender, except for: (1) transfers previously disclosed to Lender, (2) the sale or lease of inventory in the ordinary course of business, (3) the sale or other disposal of any item of equipment which is worn out or obsolete, or 4) the delivery of tools and equipment to persons for repair, maintenance, or use on Debtor's behalf in the ordinary course of business.

(l) **Impairment of Security Interest.** Debtor will not take any action that would in any manner impair the enforceability of Lender's security interest in any Collateral.

(m) **Compromise of Collateral; Information Concerning Collateral.** Debtor will not adjust, settle, compromise, amend, or modify any Collateral, except an adjustment, settlement, compromise, amendment, or modification in good faith and in the ordinary course of business; provided, however, this exception shall terminate following written notice from Lender upon the occurrence and during the continuation of an Event of Default, but no such notice shall affect Debtor's right to compromise and settle disputed claims. Debtor shall provide to Lender such information concerning the Collateral as Lender may reasonably request from time to time.

(n) **Financing Statement Filings and Business Operations.** Debtor will not cause or permit any change (i) in the location of any Collateral, (ii) in the location of any records concerning any Collateral, (iii) Debtor's legal name, or (iv) the state of Debtor's organization to a

jurisdiction other than as represented herein unless Debtor shall have notified Lender in writing of such change at least THIRTY (30) days prior to the effective date of such change, and shall have first taken all action required by Lender for the purpose of further perfecting or protecting the security interest in favor of Lender in the Collateral. Debtor will not alter the character of its business in any material respect from that conducted as of the Closing Date.

(o) **Use of Proceeds.** Lender understands that Debtor will/may hereafter receive payment (a) for sales of products in the ordinary course of business; (b) for distribution rights, manufacturing rights, licensing fees and royalties, franchise fees and royalties, and perhaps other fees and royalties; (c) for legal claims and recoveries; (d) of notes, accounts receivable, and other obligations; and/or (e) of other sums of money in connection with the Collateral, pursuant to business transactions, contracts, and/or lawsuits or other legal actions to which Debtor is now and/or might hereafter become a party. As long as Debtor is not in default, Debtor may use such payments in the ordinary course of its business.

8. **Additional Agreements.** Debtor and Lender agrees as follows:

(a) **Right to Convert.**

(i) Lender may (but shall not be required to do so) at anytime on or after July 31, 2009 convert the outstanding indebtedness owing under this Credit Facility or \$450,000.00 thereof, whichever is less, to Series A Preferred Stock. Such conversion shall be based on a formula wherein each \$15,000.00 of indebtedness shall, at the election of Lender, be converted into One percent (1.0%) of the total shares of Stock (Common and Preferred) of the Company outstanding on July 31, 2009. By way of example, if Lender elects to convert all \$450,000.00 of the Credit Facility then the Company will issue Lender Series A Preferred Stock equal to Thirty percent (30%) of the total outstanding shares of the Company on July 31, 2009 (which Thirty percent (30%) shall be in addition to any other conversion rights of Jones identified or referenced in any other agreement including, but not limited to, the conversion rights of Jones as set forth in the Investment Agreement).

(ii) Anti-dilution: The Company shall also issue Series A Preferred shares to Lender to the extent necessary to prevent dilution of the equity position acquired under Subparagraph (i) by shares issued after July 31, 2009 upon the exercise of existing conversion rights, warrants and options by any other person or party or with respect to conversion of the New Note under the Investment Agreement. Series A Preferred shares issued for anti-dilution under this paragraph shall not accrue or receive any dividends declared and paid on Series A Preferred shares issued for conversion of debt under Section 8(a)(i), and Lender irrevocably waives and relinquishes unto Debtor all dividends on such anti-dilution shares.

(iii) Lender's right to convert the Indebtedness to stock is not personal to him and may be assigned by Lender upon written notice to Debtor.

(b) **Board of Directors.**

(i) Lender shall have a "Right of Appointment" to designate two (2) members of the Board of Directors on a continuing basis subject to sub-paragraphs (ii) and (viii). The Right of Appointment is in lieu of Lender's right as a shareholder to vote for the election of directors.

(ii) Lender's first designee shall be himself, unless all Board members besides Lender and his other designee agree otherwise. Lender's second designee shall be the company's current President, David Lyon, so long as he is ready, willing, and able to serve, whether or not he remains an officer or employee of the company, unless all Board members besides Lyon agree otherwise. If Lyon resigns as a Director or otherwise ceases to be ready, willing, and able to serve, then Lender may appoint a person of his choosing to be his second designee, but Lender may not appoint a member of his family unless all Board members besides Lender and his other designee agree.

(iii) The Board shall promptly recognize eligible designees as full members of the Board upon written notification from Lender.

(iv) Lender's right is exercisable at the annual meeting of shareholders and at any time a vacancy exists as to any of the Directors designated by Lender.

(v) Debtor agrees that it will amend its Bylaws in order to limit the number of Directors to a total number of five (5) including the two (2) directors to be designated by Lender.

(vi) Lender's right to designate two (2) directors as provided herein shall survive the repayment of the Credit Facility or conversion of the Indebtedness as provided herein, subject to sub-paragraph (viii).

(vii) The Parties agree to amend the Investment Agreement by separate written instrument to delete Subsections B.1 and B.2 of Exhibit A thereto. All other provisions of the Investment Agreement not expressly amended hereby remain in full force and effect.

(viii) Lender's Right of Appointment shall terminate as to the second Board member in either of the following events:

1. No party entitled to convert debt to equity as provided in the Investment Agreement or this Agreement has elected to convert such debt to Fifteen percent (15%) or more of the outstanding shares of Debtor's stock and neither party remains unilaterally entitled and able to do so; or
2. Such debt converts to more than Fifteen percent (15%) but Lender later ceases to own more than Fifteen percent (15%).

Lender's Right of Appointment shall fully terminate as to both Board members in either of the following events:

1. No party entitled to convert debt as provided in the Investment Agreement or this Agreement has elected to convert such debt to at least One percent (1%) of the outstanding shares of Debtor's stock and neither party remains unilaterally entitled and able to do so; or
2. Such debt converts to One percent (1%) but Lender later ceases to own One percent (1%).

Partial or full termination of the Right of Appointment shall operate to vacate the seat(s) of Director(s) then serving under the Right of Appointment.

9. **Rights of Lender.** Lender shall have the rights contained in this Section at all times that this Agreement is effective.

(a) **Financing Statements.** Debtor hereby authorizes Lender to file, without the signature of Debtor, one or more financing or continuation statements, and amendments thereto, relating to the Collateral. Debtor hereby irrevocably authorizes Lender at any time and from time to time to file in any Code jurisdiction any initial financing statements and amendments thereto that indicate the Collateral as being all assets of Debtor or words of similar effect.

(b) **Power of Attorney.** Debtor hereby irrevocably appoints Lender as Debtor's attorney-in-fact, such power of attorney being coupled with an interest, with full authority in the place and stead of Debtor and in the name of Debtor or otherwise, from time to time following the occurrence and during the continuation of an Event of Default in Lender's reasonable discretion, to take any action and to execute any instrument which Lender may deem necessary or appropriate for the exercise and enforcement of Lender's Remedies as provided herein.

(c) **Performance by Lender.** If any Obligor fails to perform any agreement or obligation provided for in any Loan Document, Lender may itself perform, or cause performance of, such agreement or obligation, and the expenses of Lender incurred in connection therewith shall be a part of the Indebtedness, secured by the Collateral and payable by Debtor on demand.

(d) **Debtor's Receipt of Proceeds.** Upon the occurrence and during the continuation of an Event of Default, and after written notice from Lender to Debtor, all amounts and proceeds (including instruments and writings) received by Debtor in respect of the Collateral shall be received in trust for the benefit of Lender hereunder and, upon the written request of Lender, shall be segregated from other Property of Debtor and shall be forthwith delivered to Lender in the same form as so received (with any necessary endorsement) and applied to the Indebtedness in accordance with the Loan Documents. This provision shall not apply to proceeds of purchase orders and invoices pledged to secure PO Loans listed in Schedule A.

(e) **Notification of Account Debtors.** Lender may at its reasonable discretion from time to time during the continuation of an Event of Default, and after written notice from Lender to Debtor, notify any or all obligors under any accounts or general intangibles (i) of Lender's security interest in such accounts or general intangibles and direct such obligors to make payment of all amounts due or to become due to Debtor thereunder directly to Lender, and (ii) to verify the accounts or general intangibles with such obligors. Lender shall have the right, at the expense of Debtor, to enforce collection of any such accounts or general intangibles and to adjust, settle, or compromise the amount or payment thereof, in the same manner and to the same extent as Debtor. This provision shall not apply to purchase orders and receivables pledged to secure PO Loans listed in Schedule A.

10. **Protective Provisions.** As long as any of the Credit Facility remains unpaid, the Corporation shall not without first obtaining the unanimous approval of the Directors designated by Lender as provided for herein:

(a) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock (by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise);

(b) increase or decrease the total number of outstanding shares of Series A Preferred Stock (or any series thereof) (by means of amendment to the Articles of Incorporation or by

merger, consolidation or otherwise), except pursuant to a share division (a.k.a. stock split) or combination (a.k.a. reverse stock split) that does not change Lender's percentage interest in total equity of the Company;

(c) authorize or issue, or obligate itself to issue, or reclassify any securities into, any equity security (including any security convertible into or exercisable for any such equity security) having rights, preferences or privileges senior or superior to, or being on a parity with, the rights, preferences and privileges of the Series A Preferred Stock (by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise), except as may be expressly provided in Exhibit A to the Investment Agreement;

(d) declare or pay any dividend or declare or make any distribution in respect of, or redeem, purchase or otherwise acquire any of, (or pay into or set aside for a sinking fund for such purpose) its capital stock or other equity securities;

(e) (i) merge or consolidate with or into any other entity, (ii) effect any transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Corporation is disposed of, (iii) effect a reorganization, recapitalization or division (by means of amendment to the Certificate of Incorporation or by merger, consolidation or otherwise) or (iv) liquidate, dissolve or wind-up;

(f) permit any subsidiary of the Corporation to (i) sell, lease, assign, license, convey, or otherwise dispose of or encumber all or any substantial portion of its assets, property or business, (ii) merge or consolidate with or into any other entity, or (iii) liquidate, dissolve or wind-up;

(g) amend the Corporation's Articles of Incorporation or By-Laws (by means of amendment to the Articles of Incorporation or by merger, consolidation or otherwise), except as authorized by the Investment Agreement;

(h) (i) permit any subsidiary of the Corporation to authorize or issue any security to any person or entity other than to the Corporation or (ii) sell, assign, encumber, convey or otherwise dispose of any security of any subsidiary of the Corporation;

(i) sell, lease, assign, license, convey, or otherwise dispose of or encumber any assets or property of the Corporation or any subsidiary of the Corporation outside of the ordinary course of business. A technology license granted in an arm's length business transaction or in settlement of litigation where Debtor has sued (or counterclaimed) to protect its Intellectual Property Rights shall be deemed to be in the ordinary course of business;

(j) acquire or permit any subsidiary of the Corporation to acquire (by merger, purchase of stock or assets, any other business combination transaction or otherwise) any assets or securities for a cumulative, aggregate price of more than \$100,000.00 other than in the ordinary course of business;

(k) engage, or permit any subsidiary of the Corporation to engage, in any business other than the business in which the Corporation is engaged on the date hereof;

(l) incur any additional debt (other than trade payables incurred in the ordinary course of business or except as otherwise provided in Section 7(i) herein) or guaranty the debt of any other person or entity or permit any subsidiary of the Corporation to incur any debt (other than trade payables incurred in the ordinary course of business) or guaranty any debt such that the

aggregate outstanding amount of all debt and guarantees of third party obligations of the Company and its subsidiaries is more than \$500,000;

(m) authorize or issue any shares of Common Stock, Options or Convertible Securities to any employee, director, officer, consultant or advisor of the Corporation or any of its subsidiaries;

(n) enter into, or permit any subsidiary of the Corporation to enter into, any agreement, understanding or transaction with any employee, director, officer, stockholder or Affiliate (as defined below) or any Affiliate or Family Member (as defined below) thereof other than (i) for payment of salary for services rendered by the Corporation's employees and (ii) reimbursement of the Corporation's employees for reasonable expenses incurred on behalf of the Corporation; or

(o) grant or otherwise provide, or permit any subsidiary of the Corporation to grant or otherwise provide, any of the special voting and consent rights reserved solely to the holders of the Series A Preferred Stock to any other Person (as defined below) other than Lender.

"Affiliate" means, with respect to the Corporation or any other specified natural person, corporation, limited partnership, general partnership, limited liability company, joint stock company, joint venture, association, company, trust, bank, trust company, land trust, business trust, or other organization, whether or not a legal entity, or any government and agency and political subdivision thereof (each, a "Person"), any Person directly or indirectly controlling, controlled by or under direct or indirect common control with the Corporation or such other specified Person and shall also include, in the case of a specified Person who is an individual, any Family Member of such Person. "Family Member" means, with respect to any individual, such individual's parents, spouse, and descendants (whether natural or adopted) and any trust or other vehicle formed for the benefit of any one or more of them.

11. **Events of Default.** Each of the following shall constitute an "Event of Default" under this Agreement:

(a) **Payment Default.** The failure, refusal, or neglect of Debtor to pay when due any part of the principal of, or interest on, the Indebtedness owing to Lender by Debtor from time to time and such failure, refusal, or neglect shall continue unremedied for a period of Thirty (30) days from the date such payment is due.

(b) **Performance or Warranty Default.** The failure of any Obligor to timely and properly observe, keep, or perform any covenant, agreement, warranty, or condition required herein or in any of the other Loan Documents, other than with respect to a payment default as set forth in Section 11(a), which is not cured within THIRTY (30) Business Days following written notice from Lender to such Obligor.

(c) **Representations.** Any representation contained herein or in any of the other Loan Documents made by an Obligor is false or misleading in any material respect.

(d) **Bankruptcy.** If any Obligor (i) makes a transfer in fraud of creditors, or makes an assignment for the benefit of creditors, (ii) has a receiver, trustee, or custodian appointed for, or take possession of, all or substantially all of its assets, either in a proceeding brought by it or in a proceeding brought against it and such appointment is not discharged or such possession is not terminated within SIXTY (60) days after the effective date thereof or it consents to or acquiesces in such appointment or possession; (iii) files a petition for relief under the United States Bankruptcy Code or any other present or future federal or state insolvency, Bankruptcy or similar



laws (all of the foregoing hereinafter collectively called "Applicable Bankruptcy Law") or an involuntary petition for relief is filed against it under any Applicable Bankruptcy Law and such involuntary petition is not dismissed within SIXTY (60) days after the filing thereof, or an order for relief naming it is entered under any Applicable Bankruptcy Law, or any composition, rearrangement, extension, reorganization, or other relief of debtors now or hereafter existing is requested or consented to by it; or (iv) fails to have discharged within a period of SIXTY (60) days any attachment, sequestration or similar writ levied upon any property of Obligor.

(e) **Action of Lien Holder.** The holder of any lien or security interest in the Collateral (without hereby implying the consent of Lender to the existence or creation of any such lien or security interest on the Collateral) institutes foreclosure or other proceedings for the enforcement of its remedies thereunder.

(f) **Material Adverse Effect.** Any event shall have occurred that is continuing which has a Material Adverse Effect.

Nothing contained in this Agreement shall be construed to limit the events of default enumerated in any of the other Loan Documents and all such events of default shall be cumulative.

12. **Remedies and Related Rights.** If an Event of Default shall have occurred, and without limiting any other rights and remedies provided herein, under any of the Loan Documents or otherwise available to Lender, Lender may exercise one or more of the rights and remedies provided in this Section.

(a) **Remedies.** Upon the occurrence of anyone or more of the foregoing Events of Default, (i) the entire unpaid balance of principal of the Note, together with all accrued but unpaid interest thereon, shall, at the option of Lender, become immediately due and payable without further notice, demand, presentation, notice of dishonor, notice of intent to accelerate, protest, or notice of protest of any kind, all of which are expressly waived by Debtor, and (ii) Lender may, at its option, cease further advances under the Note and this Agreement; provided, however, concurrently and automatically with the occurrence of a Bankruptcy filing, further advances under the Loan Documents shall automatically cease, the Indebtedness at such time shall, without any action by Lender, become due and payable, without further notice, demand, presentation, notice of dishonor, notice of acceleration, notice of intent to accelerate, protest, or notice of protest of any kind, all of which are expressly waived by Debtor. All rights and remedies of Lender set forth in this Agreement and in any of the other Loan Documents may also be exercised by Lender, at its option to be exercised in its sole discretion, upon the occurrence of an Event of Default, and not in substitution or diminution of any rights now or hereafter held by Lender under the terms of any other agreement.

(b) **Other Remedies.** Lender may from time to time at its discretion, without limitation and without notice except as expressly provided in any of the Loan Documents:

(i) Exercise in respect of the Collateral all the rights and remedies of a secured party under the Code (whether or not the Code applies to the affected Collateral), subject to all duties imposed on a secured party by the Code or on Lender by the Loan Documents;

(ii) Require Debtor to, and Debtor hereby agrees that it will at its expense and upon request of Lender, assemble the Collateral as directed by Lender and make it available to Lender at a place to be designated by Lender which is reasonably convenient to both parties;

(iii) Reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest granted hereunder by any available judicial procedure;

(iv) Sell or otherwise dispose of, at its office, on the premises of Debtor or elsewhere, the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale or other disposition of any part of the Collateral shall not exhaust Lender's power of sale, but sales or other dispositions may be made from time to time until all of the Collateral has been sold or disposed of or until the Indebtedness has been paid and performed in full), and at any such sale or other disposition it shall not be necessary to exhibit any of the Collateral;

(v) Buy the Collateral, or any portion thereof, at any public sale;

(vi) Buy the Collateral, or any portion thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations;

(vii) Apply for the appointment of a receiver for the Collateral, and

(viii) At its option, retain the Collateral in satisfaction of the Indebtedness whenever the circumstances are such that Lender is entitled to do so under the Code or otherwise.

Secured Party shall give Debtor at least twenty-one (21) days written notice of any public or private sale of the Collateral in the manner provided for notices generally in Section 19 below. Notice will be timely and reasonable if (a) actually received by Debtor on a Business Day that is at least twenty-one (21) days before the sale, or (b) deposited in a depository receptacle under the care and custody of the United States Postal Service, postage prepaid, to Debtor's address for notice as listed herein at least twenty-four (24) days before the sale. Lender may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and reconvene such sale without further notice, to be made at the time and place to which it was so adjourned.

(c) **Application of Proceeds.** If any Event of Default shall have occurred, Lender may at its discretion apply or use any cash held by Lender as Collateral and any cash proceeds received by Lender in respect of any sale or other disposition of, collection from, or other realization upon, all or any part of the Collateral as follows in such order and manner as Lender may elect:

(i) to the repayment or reimbursement of the reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by Lender in connection with (1) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, the Collateral, and (2) the exercise or enforcement of any of the rights and remedies of Lender hereunder;

(ii) to the payment or other satisfaction of any liens and other encumbrances upon the Collateral;

(iii) to the satisfaction of the Indebtedness;

(iv) by holding such cash and proceeds as Collateral;

(v) to the payment of any other amounts required by applicable law; and

(vi) by delivery to Debtor or any other party lawfully entitled to receive such cash or proceeds whether by direction of a court of competent jurisdiction or otherwise.

(d) **License.** Lender is hereby granted a license or other right to use, following the occurrence and during the continuance of an Event of Default, without charge, Debtor's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, customer lists, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral, and, following the occurrence and during the continuance of an Event of Default, Debtor's rights under all licenses and all franchise agreements shall inure to Lender's benefit. In addition, Debtor hereby irrevocably agrees that Lender may, following the occurrence and during the continuance of an Event of Default, sell any of Debtor's inventory directly to any Person, including without limitation Persons who have previously purchased Debtor's inventory from Debtor and in connection with any such sale or other enforcement of Lender's rights under this Agreement, may sell inventory which bears any trademark owned by or licensed to Debtor and any inventory that is covered by any copyright owned by or licensed to Debtor and Lender may finish any work in process and affix any trademark owned by or licensed to Debtor and sell such inventory as provided herein.

(e) **Deficiency.** In the event that the proceeds of any sale of, collection from, or other realization upon, all or any part of the Collateral by Lender are insufficient to pay all amounts to which Lender is legally entitled, Obligor (unless otherwise provided) shall be liable for the deficiency, together with interest thereon as provided in the Loan Documents.

(f) **Non-Judicial Remedies.** In granting to Lender the power to enforce its rights hereunder without prior judicial process or judicial hearing, Debtor expressly waives, renounces, and knowingly relinquishes any legal right which might otherwise require Lender to enforce its rights by judicial process. Debtor recognizes and concedes that non-judicial remedies are consistent with the usage of trade, are responsive to commercial necessity, and are the result of a bargain at arm's length. Nothing herein is intended to prevent Lender or Debtor from resorting to judicial process at either party's option.

(g) **Other Recourse.** Obligor waives any right to require Lender to proceed against any third party, exhaust any Collateral or other security for the Indebtedness, or to have any third party joined with Debtor in any suit arising out of the Indebtedness or any of the Loan Documents, or pursue any other remedy available to Lender. Debtor further waives any and all notice of acceptance of this Agreement. Obligor further waives any defense arising by reason of any disability or other defense of any third party or by reason of the cessation from any cause whatsoever of the liability of any third party. Until all of the Indebtedness shall have been paid in full, no Obligor shall have no right of subrogation, and Obligor waives the right to enforce any remedy which Lender has or may hereafter have against any third party and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Lender. Third-party Obligor authorizes Lender, and without notice or demand and without any reservation of rights against such Obligor and without affecting such Obligor's liability hereunder or on the Indebtedness, to (i) take or hold any other property of any type from any third party as security for the Indebtedness, and exchange, enforce, waive, and release any or all of such other property, (ii) apply such other property and direct the order or manner of sale thereof as Lender may in its discretion determine, (iii) renew, extend, accelerate, modify, compromise, settle, or release any of the Indebtedness or other security for the Indebtedness, (iv) waive, enforce, or modify any of the

provisions of any of the Loan Documents executed by any third party, and (v) release or substitute any third party.

(h) **No Waiver; Cumulative Remedies.** No failure on the part of Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power, or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power, or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. The rights and remedies provided for in this Agreement and the other Loan Documents are cumulative and not exclusive of any rights and remedies provided by law.

(i) **Equitable Relief.** Debtor recognizes that in the event Debtor fails to pay, perform, observe, or discharge any or all of the Indebtedness, any remedy at law may prove to be inadequate relief to Lender such that Lender might be entitled to injunctive relief.

13. **Indemnity.** Debtor hereby indemnifies and agrees to hold harmless Lender, and his agents and representatives (each an "Indemnified Person") from and against any and all liabilities, obligations, claims, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature (collectively, the "Claims") which may be imposed on, incurred by, or asserted against, any Indemnified Person arising in connection with the Loan Documents, the Indebtedness, or the Collateral (including without limitation, the enforcement of the Loan Documents and the defense of any Indemnified Person's actions and/or inactions in connection with the Loan Documents). **WITHOUT LIMITATION, THE FOREGOING INDEMNITIES SHALL APPLY TO EACH INDEMNIFIED PERSON WITH RESPECT TO ANY CLAIMS WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF THE NEGLIGENCE OF SUCH AND/OR ANY OTHER INDEMNIFIED PERSON**, except to the limited extent the Claims against an Indemnified Person are proximately caused by such Indemnified Person's gross negligence or willful misconduct. If Debtor or any third party ever alleges such gross negligence or willful misconduct by any Indemnified Person, the indemnification provided for in this Section shall nonetheless be paid upon demand, subject to later adjustment or reimbursement, until such time as (a) a court of competent jurisdiction enters a final judgment as to the extent and effect of the alleged gross negligence or willful misconduct, or (b) Lender has expressly agrees in writing with Debtor that such Claim is proximately caused by such Indemnified Person's gross negligence or willful misconduct. The indemnification provided for in this Section shall survive the termination of this Agreement and shall extend and continue to benefit each individual or entity that is or has at any time been an Indemnified Person hereunder.

14. **Limitation of Liability and Releases.** Neither Lender nor any affiliate, officer, director, employee, attorney, or agent of Lender shall have any liability with respect to, and Debtor hereby waives, releases, and agrees not to sue any of them upon, any claim for any special, indirect, incidental, or consequential damages suffered or incurred by Debtor in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents. Debtor hereby waives, releases, and agrees not to sue Lender or any of Lender's affiliates, officers, directors, employees, attorneys, or agents for punitive damages in respect of any claim in connection with, arising out of, or in any way related to, this Agreement or any of the other Loan Documents, or any of the transactions contemplated by this Agreement or any of the other Loan Documents.

15. **No Duty.** All attorneys, accountants, appraisers, and other professional Persons and consultants retained by Lender shall have the right to act exclusively in the interest of Lender and shall have no duty of disclosure, duty of loyalty, duty of care, or other duty or obligation of any type or nature whatsoever to any Debtor or any of any Debtor's equity holders or any other Person. Documents in connection with the transactions contemplated hereunder have been prepared by **DAVID B. GILES**,

ESQ. ("Lender's Counsel") but have been freely negotiated by counsel for Debtor. Debtor acknowledges and understands that Lender's Counsel is acting solely as counsel to Lender in connection with the transaction contemplated herein, is not representing any Obligor in connection therewith, and has not, in any manner, undertaken to assist or render legal advice to any Obligor with respect to this transaction. Debtor has been advised to seek other legal counsel to represent each of their interests in connection with the transactions contemplated herein.

16. **Lender Not Fiduciary.** No term or condition of any of the Loan Documents shall be construed so as to deem the relationship created by this Agreement and the related Loan Documents between Debtor and Lender to be other than that of debtor and creditor.

17. **Waiver and Agreement.** Neither the failure nor any delay on the part of Lender or Debtor to exercise any right, power, or privilege herein or under any of the other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise of such right, power, or privilege preclude any other or further exercise thereof or the exercise of any other right, power, or privilege. No waiver of any provision in this Agreement or in any of the other Loan Documents and no departure by Debtor therefrom shall be effective unless the same shall be in writing and signed by Lender, and then shall be effective only in the specific instance and for the purpose for which given and to the extent specified in such writing. No modification or amendment to this Agreement or to any of the other Loan Documents shall be valid or effective unless the same is signed by the party against whom it is sought to be enforced.

18. **Benefits.** This Agreement shall be binding upon and inure to the benefit of Lender and Obligor, and their respective successors and assigns, provided, however, that Debtor may not, without the prior written consent of Lender, assign any rights, powers, duties, or obligations under this Agreement or any of the other Loan Documents. No sale, transfer, assignment, participation, pass-through certificate, or other security or instrument evidencing any transfer of a legal or beneficial interest in the Note, this Agreement, or the lien arising hereunder shall be effective unless preceded by thirty (30) days written notice to Debtor.

19. **Notices.** All notices, requests, demands, or other communications required or permitted to be given pursuant to this Agreement shall be in writing and given by (a) personal delivery; (b) expedited delivery service with proof of delivery, or (c) United States mail, postage prepaid, registered or certified mail, return receipt requested, sent to the intended addressee at the address set forth on the signature page hereof and shall be deemed to have been received either, in the case of personal delivery, as of the time of personal delivery, in the case of expedited delivery service, as of the time of the expedited delivery and in the manner provided herein, or in the case of mail, upon the THIRD (3<sup>rd</sup>) day after deposit in a depository receptacle under the care and custody of the United States Postal Service. Any party shall have the right to change its address for notice hereunder to any other location within the continental United States by notice to the other party of such new address. If notice is given by mail, additional notice by fax or Email addressed to the President of Debtor shall be promptly given.

20. **Construction; Venue; Service of Process.** The Loan Documents have been executed and delivered in the State of Texas, shall be governed by and construed in accordance with the laws of the State of Texas, and shall be performable by the parties hereto in the county in Texas where Lender's address set forth on the signature page hereof is located (the "Venue Site"). Any action or proceeding against any Obligor or against Lender under or in connection with any of the Loan Documents shall be brought in any state or federal court within the Venue Site. Obligor hereby irrevocably (a) submits to the exclusive jurisdiction of such courts, and (b) waives any objection it may now or hereafter have as to the venue of any such action or proceeding brought in any such court or that any such court is an inconvenient forum. Obligor agrees that service of process upon it may be made by certified or registered mail, return receipt requested, at its address specified or determined in accordance with the provisions this

Agreement. Nothing in any of the other Loan Documents shall affect the right of Lender to serve process in any other manner permitted by law or shall limit the right of Lender to bring any action or proceeding against any Obligor or with respect to any of its property in courts in other jurisdictions. Any action or proceeding by any Obligor against Lender shall be brought only in a court located in the Venue Site.

21. **Invalid Provisions.** If any provision of the Loan Documents is held to be illegal, invalid, or unenforceable under present or future laws, such provision shall be fully severable and the remaining provisions of the Loan Documents shall remain in full force and effect and shall not be affected by the illegal, invalid, or unenforceable provision or by its severance.

22. **Participation of the Loans.** Debtor agrees that Lender may, at its option, sell interests in the Loans and its rights under this Agreement and, in connection with each such sale, Lender may disclose any financial and other information available to Lender concerning Debtor to each prospective purchaser subject to obtaining a confidentiality agreement with each prospective purchaser prior to disclosing Debtor's confidential information. No sale, transfer, assignment, participation, pass-through certificate, or other security or instrument evidencing any transfer of an interest in the Note, this Agreement, or the lien arising hereunder shall be effective unless preceded by thirty (30) days written notice to Debtor.

23. **Conflicts.** Except as otherwise expressly provided in the Note, in the event any term or provision of this Agreement is inconsistent with or conflicts with any provision of the other Loan Documents, the terms and provisions contained in this Agreement shall be controlling.

24. **Counterparts.** The Loan Documents may be separately executed in any number of counterparts, each of which shall be an original, but all of which, taken together, shall be deemed to constitute one and the same instrument.

25. **Survival.** All representations and warranties made in the Loan Documents or in any document, statement, or certificate furnished in connection with this Agreement shall survive the execution and delivery of the Loan Documents, and no investigation by Lender or any closing shall affect the representations and warranties or the right of Lender to rely upon them.

26. **Waiver of Right to Trial by Jury.** **THE PARTIES HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, PROCEEDING, OR COUNTERCLAIM THAT RELATES TO OR ARISES OUT OF THE LOAN DOCUMENTS OR THE ACTS OR FAILURE TO ACT OF OR BY LENDER IN THE ENFORCEMENT OF ANY OF THE TERMS OR PROVISIONS OF THE LOAN DOCUMENTS.**

27. **Disclosure Relating to Collateral Protection Insurance.** As of the date of this disclosure, Debtor and Lender have or shall have consummated a transaction pursuant to which Lender has agreed to make Loans to Debtor. Debtor has pledged Collateral to secure the Indebtedness in accordance with the Loan Documents. This notice relates to Debtor's obligations with respect to insuring the Collateral against damage. To this end, Debtor must do the following:

(a) Keep the Collateral insured against damage in the amount equal to the Indebtedness or as otherwise required by the Loan Documents;

(b) Purchase the insurance from an insurer that is authorized to do business in Texas or an eligible surplus lines insurer;

(c) Name Lender the person to be paid under the policy in the event of loss as Lender's interest may appear; and

- (d) Deliver to Lender a copy of the policy and proof of the payment of premiums.

Lender may obtain collateral protection insurance on behalf of Debtor at Debtor's expense if Debtor fails to meet any of the foregoing requirements.

28. **Notice of Final Agreement.** It is the intention of Obligor and Lender that the following **NOTICE OF FINAL AGREEMENT** be incorporated by reference into each of the Loan Documents (as the same may be amended, modified, or restated from time to time). Obligor and Lender warrant and represent that the entire agreement made and existing by or among Obligor and Lender with respect to the Loans is and shall be contained within the Loan Documents, and that no agreements or promises exist or shall exist by or among, any Obligor and Lender that are not reflected in the Loan Documents.

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**NOTICE OF FINAL AGREEMENT**

**THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES, AND THE SAME MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

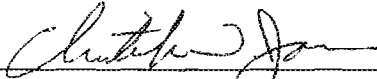
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*[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]*

AGREED as of the date first written above.

**LENDER:**

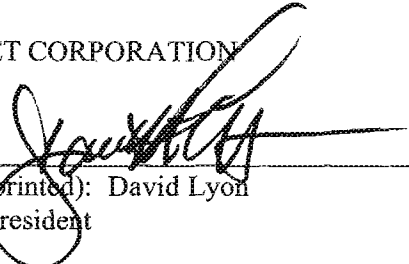
CHRISTOPHER T. JONES

  
Name (printed): Christopher T. Jones

*With copies of notices to:*

**DEBTOR:**

SANIJET CORPORATION

  
Name (printed): David Lyon  
Title: President

*With copies of notices to:*

**ADDRESS:**

Christopher T. Jones  
6200 Maple Avenue  
Dallas, Texas 75235

David B. Giles, Esq.  
8140 Walnut Hill Lane, Suite 820  
Dallas, Texas 75231

**ADDRESS:**

Sanijet Corporation  
1461 South Beltline Road, Suite 100  
Coppell, Texas 75019

Jamie Wall, Esq.  
1461 South Beltline Road, Suite 100  
Coppell, Texas 75019





## SCHEDULE A

### Other Debt

#### Obligation—Promissory Notes:

<b>Note 1:</b>	Date:	November 7, 2008
	Original Principal Sum:	\$450,000.00
	Maker:	Sanijet Corporation
	Payee:	Secured Party
	Final Maturity Date:	November 1, 2009
	Terms of Payment:	As stated therein
<b>Note 2:</b>	Date:	June 30, 2007
	Original Principal Sum:	\$405,000.00
	Maker:	Sanijet Corporation
	Payee:	Secured Party
	Final Maturity Date:	March 31, 2016
	Terms of Payment:	As stated in a Loan Modification and Extension of even date

#### **B. Pre-existing loans from third parties to Debtor:**

Loans (including interest accrued and to accrue in the future) listed in the Debt Conversion Schedule labeled in the footer as "Continuation of Schedule A to Loan and Security Agreement" and attached hereto to the extent such Debt holders have not agreed in writing to convert their loans to equity. Debt holders 1-11 have agreed in writing to convert all or part of their loans to Series B Preferred stock as noted in Column J. Debt holder 12 has verbally agreed to convert \$400,000.00 of her loan. Debtor 13 will not convert. Debtors 14-16 are undetermined at this time. Loans 12-16 are the PO Loans.

- C.** Trade payables (including professional fees and expenses), accrued salaries and payroll (including reimbursable expenses), customer deposits, capital leases, accrued warranty cost reserves, advance payments and capital leases incurred in the normal course of business, whether now owed or hereafter incurred.
- D.** Accrued royalties and interest thereon, whether now owed or hereafter incurred.
- E.** Debt incurred to compromise, settle, pay, or otherwise discharge claims threatened or filed after March 26, 2009 and judgments arising therefrom.

**SANIJET CORPORATION -- DEBT CONVERSION SCHEDULE**  
As of 02-20-09

A	B	C	D	E	F	G	H	I	J	K
#	Debt Holder	Residence	Date of Loan	Original Principal Each Note	Original Principal All Notes Combined	Loan Balance (P & I) as of 12-31-08	Total of all Loan Balances 12-31-08	Percent of Total Loan Balances 12-31-08	Agreed	Percent of Series B Preferred As Agreed
1	Jeff Good	Denver, CO				\$3,806,704	\$7,511,907	48.0132%	\$2,175,815	28.9649%
2	John Booth	Dallas, TX				\$274,786	\$7,511,907	3.6580%	\$274,786	3.6580%
3	Russ Walker	Dallas, TX				\$13,844	\$7,511,907	0.1843%	\$13,844	0.1843%
4	Norma Walker	Dallas, TX				\$312,018	\$7,511,907	4.1536%	\$312,018	4.1536%
5	Mavis Alexander	Dallas, TX				\$576,229	\$7,511,907	7.6709%	\$576,229	7.6709%
6	Tom Brown	Denver, CO				\$381,553	\$7,511,907	5.0793%	\$381,553	5.0793%
7	Dick Brown*	Denver, CO	07/24/01	\$200,000						
			01/11/02	\$175,000						
			04/01/08	\$330,000						
					\$705,000	\$953,844	\$7,511,907	12.6978%	\$953,844	12.6978%
8	Jack Ferguson	Denver, CO	04/04/06	\$60,000						
			08/06/06	\$140,000						
					\$200,000	\$251,028	\$7,511,907	3.3417%	\$251,028	3.3417%
9	Timothy Brown	Denver, CO	12/19/06		\$100,000	\$103,008	\$7,511,907	1.3713%	\$103,008	1.3713%
10	Kathryn Carroll	Denver, CO	12/19/06		\$100,000	\$103,008	\$7,511,907	1.3713%	\$103,008	1.3713%
11	Lynn Curcio	Denver, CO	12/19/06		\$100,000	\$103,008	\$7,511,907	1.3713%	\$103,008	1.3713%
									\$5,248,139	69.8644%
12	Barbara Winkler	Ardmore, OK	05/31/04	\$50,000						
			12/15/04	\$50,000						
			10/21/05	\$300,000						
					\$400,000	\$603,930	\$7,511,907	8.0396%	TBD	TBD
13	Marge Johnson	Denver, CO	09/16/05		\$102,630	\$103,799	\$7,511,907	1.3818%	TBD	TBD
14	Alan Weintraub	Denver, CO	08/07/04		\$10,000	\$17,167	\$7,511,907	0.2285%	TBD	TBD
15	Mary Ann Fore	Ardmore, OK	12/15/04		\$50,000	\$56,571	\$7,511,907	0.7531%	TBD	TBD
16	Pete Peterson	Alpine, TX	08/01/04		\$26,125	\$51,412	\$7,511,907	0.6844%	TBD	TBD
	<b>TOTAL</b>					<b>\$7,511,907</b>		<b>100.0000%</b>		
7	*Dick Brown has agreed to convert when Chris Jones converts his first \$450,000									

Continuation of Schedule A  
to Loan and Security Agreement

**PATENT**  
**REEL: 023538 FRAME: 0676**

**SCHEDULE B**

**Anticipated Tax Assessments**

To be added by supplement but such supplement shall not delay the effective date of this Agreement.

