



*Auger-Type Refuse &
Recycling Compactors*

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SANI-TECH SYSTEMS
SECURITY AGREEMENT - INVENTORY AND PROCEEDS

(Gross Accounting)

THE UNDERSIGNED _____

(Hereinafter called "Debtor") hereby grants to Secured Party (hereinafter called "Sani-Tech Systems, Inc."), a security interest in the following described property, consisting of all of the inventory and stock in trade of the Debtor, including all raw materials and work in process and materials to be used or consumed in the business of Debtor, and all products of Debtor; together with all increases in said property and all property of a similar nature hereafter acquired by Debtor in any of the categories herein described, all of which is hereafter referred to as the property and all property of a similar nature hereafter by Debtor in any of the categories herein described, all of which is hereafter referred to as the "property" together with all cash and non-cash proceeds of such property, including without limitation chattel paper and accounts receivable.

Without limiting the generality of the foregoing, the property covered hereby includes the following:
(Insert description of type of property covered.)

This Security Agreement is given to secure the payment and performance of all indebtedness and obligations of Debtor to Sani-Tech Systems, Inc. presently existing and hereafter arising, direct or indirect and interest thereon. Regardless of the adequacy of any security which Sani-Tech Systems, Inc. may at any time hold hereunder and regardless of the adequacy of any other security which Sani-Tech Systems may obtain at any of its offices from Debtor in connection with any other transactions, any deposits or other moneys owing from Sani-Tech Systems, Inc. at any of its offices to Debtor shall (as collateral in possession of Sani-Tech Systems, Inc.) constitute additional security for, and may be set off against, obligations secured hereby even though said obligations may not then be due. When more than one person is the Debtor, they shall be jointly and severally liable.

DEBTOR HEREBY REPRESENTS, COVENANTS AND AGREES WITH SECURED PARTY AS FOLLOWS:

1. **Use of Property:** Debtor agrees to comply with any governmental regulation affecting the use of the property and will not use nor permit the use of the property in any unlawful manner. Debtor represents and agrees that the primary use of said property is for the use and consumption in his business for manufacturing and for sale or lease.

2. **Debtor and Collateral Location:** The address appearing next to Debtor's signature below is the address of Debtor's chief executive office or, if the Debtor has no place of business, his residence. If the collateral is not located at the Debtor's address appearing below, it will be located at:

Debtor will give Sani-Tech Systems, Inc. prior written notice of any change in either the Debtor's chief executive office or, if he has no place of business, his residence and of any change in collateral location.

3. **Inventory:** The property covered hereby is, and will be at times, be the inventory of the Debtor, and proceeds thereof, and any deposits or moneys owed at any time by Sani-Tech Systems, Inc. to Debtor.
4. **Ownership and Liens:** Debtor owns the property and the same is free and clear of all security interests and encumbrances of every nature. Debtor will not create nor permit the existence of any lien or security interest other than that created hereby on the property without the written consent of Sani-Tech Systems, Inc. Any certificate of title now or hereafter existing on any of the property will be delivered to Sani-Tech Systems, Inc. and will recite the interest of Sani-Tech Systems, Inc.
5. **Taxes:** Debtor will pay before delinquency all taxes or other governmental charges that are or may become a lien or charge on the property and will pay any tax which may be levied on any obligation secured hereby
6. **Repairs and Inspection:** Debtor will keep the property in good repair. Sani-Tech Systems, Inc. may inspect the property at reasonable time and intervals and may for this purpose enter the premises upon which the property is located.
7. **Insurance:** Debtor will keep the property continuously insured by an insurer approved by Sani-Tech Systems, Inc. against fire, theft and other hazards designated at any time by Sani-Tech Systems, Inc., in an amount equal to the full insurable value thereof or to all sums secured hereby, with such form of insurable value thereof or to all sums secured hereby, with such form of loss-payable clause as designated by and in favor of Sani-Tech Systems, Inc. and will deliver the policies and receipts showing payment of premiums to the Sani-Tech Systems, Inc. In the event of loss, Sani-Tech Systems, Inc. shall have full power to collect any and all insurance upon the property and to apply the same at its option to any obligation secured hereby, whether or not matured or to the restoration or repair of the property. Sani-Tech Systems, inc. shall have no liability whatsoever for any loss that may occur by reason of the omission or lack of coverage of any such insurance.
8. **Removal, Sale and Accounting:** Without the prior written consent of Sani-Tech Systems, Inc, Debtor will not remove the property from the State of Washington. Debtor may sell and dispose of said inventory in the ordinary course of business. Either now owned or hereafter acquired, so long as the terms and conditions of this Security Agreement are kept and performed by Debtor, including the following which Debtor agrees to perform except as other wise agreed in writing by Sani-Tech Systems, Inc.

All sales shall be for cash or upon credit for a term not exceeding **thirty (30) days** and all cash proceeds shall immediately be deposited in and account with Sani-Tech Systems, Inc. designated as "collateral account" over which Debtor shall have no control whatsoever, and which shall be held as security for the indebtedness of Debtor.

All negotiable instruments and chattel paper proceeds shall immediately be endorsed and delivered to Sani-Tech Systems, Inc., with full authority to collect.

All resulting accounts receivable arising from the sale or disposition of the inventory are assigned to Sani-Tech Systems, inc. with authority to notify and make collections. Debtor covenants to deliver to Sani-Tech Systems, Inc. copies of all invoices and records of collection or aging or otherwise thereof in such form and frequency as Sani-Tech Systems, Inc. may require.

All "trade-ins" and "returned merchandise" shall be retained by Debtor as "inventory" subject to this Security Agreement.

All collections by Sani-Tech Systems shall be applied to any indebtedness of Debtor accrued by this agreement, either through the collateral account or directly, as Sani-Tech Systems, Inc. shall elect.

From time to time, Sani-Tech Systems, Inc., at its discretion, shall make applications from the collateral account onto any indebtedness secured hereby.

Whenever any of the property is stored in a warehouse, the warehouse receipts evidencing such storage shall be appropriately endorsed by Debtor and shall immediately be assigned by Debtor and delivered to Sani-Tech Systems, Inc. as security for the indebtedness secured hereby.

9. **Expenses incurred by Secured Party:** Sani-Tech Systems, Inc. is not required to, but may at its option, pay any tax or other charge or expense payable by Debtor and any filing or recording fees and any amounts so paid shall be repayable by Debtor upon demand. Debtor will also repay upon demand all of Sani-Tech Systems's, Inc. expenses incurred in collecting, insuring, conserving or protecting the collateral within any inventories, audits, inspections or other examinations by Sani-Tech Systems, Inc. within respect of the collateral. All such sums shall bear interest at the lesser of 2% per month or the maximum rate permitted by law from the dated of payment by Sani-Tech Systems, Inc. until repaid by Debtor and such sums and interest thereon shall be accrued herby. The rights granted by this paragraph are not a waiver of any kind, rather rights of Sani-Tech Systems arising from breach of any of Debtors' covenants.
10. **Waivers:** This Security Agreement shall not be qualified or supplemented. No waiver or modification by Sani-Tech Systems, Inc. of any of the terms or conditions hereof shall be effective unless in writing and signed by Sani-Tech Systems, Inc. No waiver or indulgence by Sani-Tech Systems, Inc. as to any required performance by Debtor shall constitute a waiver as to any subsequent required performance from other obligations of Debtor hereunder.
11. **Default:** Time is of the essence in this Security Agreement and in any of the following events, hereinafter call "Events of Default," to-wit:
 - a. Any failure to pay when due, the full amount of any payment of principal, interest, taxes, insurance premiums or other charges which are or may be secured hereby; or
 - b. Any failure to perform as required by any covenant or agreement herein; or
 - c. The falsity or any representation by Debtor herein or in any credit application or financial statement given by Debtor to Sani-Tech Systems, Inc. as a basis for any extension of credit secured hereby; or
 - d. If the property should be seized or levied upon under any legal or governmental process against Debtor or against the property; or
 - e. If Debtor becomes insolvent or is the subject of a petition in bankruptcy, either voluntary or involuntary, or in any other proceeding under the federal bankruptcy laws; or make as assignment for the benefit of creditors; or if Debtor is named in or the property is subjected to a suit for the appointment of a receiver; or
 - f. Loss, substantial damage to, or destruction of any portion of the property; or
 - g. Entry of any judgment against Debtor; or
 - h. Dissolution or liquidation of Debtor; or
 - i. Sani-Tech Systems, Inc. deems itself insecure: Then and in any of such events of default, the entire amount of indebtedness secured hereby shall then or at any time thereafter, at the option of Sani-Tech Systems, become immediately due and payable without notice or demand and Sani-Tech Systems, Inc. shall have an immediate right to pursue the remedies set forth in this Security Agreement.
12. **Remedies:** In the event of a default hereunder, Sani-Tech Systems, Inc. shall have all remedies provide by law; and without limiting the generality of the foregoing, shall be entitled as follows:
 - a. Debtor agrees to put Sani-Tech Systems, Inc. in possession of the property on demand and
 - b. Sani-Tech Systems, Inc. is authorized to enter any premises where the property is situated and take possession of said property without notice or demand and without legal proceedings; and
 - c. At the request of Sani-Tech Systems, Inc., Debtor will assemble the property and make it available to Sani-Tech Systems, Inc. at a place designated by Sani-Tech Systems, Inc. which is reasonably convenient to both parties; and
 - d. Debtor agrees that a period of fifteen (15) days from the time notice is sent, by first-class mail or otherwise, shall be a reasonable period of notification of a sale or other disposition of the property; and

