

SECURITY AGREEMENT

This SECURITY AGREEMENT (“Agreement”) is entered into by and between CARPET AMERICA RECOVERY EFFORT, INC. (CARE), a Georgia nonprofit corporation (“Secured Party”), and the undersigned party (“Obligor”). Secured Party and Obligor may herein be referred to individually as “Party” or collectively as “Parties”. There are no other parties to this Agreement.

RECITALS

A. In 2010, the California legislature enacted AB 2398, to add Chapter 20 to Part 3 of Division 30 of the Public Resources Code (commencing with Section 42970), relating to the recycling of post-consumer carpet (“PCC”) and the diversion of PCC from California landfills. In 2017, the California legislature enacted AB 1158, to amend certain provisions of Chapter 20. AB 2398 and AB 1158, along with their implementing regulations, shall be collectively referred to herein as the “Carpet Stewardship Laws.”

B. CARE is a nonprofit carpet stewardship organization under the Carpet Stewardship Laws. CARE administers programs and incentives for carpet processors and recycled product manufacturers to receive subsidies and incentives through the diversion and recycling of PCC from California landfills (“Program Incentives”), as such incentives are generated from assessments collected under the Carpet Stewardship Laws.

C. Obligor has entered into a Processor Agreement or Tier 2 Manufacturer Agreement with Secured Party, in order to become a qualified recipient of Program Incentives.

D. In addition to receiving Program Incentives, Obligor has entered into a Cycle 2A/B Capital Improvement and Product Testing Grant Agreement (“Capital Agreement”). As part of the Capital Agreement, Obligor has provided a proposal to CARE to acquire new capital equipment to facilitate the diversion of PCC from California landfills.

E. The Parties hereby acknowledge that execution of the Capital Agreement is intended to benefit Secured Party, through Obligor’s commitment to increase the output of recycled PCC products as provided therein, and in exchange Obligor may receive funding for the acquisition of new capital equipment.

F. The Capital Agreement authorizes Secured Party to require Obligor to enter into this Security Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. Effective Date. This Agreement shall only become effective once all of the Parties have executed the Agreement (the “Effective Date”).

2. Construction and Definition of Terms. All terms used in this Agreement without definitions that are defined by Division 9 of the California Commercial Code shall have the meanings assigned to them by Division 9 as of the Effective Date. In addition, “Obligations” shall refer to the full and punctual observance and performance of all present and future duties and responsibilities due to Secured Party by Obligor under this Agreement and the Capital Agreement.

3. Security. Obligor grants to Secured Party a continuing lien and security interest in all of Obligor’s personal property, including inventory, equipment, parts, appliances, furnishings, and fixtures, wherever located, both now owned and hereafter acquired, which have been secured partially or entirely with funds disbursed by Secured Party pursuant to the Capital Agreement (“Collateral”). A more detailed description of the Collateral is provided in **Exhibit A**, attached and incorporated hereto. The security interest shall secure the performance of Obligor’s liabilities and obligations to Secured Party of every kind and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising. Secured Party’s security interest shall continually exist until all Obligations have been met in full.

4. Obligor’s Representations. Obligor hereby warrants, covenants, and represents the following with respect to the Collateral:

(a) The Collateral will be kept at [REDACTED] (the “Premises”). The collateral will not be removed from the Premises other than during Obligor’s ordinary course of business.

(b) The Parties intend that the Collateral is and will at all time remain personal property despite the fact and irrespective of the manner in which it is attached to realty.

(c) Obligor will not sell, dispose, or otherwise transfer the Collateral or any interest herein without the prior written consent of Secured Party, and Obligor shall keep the Collateral free from unpaid charges (including rent), taxes, and liens.

(d) Obligor shall execute alone or with Secured Party any financing statement to perfect Secured Party’s first priority security interest on the Collateral. Costs of filing the financing statement may be charged to Obligor or deducted from disbursements under the Capital Agreement.

(e) Upon Secured Party’s reasonable request, Obligor shall maintain insurance with respect to the Collateral against risks of fire, theft, and other such risks and in such amounts

as Secured Party may require. Obligor shall deliver to Secured Party from time to time, and periodically if Secured Party shall so require, evidence satisfactory to Secured Party in its sole discretion that all insurance and endorsements required pursuant to this Agreement are in effect.

(f) Obligor shall make all repairs, replacements, additions, and improvements necessary to maintain the Collateral in good working order and condition. At its option, Secured Party may discharge taxes, liens, or other encumbrances at any time levied or placed on the Collateral, pay rent or insurance due on the Collateral, and pay for the maintenance and preservation of the Collateral.

(g) Obligor's exact legal or corporate name is _____.

(h) Obligor has or will have sufficient rights in, or power to transfer rights in, the Collateral for Secured Party's security interest to attach. In addition, Obligor has or will have good and marketable title to the Collateral, free from any right or claim of any person or adverse lien, security interest, or other encumbrance, except for liens and security interests held by Secured Party, created by this Agreement or approved in writing by Secured Party ("Permitted Liens").

(i) Secured Party has, or upon proper recording of any financing statement, a valid and perfected lien on and first priority security interest in the Collateral, free of all other liens, claims, and rights of third parties, except for Permitted Liens. Obligor will take all action necessary to ensure continued perfection of Secured Party's security interest in the Collateral, including action necessary to perfect a security interest in after-acquired Collateral

(j) The Capital Agreement and this Agreement are not "consumer transactions" as defined in the California Commercial Code, and none of the Collateral was or will be purchased or held primarily for personal family or household purposes.

(k) Obligor shall pay and discharge all taxes, assessments, and governmental charges upon Obligor, its income, and properties, prior to the date on which penalties attach thereto unless and to the extent only that the same are being diligently contested by Obligor in good faith in the normal course of business by appropriate proceedings.

5. Default. Obligor shall be in default under this Agreement upon the occurrence of any of the following ("Event of Default"):

(a) Any misrepresentation by Obligor in connection with this Agreement;

(b) Obligor's failure, for any reason, to produce at least 50% of the output of PCC committed by Obligor in connection with the Capital Agreement and Recycling Targets document;

(c) Any material breach of the Capital Agreement or this Agreement, as determined by Secured Party in its reasonable, sole discretion; or

(d) Any major financial difficulty of Obligor, as evidenced by (i) an assignment for the benefit of creditors; or (ii) an attachment or receivership of assets; or (iii) the institution of bankruptcy proceedings, whether voluntary or involuntary, which is not dismissed within thirty (30) days from the date on which it is filed.

Upon default and at any time thereafter, Secured Party may declare all Obligations hereby immediately due and shall possess all of the remedies of a Secured Party under Article 9 of the California Commercial Code, in addition to this Agreement. No waiver by Secured Party of any default shall operate as a waiver of any other default or of the same default on a future occasion.

6. Rights and Remedies. Upon and after the occurrence of an Event of Default, Secured Party may exercise all rights and remedies available to Secured Party under the Capital Agreement, Processor Agreement, the rights and remedies of a Secured Party under Article 9 of the California Commercial Code, and all other rights and remedies available to Secured Party under applicable law, such rights and remedies being cumulative and enforceable alternatively, successively, or concurrently, including, but not limited to the following:

(a) Declare all Obligations to be immediately due without presentment, demand for payment, protest, or notice of any kind, all of which are hereby expressly waived.

(b) Institute any legal proceedings to enforce the Obligations.

(c) Take possession of the Collateral, and for that purpose, so far as Obligor may give authority therefor, enter upon any premises on which the Collateral or any party thereof may be situated and remove the same therefrom without any liability for suit, action, or other proceeding, and require Obligor, at Obligor's expense, to assemble and deliver the Collateral to such place or places as Secured Party may designate.

(d) Operate, manage, and control the Collateral (including use of the Collateral and any other property or assets of Obligor in order to continue or complete performance of Obligor's obligations under any contracts of Obligor), or permit the Collateral or any portion thereof to remain idle or store the same, and collect all rents and revenues therefrom and sell or otherwise dispose of any or all of the Collateral upon such terms and under such conditions as Secured Party, in its sole discretion, may determine, and purchase or acquire any of the Collateral at any such sale or other disposition, all to the extent permitted by applicable law.

7. Costs and Expenses. Obligor agrees to pay Secured Party the amount of all expenses paid or incurred by Secured Party, including attorneys' fees and court costs, in enforcing its rights hereunder or under applicable law ("Enforcement Costs"). All such Enforcement Costs are deemed to be included in the Obligations and secured by the security interest and continuing lien granted to Secured Party hereunder. This section shall survive termination of this Agreement.

8. Miscellaneous.

8.1. Notices. Any notice or communication required hereunder between Secured Party and Obligor must be in writing and may be given either personally, by registered or certified

mail (return receipt requested), or by Federal Express, UPS, or other similar couriers providing overnight delivery. If personally delivered, a notice or communication shall be deemed to have been given when delivered to the Party to whom it is addressed. If given by registered or certified mail, such notice or communication shall be deemed to have been given and received on the first to occur of (i) actual receipt by any of the addressees designated below as the Party to whom notices are to be sent, or (ii) five (5) days after a registered or certified letter containing such notice, properly addressed, with postage prepaid, is deposited in the United States mail. If given by Federal Express, UPS, or similar courier, a notice or communication shall be deemed to have been given and received on the date delivered as shown on a receipt issued by the courier. Any Party hereto may at any time, by giving ten (10) days written notice to the other Party hereto, designate any other address in substitution of the address to which such notice or communication shall be given. Such notices or communications shall be given to the Parties at their addresses set forth below:

If to Secured Party: Carpet America Recovery Effort (CARE)
100 S. Hamilton Street
Dalton, GA 30720
Attn: Dr. Robert Peoples, Executive Director

If to Obligor: _____

Attn: _____

8.2. Recitals. The above Recitals are incorporated into and made a part of this Agreement.

8.3. Amendment. No alteration, amendment, modification, or termination of this Agreement shall be valid unless made in writing and executed by both Parties.

8.4. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

8.5. Successors and Assigns. All representations, agreements, covenants, and warranties specifically set forth in this Agreement, by or on behalf of, or for the benefit of, any or all of the Parties hereto, shall be binding upon and inure to the benefit of such Party, its successors, and assigns. Obligor may not assign Agreement or any of its rights hereunder without the prior written consent of Secured Party.

8.6. Severability. If this Agreement in its entirety is determined by a court to be invalid or unenforceable, this Agreement shall automatically terminate as of the date of final entry of judgment. If any provision of this Agreement shall be determined by a court to be invalid and unenforceable, or if any provision of this Agreement is rendered invalid or unenforceable according to the terms of any federal or state statute, which becomes effective after the Effective

Date of this Agreement, the remaining provisions shall continue in full force and effective, and shall be construed to give effect to the intent of this Agreement.

8.7. Counterparts. This Agreement may be executed simultaneously and in several counterparts, each of which shall be deemed an original, but which together shall constitute one and the same instrument.

8.8. Headings. Headings used in this Agreement are for reference purposes only and shall not be considered in construing this Agreement.

8.9. Attorney's Fees and Costs. If any action at law or in equity, including action for declaratory relief, is brought to enforce or interpret provisions of this Agreement, the prevailing Party shall be entitled to reasonable attorney's fees and costs, which may be set by the court in the same action or in a separate action brought for that purpose, in addition to any other relief to which such Party may be entitled.

8.10. Waiver. No covenant, term, or condition, or the breach thereof, shall be deemed waived, except by written consent of the Party against whom the waiver is claimed and any waiver of the breach of any covenant, term, or condition, shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other covenant, term, or condition.

8.11. Drafting and Ambiguities. Each Party acknowledges that it has reviewed this Agreement with its own legal counsel and, based upon the advice of that counsel, freely entered into this Agreement. Each Party has participated fully in the review and revision of this Agreement. Any rule of construction that ambiguities are to be resolved against the drafting Party does not apply in interpreting this Agreement.

8.12. Entire Agreement. This Agreement, together with its specific references, attachments, and exhibits, constitutes the entire agreement of the Parties with respect to the establishment of a security interest and continuing lien for the Collateral, and supersedes any and all prior negotiations, understandings, and agreements with respect hereto, whether oral or written.

8.13. Mandatory and Permissive. "Shall" and "will" and "agrees" are mandatory. "May" and "can" are permissive.

8.14. Necessary Acts and Further Assurances. The Parties shall, at their own cost and expense, execute and deliver such further documents and instruments and shall take such other actions as may be reasonably required or appropriate to evidence or carry out the intent and purposes of this Agreement, including to protect and preserve the Collateral, Secured Party's secured interest therein, perfection of Secured Party's security interest, and Secured Party's rights and remedies hereunder.

8.15. Time is of the Essence. Time is of the essence in this Agreement for each covenant and term of a condition herein.

[Signatures on following page]

IN WITNESS WHEREOF, the Parties have executed this Agreement, effective as of the above-referenced Effective Date:

SECURED PARTY:

OBLIGOR:

CARPET AMERICA RECOVERY
EFFORT, a Georgia nonprofit corporation

_____, a

Signature

Name: Dr. Robert Peoples

Title: Executive Director

Date: _____

Signature

Name: _____

Title: _____

Date: _____

EXHIBIT A
Description of the Collateral