

THE ACTION GUIDE FOR THE CREDIT AND COLLECTION PROFESSIONAL

A STEP BY STEP MANUAL TO MAXIMIZE YOUR PROFITS AND REDUCE YOUR ACCOUNTS RECEIVABLE

By: Mark P. Krones, Esq.

Revision Highlights

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Overview

Step 1-how to get all the vital credit information from your customer before the sale;

Step 2-how to protect yourself when the customer is not fulfilling his payment promises; and

Step 3-how to collect your money the account has gone bad.

Purpose of the Guide - This guide is a daily reference that provides the most effective ways to extend credit to and deal with customers from the beginning to the end of the relationship. The guide also red flags potential problems with customers and assists you on what choices the creditor should make with its customer at each stage of the relationship. Customized state of the art credit forms created in 8/00 (not available on the i-collections web site) are included in the Appendix.

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THE ACTION GUIDE FOR THE CREDIT AND COLLECTION PROFESSIONAL

By: Mark P. Kroner

Introduction

- This guide provides critical credit and collection techniques that covers the do's and don'ts of extending credit.
- It shows you the best ways to obtain information from your customer at the beginning, the middle and at end of the relationship.
- It red flags the "bad risk" customer and shows how to deal with that customer.

Know thy customer

OBTAIN AS MUCH KNOWLEDGE AS YOU CAN ON YOUR CUSTOMER. THE MORE YOU KNOW ABOUT YOUR CUSTOMER, THE GREATER CHANCE YOU HAVE OF BEING PAID IN FULL. ARM YOURSELF - DO NOT GET STIFFED.

STEP 1 INITIAL SALE OR EXTENSION OF CREDIT

Note these general principals:

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| 1. | You should obtain the most information from your customer in the beginning of the relationship when the customer needs your goods and services. The easiest and least expensive way to obtain information on your <u>prospective</u> customer is to ask this client for the information when the prospective customer needs your goods or services. |
| 2. | Look out for new kind of bad guy in the market place—the "virtual customer", the business with the fancy web site who may be operating out of his/her garage. |

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| 3. | Be Colombo or an "information sponge" – Get as much information as you can out of the customer. |
| 4. | Maintain creditor leverage throughout the relationship with the customer – if the customer agrees to pay within a certain time, fails to honor their agreement and asks for an extension, get something in return (e.g., a personal guaranty or promissory note from the spouse, or a written signed promise to pay a specific sum of money within a specific time period). If the customer is stretching the previously agreed payment terms, get some sort of written payment commitment. |
| 5. | Establish and use a standard set of collection procedures with each and ever new customer. |
| 6. | When the account goes bad. Act fast – File a lawsuit. Bankruptcies are at all time high. The aggressive creditor gets paid before and more than the nice one. |

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| <u>Your First Credit Objective</u> | Find out <u>exactly</u> 1) what entity or business you are dealing with; and 2) who are the owners of this business (i.e., who's got the money and makes the decision to get your bill paid.) |
| | How do you accomplish this objective? The quickest and most cost-effective way to obtain vital information from a prospective customer is to have that customer complete and sign a thorough credit application ¹ or intake sheet ² before you start work on the customer's project. |
| | The credit application (or intake form) is the most |

¹ My 8/00 credit application form containing the critical and necessary provisions is marked as **Exhibit 1** in this Appendix.

² My 8/00 customer intake sheet form that should be used by creditors that do not utilize credit applications is marked **Exhibit 2** in the Appendix. The customer intake form is an abbreviated version of the credit application which will provide you necessary information on your client without necessarily appearing to be a credit application.

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| | <p>important credit tool in the creditor's arsenal. Obtaining and checking the information on the credit application (or intake form) should be your highest priority.</p> |
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Review the model credit application in the Appendix. The customer should complete each section and sign and return the application.

First, note that the credit application is one page. Keep your credit application or intake sheet short – not longer than one page. Otherwise, the customer will resist completing it. A one page credit application is inherently faxable. The application can be easily faxed to and faxed back by the customer.

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| Tip: | It is okay to allow the customer to attach an additional page to the credit application as long as the person signing the credit application has completed the sections not addressed in that additional page. |
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| Note: | Make sure the customer completes their <u>entire</u> legal name. (e.g., Qualcomm, Inc.) |
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| Tip: | Make a copy of <u>every</u> check you receive from the customer. If you received a check from the defendant as an initial deposit on a job, compare that check to the name on the credit application. If the name on the check differs from the legal name on the credit application, contact the customer and ask them to explain the discrepancy. If your contact cannot explain the discrepancy, ask them to fax you their statement of domestic stock corporation (if they're a corporation) or statement of information (if they're an limited liability company) |
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Generally, your customer must be either:

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| 1. | Sole proprietorship (individual owner); |
| 2. | General partnership; |
| 3. | Limited partnership; |
| 4. | Corporation; or |
| 5. | Limited Liability Company. |

If your customer is a corporation or a limited liability company, you need to know in what state the company was formed. Do not assume that because the customer has an address in one state that it was formed under the laws of that state. Often a company may have one or more addresses in several states. Customers chose certain states to form in for various reasons. For instance, many companies form in Delaware for privacy reasons (filing a statement of officers is optional in Delaware) or Nevada for financial reasons (costs approximately \$125.00/year to operate a corporation or limited liability company there).

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| Tip | Obtain a federal tax id. no. from the corporate or LLC customer – This number <u>specifically</u> identifies the customer even if the business name is relatively common. The customer will have difficulty later attempting to assert that you did business with some other entity or business. |
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Next, when was your customer formed? If the customer is a corporation or limited liability company that has existed less than a year, you should as a general rule ask for a continuing personal guaranty from each of the owners on whatever purchases are made by the customer.

Next, who are the owners of this company? Have the customer include middle names or initials and/or the social security

number of each owner, especially where the names are common (e.g., Charles Smith) Where is the business address? Make sure that you get a physical address (as opposed to post office box). Be on the lookout for private mail boxes (e.g., 2510 Longview Rd., #336, San Diego, CA 92122). Additionally, how long have they been at that address?

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| 2nd Credit Objective | Check on the bank and three vendor references listed on the credit application. |
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Where does the customer bank? Contact the bank by faxing a form letter.³ Get answers from the bank to the questions "How long has the customer been at that bank? What is the average balance in that account? Has the customer had a history of bouncing checks?"

Next fax a form letter to each of the three local trade references listed on the credit application.⁴ Remember these three references are probably the three best the customer has. Get answers from each trade reference to the questions "When was each referenced account opened? When was the last sale? What was the high recent credit, the total amount due, the amount past due, and the recent trend of the customer in paying its bills?"

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| Tip: | Ask for recent financial statements from the customer. If the financial statements are shown to be later overstated (remember the customer usually uses these records to obtain loans), then you may be able to assert later that the customer misrepresented the company on these financial statements and that this debt is non-dischargeable in any later bankruptcy proceeding filed by or against the customer. |
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³ See customized 2000 bank reference letter attached as **Exhibit 3** in the Appendix.

⁴ See customized 2000 trade reference letter attached as **Exhibit 4** in the Appendix.

The last portion of the credit application is where the customer must sign. Note that the four most important contractual provisions are in this section of the credit application if you have to file suit against the customer to collect your money. Namely, in order of importance, these provisions are:

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| 1. | Venue provision ⁵ ; |
| 2. | Service charge provision ⁶ ; |
| 3. | Limitation of liability provision ⁷ ; and |
| 4. | Attorney's fees provision |

These provisions should be in every document that you have the customer sign. If you don't use or want to use a credit application or an intake sheet, then put these provisions on your invoices and require that the customer sign and fax those invoices back.

The venue provision is the most important because it keeps the lawsuit "in your backyard". That provision alone may determine whether you ever get paid and how much you will get paid if the customer is located in another part of the state or the country. The venue provision should state that the only place litigation between the parties is to take place is where your principal place of business is located (as opposed to the customer's place of business is located). For example, if you're located in San Diego, CA and your customer in Boston, MA owes you \$10,000.00, you want to sue the customer and force the customer to defend the case in San Diego. Without a venue provision, you may be

⁵ Only fully enforceable in commercial transactions (merchant to merchant or corporation to corporation). Retail customers can fight this provision and assert that you have to sue them where they live.

⁶ Under California law, creditors can charge up to 18% per annum interest in their credit applications, contracts and other signed agreements.

⁷ The California Commercial Code enforces limitation of liability provisions in a commercial, not a retail, transaction.

forced to litigate the case in and attend trial in Boston 3000 miles away. The customer (or his attorney) in that situation knows that you will likely not spend the extra time and airline and hotel expenses to collect this \$10,000.00. Regretfully, you may be forced to accept a "pennies on the dollar" settlement shortly before trial. When your Boston customer has to litigate the case in San Diego, they will likely attempt to settle fairly with you possibly before they incur the expense of hiring San Diego counsel.

The service charge provision enables you to charge the customer 18% per annum on the unpaid principal balance. That again creates leverage on the customer to pay off this account before the unpaid debt dramatically increases.

The limitation of liability provision often eliminates a nasty tactic by aggressive and unethical customers that file cross-complaints against their vendors as a regular business practice asserting that their business have been destroyed by your defective goods or services to attempt to force you to accept an unfair settlement. The limitation of liability clause in the credit application usually limits the customer's claim to the amount of the invoice and eliminates the customer's argument that all your unpaid invoices should be offset by the allegedly defective goods or services in one invoice.

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| Tip: | If you have possession of some of the customer's property while you are doing business with them (e.g., such as artwork, film or product, if you're a printer), you should state in your credit application that you have a lien on these items until you are paid in full on your invoices. Without the lien language, the customer can rightfully |
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| | demand that the creditor release the customer's property. |
| 3rd Credit Objective | Make sure that the credit application or intake form is signed by an authorized person. The provisions in your credit application mean nothing if the document is not signed by an authorized person. |
| | If the customer is a corporation or LLC, the person signing the credit application should be an officer of the customer ⁸ . If the customer is a general or limited partnership, the signer should be a general partner. |
| 4th Credit Objective | Use additional credit tools at your disposal to supplement or verify the information on the credit application or intake form (usually on the larger accounts). |

Three good credit tools presently exist for credit professionals in rating prospective customers

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| 1. | Dun & Bradstreet ("D& B") reports; |
| 2. | Database searches; and |
| 3. | Local credit agency reports. |

D & B has two types of reports: 1) a payment analysis report⁹ ("PAR") and 2) a business information report¹⁰ ("BIR"), which is more extensive and expensive than the PAR report. The payment analysis report is usually a ("down and dirty") 3 page report that shows the payment trend of the customer as prompt or slow according to reports of creditors in the D & B database.

⁸If the person signs the credit application as General Manager or Office Manager, that title may be sufficient. The safer course of conduct, though, is to fax the credit application back to the customer and ask that an officer co-sign with the General Manager. If the customer contends in litigation that the General or Office Manager does not have authority to sign the credit application, you should personally list that individual as a defendant asserting that the individual and/or the customer is liable on the unpaid account.

⁹ Sample PAR report is attached as **Exhibit 5** to the Appendix.

¹⁰ Sample BIR report attached as **Exhibit 6** to the Appendix.

This report also usually provides the name, address, telephone number, president or owner and number of employees of the company and whether according to its records there have been any lawsuits, liens or judgments filed against the customer. The BIR report provides the usual PAR data, plus provides a credit appraisal, any available financial information on the company (balance sheet, etc.), a history on the customer and most or all of their owners including their years of births and a description of the operations (square footage of premises).

D & B is the only good national business report service that I have found¹¹ but D & B has its limitations. First, the BIR report is usually based on a telephone conversation that a D & B representative has with the customer. The information is only as accurate as the customer was with D & B. Additionally, if the customer refuses to discuss their company with the representative, the only information you receive is from D & B's Database, which is not that extensive. D & B also often misses the filing of liens, judgments and lawsuits in smaller counties. However, note that both the PAR and BIR reports are regularly pulled by credit managers and reviewed with the credit applications received from customers. Additionally, some companies run PAR reports once a year on existing clients to see if these companies are falling behind on their payments to other creditors. Depending on the number of reports you pull each year will dictate what price D & B will charge you.

¹¹ Experian, formerly TRW, is an excellent reporting service but their business profile reports, although relatively inexpensive, are not very helpful in determining whether to do business with a particular customer. The only consistently helpful information that I have received from business profile reports is whether the customer has filed bankruptcy.

Another tool that you can use especially when you get a credit application or pull a Dun & Bradstreet report that provides little to no information is to run a public records database search on

the owners of the company. The three databases that I have used are:

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| 1. | ChoicePoint formerly known as CDB Infotek; |
| 2. | Know X; and |
| 3. | Merlin. |

The one that I found most useful in my collection practice is ChoicePoint¹². ChoicePoint has been ranked as having the most comprehensive databases in The Investigator's Little Black Book 2¹³. I like it because for one flat fee of \$17.00 (price negotiable with ChoicePoint if you run a minimum # of reports per month) you can run a complete report (called Discovery Plus) on an individual including current address information, whether he is an officer, director, partner, member, manager in any companies, whether he owns real estate and the value and mortgages of that real estate, who are that person's spouse and children, whether he has filed bankruptcy, or has any judgments or tax or other liens filed against him/her, whether any lenders have filed UCC 1's against the owner of any of his/her company, the Vehicle Identification Nos. of any cars that are owned by this individual (not in California and certain other states).¹⁴

This ChoicePoint search is a great tool in my practice and for the credit professional. If the owner is a high roller or a professional

¹² Sample ChoicePoint report attached as **Exhibit 7** in the Appendix.

¹³ Author is Robert Scott: Crime Time Publishing Co., Beverly Hills, CA. Can be purchased at Amazon.com.

¹⁴ Lexis Nexis also offers an excellent database but their charges are prohibitively expensive. At the time of this publication minimum charges of \$250.00/month for 12 months with no limit on the running of reports.

debt beat, it often shows up in the report. For instance, if the report shows that the owner has formed a number of companies over the past years that are now suspended or dormant, that is a strong indication that the individual has formed companies, run up debt and walked away from those companies to start new ones. Finding that sort of derogatory information in a ChoicePoint report clearly mandates that you obtain a personal guaranty from the owner or to only to do business with this customer on a COD basis.

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| STEP 2 | <u>DURING THE RUNNING OF THE ACCOUNT</u> |
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You have three good credit tools at your disposal if you start having concerns about your customer when the account is still open – namely: 1) guaranty; 2) promissory note; and 3) filing a UCC 1 (financing statement and security agreement).

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| Tip: | If the customer goes beyond their terms of credit and is asking for additional time to pay, get something from the customer in return. Tell the customer that company policy requires you to file a lawsuit against the customer unless a promissory note or guaranty ¹⁵ is signed. |
| | The customer by signing a promissory note for the specific amount of the debt is acknowledging the amount owed. After signing a note, that customer will later have a very difficult time attempting to claim that amount acknowledged is incorrect. |
| Note: | If the customer is a corporation or limited liability company, get a signed promissory note or guaranty from |

¹⁵ My sample 2000 personal guarantee is **Exhibit 8** in the Appendix. The only difference between this guarantee and a continuing guarantee is that this guarantee is for a specific amount since the debt has already been incurred. A continuing guarantee is used in the beginning of the relationship when you do not know how much merchandise or services the customer is going to order.

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| | the owner(s) or the parent company. |
| | If the customer is an individual, get promissory notes and/or guaranties from the spouse or other family members of the individuals (e.g., the father, daughter, etc., whoever has money). |
| | If the customer is a general partnership, get promissory notes and/or guaranties from all the general partners and their spouses. |
| | The more companies and individuals are "on the hook" for the debt, the greater chance you have of being paid. If one company or individual files for bankruptcy, the other companies or individuals that have signed notes or guaranties are still liable for the entire debt amount. |

Guaranty

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| Note: | The guarantee can be short and simple. The only words required are "I personally guarantee payment on this account." and have the guarantor sign that statement. It is good practice to put Guarantor under the signature. |
| Tip: | Do not allow the Guarantor put their business title, such as "President" under or alongside their signature because they can then make the argument that they were only signing in a representative capacity not personally. |

Promissory Note

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| Note: | The promissory note can be short and simple. The only words required are "I promise to pay \$_____ in the following payments: . . ." Use the promissory note samples on the I-collections.com web site. |
| Tip: | When the customer is a corporation or LLC, it is good |

practice to have the note signed by the customer and its president/manager or owner, as an individual. The note then is an acknowledgment of the debt by the customer and a guaranty of payment by the president/manager or owner. By getting the note signed in this fashion you have greatly enhanced your chances of collecting on the account.

Financing Statement

You can record a financing statement¹⁶ with the Secretary of State in your state. The National Financing Statement Form is accepted by all states and can be purchased at any forms or office stationary store.¹⁷ Recording a financing statement signed by the customer along with obtaining a signed security agreement gives you a lien on all the assets and income to the customer. If the customer has enough equity in his assets, that lien makes you a secured creditor. The first UCCI recorded has priority over subsequently recorded ones. In other words, you get paid first. If the customer attempts to get financing after you have recorded your UCC1, your UCC1 will come up on any credit check. The bank or customer will likely have to pay you off to make the loan to the customer.

A UCC1 is a good tool but in my opinion when you are dealing with corporations and LLC's, a personal guarantee or promissory note where the owners of the customer sign personally is generally more effective, especially where it appears that the owners have real estate or other assets. Often with corporations or LLC's the customer is leasing equipment or

¹⁶ A copy of the National Financing Statement (Form UCC1) with my customized year 2000 Exhibit 1 to be attached to this form is **Exhibit 9** in the Appendix. Additionally, my customized year 2000 Security Agreement is **Exhibit 10** in the Appendix.

¹⁷ I purchase my forms from Forms, Inc., 1-800-854-1080 (ph).

has lenders that have already recorded UCC1's. Additionally, if you are not paid you have to foreclose on the UCC1, which means that you have to shut down the business, pick up the equipment, seize and liquidate the accounts receivable. If you do not follow the proper procedures or there is something technically wrong with your financing statement or security agreement, you could be liable to other creditors for any damages caused. It is much simpler to sue the owners on a personal guarantee or promissory note.

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| Tip: | If the customer financial situation changed dramatically, ask the owner if he or she is going through a divorce. If the customer will not answer the question or you feel uncomfortable asking it, go down to the courthouse and review the family court records. In divorces, the parties have to list their assets and income on schedules. Divorce files are a good additional source of information. |
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| Step 3 | When the account has gone bad. |
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The signs of a account is going or has gone bad is when the customer has stopped making payments on the account and:

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| 1. | The last check of the customer bounces and is not replaced; |
| 2. | You call the customer and the telephone number is disconnected and there is no forwarding number; |
| 3. | The customer tells you they are thinking of closing their doors or filing for bankruptcy protection; |
| 4. | The customer fails to return repeated telephone calls or is hiding behind voice mail or a telephone machine; or |
| 5. | The customer asks you to do further work and tells you that the only way you will be paid on their future invoices; |

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| 6. | The customer tells you they have been paid on the job you did for them but the money was used to pay other vendors or to keep the doors open; or |
| 7. | The customer representative cannot commit to any payment schedule or is asking for a moratorium on payments for 2 months or longer. |

What do you do? First, if you have not done so already, cut off credit immediately. Send an immediate demand letter.¹⁸ This demand letter should give the customer not than 10 days to pay or make an acceptable settlement proposal. Once the ten days passes, have an aggressive collection attorney send a demand letter.¹⁹ Collection agencies are generally not effective and may cost you more in the long run since you have to pay the collection agency fees, which usually include what they are paying their retained or in house attorney. If the attorney demand letter does not get you paid, file a lawsuit. Creditors who file lawsuits get paid first. It is a myth that collection attorneys are expensive. It cost very little to file the complaint. If the customer is a corporation or LLC it cannot represent itself in court and has to hire an attorney to represent itself in the lawsuit. If the customer truly wants to settle the case, they will settle with you before filing a response to the complaint. If the customer really wants to pay off this account, they will agree to sign a stipulation to judgment²⁰, which is like a super-promissory note. If the customer defaults on the stipulation to judgment, you get to immediately enter judgment in your case and levy on all available assets and income. If you have an attorney's fees

¹⁸ See various sample creditor demand letters at i-collections.com.

¹⁹ Sample attorney letter marked **Exhibit 11** in the Appendix.

²⁰ Form available at i-collections.com.

clause in any of the documents signed by the customer, you can add the attorney's fees and court costs to your debt and make the customer pay for those fees and costs.

Make sure that your collection attorney is as aggressive as possible – you need to press the customer at this late stage – "step on their neck". Do not delay, file suit, if the case does not immediately settle - enter judgment and levy on every asset and source of income you are know of.

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| Tip: | As an alternative to filing suit, if you have not done so already, you can attempt to get the owners of the customer to sign a promissory note or personal guarantees. At a minimum, add the venue and attorney fees provisions into the promissory note and guarantee. |
| Tip: | If your customer sends you a check for substantially less than what is owed, writes payment in full on the check and sends you a letter stating that this check is tendered in full satisfaction of their debt with you. Only cash the check if you do <u>not</u> intend to pursue the balance on the account. If you cash that check knowing that the customer is tendering the check in full satisfaction of a disputed case, most courts (all in California) would rule that you have compromised your claim, agreed to settle for less and are not entitled to the balance. |

I wish you good business in the future. If you have any questions in the future, feel free to e-mail me at i-collections.com.

APPENDIX – LIST OF FORMS

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| Ex. 1 | Credit Application |
| Ex. 2 | Customer Intake Form |
| Ex. 3 | Bank Reference Form |
| Ex. 4 | Trade Reference Form |
| Ex. 5 | Sample PAR Report (not included on online doc.) |
| Ex. 6 | Sample BIR Report (not included on online doc.) |
| Ex. 7 | Sample ChoicePoint Report (not included on online doc.) |
| Ex. 8 | Personal Guaranty |
| Ex. 9 | Sample Financing Statement with Exhibit 1 |
| Ex. 10 | Security Agreement |
| Ex. 11 | Sample Attorney Letter |

LOGO (OPTIONAL)
(COMPANY NAME)
(COMPANY ADDRESS)
(CITY, STATE, ZIP)
(PHONE #); (FAX #)

APPLICATION FOR CREDIT

Credit for initial opening accounts is limited to the highest of the references submitted. (Optional)

Amount of credit requested \$ _____

To our Customers and Prospective Customers:

(COMPANY NAME) prides itself in the service it provides to our customers. You can help us to serve you quickly by filling our this application as completely as possibly. A signature is required and should be signed by owner, partner, officer or manager, stating title.

Name of Business (Legal Name) _____

Employer Id. # _____ Resale # _____ Issued by (State) _____

Kind of Business (Activities engaged in) _____

Length of time in Present Business _____ Type of Business (Identify One Below):

Sole Owner Partnership Corporation Limited Liability Company Other Specify _____

Date Company formed _____ State _____

List of Owners/Representatives (include name, title, home address and social security # _____

Business Address _____ How long at this address? _____

Business Tele. # _____ Fax # _____ E-mail address _____

Contact in Billing Dept.: _____ Special billing requirements: _____

Bank Reference _____ Address or Branch _____ Contact: _____

Type of Account(s) _____ Acct. #'s _____ Bank Tele. # _____

Three Local Trade References – Name, Address, Phone #, Fax # & Type of Business _____

Has the business recently filed a financial statement with a bank? Yes No

If yes, Name and Branch of Bank _____

Have you or the business ever had a business failure or filed any type of bankruptcy proceeding? Yes No

If yes, explain on a separate page.

Name of (COMPANY NAME) Sales Representative _____

The above information is submitted for the purpose of obtaining credit. Buyer authorizes (COMPANY NAME) to make such inquiries as are necessary to obtain information and authorizes Buyer's bank and/or suppliers to release information regarding Buyer's account(s).

Buyer's signature attests financial responsibility and willingness to pay our invoices in accordance with (COMPANY NAME)'s terms.

TERMS: Buyer agrees to pay all invoices within 30 days and to pay a service charge of **1 1/2% per month** which is an **annual percentage rate of 18%** on all overdue balances. Buyer further agrees that the site of venue for litigation between the parties is San Diego County and the prevailing party in an action is entitled to reasonable attorney fees and costs. (COMPANY NAME)'s liability for any damages claimed by Buyer is limited to the purchase of the goods or services in question. Buyer agrees that (COMPANY NAME) has a lien on all product, film and artwork until account is paid in full. (For printers)

Signature Date

Print name and Title

Signature Date

Print name and Title

LOGO (OPTIONAL)
(COMPANY NAME)
(COMPANY ADDRESS)
(CITY, STATE, ZIP)
(PHONE #); (FAX #)

CLIENT INFORMATION FORM

To our Customers and Prospective Customers:

(COMPANY NAME) prides itself in the service it provides to our customers. You can help us to serve you quickly by filling out this client information form as completely as possible. Please complete, sign and fax the form to our office as soon as possible.

Name of Business (Legal Name) _____

Employer Id. # _____ Resale # _____ Issued by (State) _____

Type of Business (Identify One Below):

Sole Owner Partnership Corporation Limited Liability Company Other Specify _____

Date Company formed _____ State _____

List of Owners/Representatives (include name, title, home address and social security # _____

Business Address _____

Business Tele. # _____ Fax # _____ E-mail address _____

SALE TERMS: Buyer agrees to pay all invoices within 30 days and to pay a service charge of 1 ½ % per month which is an annual percentage rate of 18% on all overdue balances. Buyer further agrees that the site of venue for litigation between the parties is San Diego County and the prevailing party in an action is entitled to reasonable attorney fees and costs. (COMPANY NAME)'s liability for any damages claimed by Buyer is limited to the purchase of the goods or services in question.

Signature _____ Date _____

Print name and Title

LOGO (OPTIONAL)
(COMPANY NAME)
(COMPANY ADDRESS)
(CITY, STATE, ZIP)
(PHONE #); (FAX #)

ATTENTION: Accounts Receivable/ Credit Dept.

Please respond as soon as possible, job pending credit approval.

TO: _____

PHONE: _____

FAX: _____

RE: _____

Our company has received a credit application from the above company and they have listed you as a reference. Please provide the following information. Your reply will be kept confidential.

Date Account Opened: _____

Date of Last Sale: _____

Terms: _____

High Recent Credit: _____

Total Amount Now Due:

Amount Past Due: _____

RECENT TRENDS TOWARDS –

Promptness: _____

Slowness: _____

COMMENTS: (NSF history, write-off history, payment problems and other information)

NAME: _____ TITLE: _____ DATE: _____

Sincerely,

(YOUR NAME)

(TITLE)

1st Request _____

2nd Request _____

3rd Request _____

LOGO (OPTIONAL)
(COMPANY NAME)
(COMPANY ADDRESS)
(CITY, STATE, ZIP)
(PHONE #); (FAX #)

ATTENTION: Accounts Receivable/ Credit Dept.

Please respond as soon as possible, job pending credit approval.

TO: _____

PHONE: _____

FAX: _____

RE: _____

Our company has received a credit application from the above company and they have listed you as a reference. Please provide the following information. Your reply will be kept confidential.

Date Account Opened: _____

Date of Last Sale: _____

Terms: _____

High Recent Credit: _____

Total Amount Now Due:

Amount Past Due: _____

RECENT TRENDS TOWARDS –

Promptness: _____

Slowness: _____

COMMENTS: (NSF history, write-off history, payment problems and other information)

NAME: _____ TITLE: _____ DATE: _____

Sincerely,

(YOUR NAME)

(TITLE)

1st Request _____

2nd Request _____

3rd Request _____

GUARANTY (Read Carefully)

1. In consideration for the Seller not pursuing legal action against Buyer on past due, the undersigned (hereinafter referred to as guarantor) personally and jointly and severally guarantee absolutely and unconditionally the past amount of \$ _____, which represents the balance owed Buyer to Seller. The death of bankruptcy of the Seller or Buyer has no effect on this guaranty.

2. Guarantor waives any and all guaranty defenses, including but not limited to exoneration, all subrogation rights until Seller is paid in full, any changes or assignments in the obligation and/or security by Seller, the benefit of any applicable statute of limitations, all notices of sale, notice of default, presentment for payment, notice of non-payment, protest and notice of acceptance of this guaranty. Extensions, renewals, indulgences, delays, transfers, settlements and compromises may be made in the Seller's sole discretion, with or without notice to the guarantor, and will not relieve the guarantor of any liability.

3. This guaranty shall be construed and enforced under California law. The site of venue for litigation concerning this guaranty is in San Diego County, California. If litigation is commenced to enforce this guaranty, Seller is entitled to an award of reasonable attorneys' fees, court costs and late charges on the unpaid balance at the rate of 18% per annum from the time the invoices of Seller became due. If any provision of this guaranty is held unenforceable, the remaining provisions of this guaranty remain in force. This guaranty can only be modified in writing signed by Seller and the guarantors.

Dated: _____

Dated: _____

I have read, understand and acknowledge the above guaranty.

I have read, understand and acknowledge the above guaranty.

Signature of guarantor

Signature of guarantor

Print Name and Title

Print Name and Title

COMMERCIAL SECURITY AGREEMENT

Debtor: DEBTOR CORPORATION
Federal tax id. no. 77-0560991

Creditor: CREDITOR CORPORATION
Address: 325 S. MELROSE DR.
Vista, CA 92083

THIS COMMERCIAL SECURITY AGREEMENT is entered into between DEBTOR CORPORATION (referred to below as " Debtor "), and CREDITOR CORPORATION (referred to below as "Creditor"). For valuable consideration, Debtor grants to Creditor a security interest in the Collateral to secure the Indebtedness and agrees that Creditor shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Creditor may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code, All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Debtor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All assets, receivables, personalty, inventory, chattel paper; accounts, equipment, general intangibles and fixtures as more fully set forth in **Exhibit 1** attached hereto and incorporated by this reference herein.

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.
- (b) All products and produce of any of the property described in this Collateral section.
- (c) All accounts, general intangibles, instruments, rents, monies, payments, and all

other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

- (d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.
- (e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Debtor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Fixtures are and will be located on the following described real estate:

8252 Main Street, Suite 110
San Diego, CA 92083

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Debtor. The word "Debtor" means DEBTOR CORPORATION, its successors and assigns.

Indebtedness. The word "Indebtedness" means the Debtor's obligations created from the sale of goods and services by Creditor to Debtor on open book account, account no. MMQ02, from the date of execution by Debtor of this agreement to its termination, together with all other indebtedness and costs and expenses for which Debtor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Debtor, or any one or more of them, to Creditor, as well as all claims by Creditor against Debtor, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Debtor may be liable individually or jointly with others; whether Debtor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Creditor. The word "Creditor" means CREDITOR CORPORATION, its successors and assigns.

Obligations. The word "Obligations" means existing and future indebtedness and liability of Debtor to Creditor, including attorneys' fees incurred by Creditor in enforcing this agreement or collecting payment under it, except obligations subject to the disclosure requirements of the Consumer Credit Protection Act.

Related Documents. The words "Related Documents" mean and include without limitation all credit applications, quotes, job tickets, invoices, statements, any other documentation establishing the quantity and price of the printing services and merchandise of Creditor sold to Debtor and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

Right Of Setoff. Debtor hereby grants Creditor a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Debtor's right, title and interest in and to Debtor's accounts, all accounts held jointly with someone else and all accounts Debtor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Debtor authorizes Creditor, to the extent permitted by applicable law, to charge or setoff all Indebtedness against any and all such accounts.

OBLIGATIONS OF DEBTOR. Debtor warrants and covenants to Creditor as follows:

Perfection of Security Interest. Debtor agrees to execute such financing statements and to take whatever other actions are requested by Creditor to perfect and continue Creditor's security interest in the Collateral. Upon request of Creditor, Debtor will deliver to Creditor any and all of the documents evidencing or constituting the Collateral, and Debtor will note Creditor's interest upon any and all chattel paper if not delivered to Creditor for possession by Creditor. Debtor hereby appoints Creditor as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Creditor may at any time, and without further authorization from Debtor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Debtor will reimburse Creditor for all expenses for the continuation of the perfection of Creditor's security interest in the Collateral. Debtor warrants and represents that the Debtor is not presently using any other name besides DEBTOR CORPORATION. Debtor promptly will notify Creditor before any change in Debtor's name including any change to the assumed business names of Debtor. This security agreement terminates automatically after Creditor is paid in full on Debtor's purchase order #607, Job 362-S-CC. Debtor and the persons signing this Commercial Security Agreement represent and warrant that the Collateral is unencumbered and no other UCC1s have been filed encumbering the Collateral.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Debtor or to which Debtor is a party, and its bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and

capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Creditor, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Debtor with or for the account debtor; there shall be no setoff or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Creditor in writing.

Location of the Collateral. Debtor, upon request of Creditor, will deliver to Creditor in form satisfactory to Creditor a schedule of real properties and Collateral locations relating to Debtor's operations, including without limitation the following: (a) all real property owned or being purchased by Debtor; (b) all real property being rented or leased by Debtor; (c) all storage facilities owned, rented, leased, or being used by Debtor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Debtor shall not remove the Collateral from its existing locations without the prior written consent of Creditor.

Removal of Collateral. Debtor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Debtor's addresses shown above, or at such other locations as are acceptable to Creditor. Some or all of the Collateral may be located at the real property described above. Except in the ordinary course of its business, including the sales of inventory, Debtor shall not remove the Collateral from its existing locations without the prior written consent of Creditor. To the extent that the Collateral consists of vehicles, or other titled property, Debtor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of California, without the prior written consent of Creditor.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Debtor's business, Debtor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Debtor is not in default under this Agreement, Debtor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Debtor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Debtor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Creditor. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Creditor, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Creditor and shall not be commingled with any other funds, provided however, this requirement shall not constitute consent by Creditor to any sale or other disposition. Upon receipt, Debtor shall immediately deliver any such proceeds to Creditor.

Title. Debtor represents and warrants to Creditor that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Creditor has specifically consented. Debtor shall defend Creditor's rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Creditor shall require, and insofar as the Collateral consists of accounts and general intangibles, Debtor shall deliver to Creditor schedules of such Collateral, including such information as Creditor may require, including without limitation, names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the Collateral consists of inventory and equipment, Debtor shall deliver to Creditor, as often as Creditor shall require, such lists, descriptions, and designations of such Collateral as Creditor may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Debtor and each of any of its subsidiaries or related companies.

Maintenance and Inspection of Collateral. Debtor shall maintain all tangible Collateral in good condition and repair. Debtor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Creditor and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Debtor shall immediately notify Creditor of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Debtor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation upon this Agreement, or any other taxes, assessments and/or liens owed by Debtor. Debtor may withhold any such payment or may elect to contest any lien if Debtor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Creditor's interest in the Collateral is not jeopardized in Creditor's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Debtor shall deposit with Creditor cash, a sufficient corporate surety bond or other security satisfactory to Creditor in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that result from foreclosure or sale of the Collateral.

Compliance With Governmental Requirements. Debtor shall comply promptly with all laws, ordinances, rules and regulations of all governmental agencies, now or hereinafter in effect, applicable to the ownership, production position, or use of the Collateral. Debtor may contest in good faith any such law, ordinance or regulation and withhold compliance during

proceeding, including appropriate appeals, so long as Creditor's interest in the Collateral, in Creditor's opinion, is not jeopardized.

Hazardous Substances. Debtor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive - Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 90,499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Debtor's due diligence in investigating the Collateral for hazardous wastes and substances. Debtor hereby (a) releases and waives any future claims against Creditor for indemnity or contribution in the event Debtor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Creditor against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment of the Indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Debtor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Creditor may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Creditor and issued by a company or companies reasonably acceptable to Creditor. Debtor, upon request of Creditor, will deliver to Creditor from time to time the policies or certificates of insurance in form satisfactory to Creditor, including stipulations that coverages will not be canceled or diminished without at least ten (10) days' prior written notice to Creditor and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Creditor will not be impaired in any way by any act, omission or default of Debtor or any other person. In connection with all policies covering assets in which Creditor holds or is offered a security interest, Debtor will provide Creditor with such loss payable or other endorsements as Creditor may require. If Debtor at any time fails to obtain or maintain any insurance as required under this Agreement, Creditor may (but shall not be obligated to) obtain such insurance as Creditor deems appropriate, including if it so chooses "single interest insurance," which will cover only Creditor's interest in the Collateral.

Application of Insurance Proceeds. Debtor shall promptly notify Creditor of any loss or damage to the Collateral. Creditor may make proof of loss if Debtor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Creditor as part of the Collateral. If Creditor consents to repair or replacement of the damaged or destroyed Collateral, Creditor shall, upon satisfactory proof of expenditure, pay or reimburse Debtor from the proceeds for the reasonable cost of repair or restoration. If Creditor does not consent to repair or replacement of the Collateral, Creditor shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Debtor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Debtor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reports. Debtor, upon request of Creditor, shall furnish to Creditor reports on each existing policy of insurance showing such information as Creditor may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy, (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Debtor shall upon request by Creditor (however not more often than annually) have an independent appraiser satisfactory to Creditor determine, as applicable, the cash value or replacement cost of the Collateral.

DEBTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS, Until default and except as otherwise provided below with respect to accounts, Debtor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Debtor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Creditor is required by law to perfect Creditor's security interest in such Collateral. Until otherwise notified by Creditor, Debtor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Creditor may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Creditor for application to the Indebtedness. If Creditor at any time has possession of any Collateral, whether before or after an Event of Default, Creditor shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Creditor takes such action for that purpose as Debtor shall request or as Creditor, in Creditor's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Debtor shall not of itself be deemed to be a failure to exercise reasonable care. Creditor shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

EXPENDITURES BY CREDITOR. If not discharged or paid when due, Creditor may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Debtor under this Agreement, including without limitation all taxes, liens, security interests,

encumbrances, and other claims, at any time levied or placed on the Collateral. Creditor also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Creditor for such purposes will then bear interest at the rate of 10% per annum from the date incurred or paid by Creditor to the date of repayment by Debtor. All such expenses shall become a part of the Indebtedness and, at Creditor's option, will (a) be payable on demand, or (b) be added to the unpaid balance of the open book account. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Creditor may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Debtor to make any payment when due on the Indebtedness.

Other Defaults. Failure of Debtor to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in my other agreement between Creditor and Debtor.

Default in Favor of Third Parties. Should Debtor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Debtor's property or Debtor's ability to repay any obligation or perform their respective obligations under this agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Creditor by or on behalf of Debtor under this Agreement, or concerning the Related Documents is false or misleading in any material respect, either now or at the time made or furnished.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Death or Insolvency. The death or incapacity of James E. Moreton, the president of Debtor, the dissolution or termination of Debtor's existence as a going business or the insolvency of Debtor, the appointment of a receiver for any part of Debtor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Debtor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Debtor or by any governmental agency against the Collateral or any other collateral securing the Indebtedness. This includes a garnishment of any of Debtor's bank

accounts. However, this Event of Default shall not apply if there is a good faith dispute by Debtor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Debtor gives Creditor written notice of the creditor or forfeiture proceeding and deposits with Creditor monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Creditor, in its sole discretion as being an adequate reserve or bond for the dispute.

Adverse Change. A material adverse change occurs in Debtor's financial condition, or Creditor believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Creditor, in good faith, deems itself insecure.

Right to Cure. If any default, other than a Default on Indebtedness, is curable and if Debtor has not been given a prior notice of a breach of the same provision of this Agreement, it may be cured (and no Event of Default will have occurred) if Debtor, after Creditor sends written notice demanding cure of such default, (a) cures the default within fifteen (15) days; or (b), if the cure requires more than fifteen (15) days, immediately initiates steps which Creditor deems in Creditor's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Creditor shall have all the rights of a secured party under the California Uniform Commercial Code. In addition and without limitation, Creditor may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Creditor may declare the entire Indebtedness immediately due and payable, without notice.

Assemble Collateral. Creditor may require Debtor to deliver to Creditor all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Creditor may require Debtor to assemble the Collateral and make it available to Creditor at a place to be designated by Creditor. Creditor also shall have full power to enter upon the property of Debtor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Debtor agrees Creditor may take such other goods, provided that Creditor makes reasonable efforts to return them to Debtor after repossession.

Sell the Collateral. Creditor shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Debtor. Creditor may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Creditor will give Debtor reasonable notice of the time after which any private sale or any other intended

disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) day, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the 10% per annum from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Creditor shall have the following rights and remedies regarding the appointment of a receiver: (a) Creditor may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Creditor and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this Agreement and shall be payable on demand with interest at the rate of 10% per annum from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Creditor, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Creditor may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Creditor may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Creditor may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Creditor may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Creditor may, on behalf of and in the name of Debtor, receive, open and dispose of mail addressed to Debtor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection Creditor may notify account debtors and obligors on any Collateral to make payments directly to Creditor.

Obtain Deficiency. If Creditor chooses to sell any or all of the Collateral, Creditor may obtain a judgment against Debtor for any deficiency remaining on the Indebtedness due to Creditor after application of all amounts received from the exercise of the rights provided in this Agreement. Debtor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Creditor shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Creditor shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Cumulative Remedies. All of Creditor's rights and remedies, whether evidenced by this Agreement or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Creditor to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Debtor under this Agreement, after Debtor's failure to perform, shall not affect Creditor's right to declare a default and to exercise its remedies.

Miscellaneous Provisions: The following are also a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement no alteration of or amendment to this Agreement shall effective unless given in writing and signed by the party or parties sought to be bound by the alteration or amendment.

Applicable Law. This Agreement has been delivered to Creditor and accepted by Creditor in the State of California, If there is a lawsuit, Debtor waives the right to any jury trial in any action, proceeding, or counterclaim brought by either Creditor or Debtor against the other. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

Attorneys' Fees; Expenses. Debtor agrees to pay upon demand all of Creditor's costs and expenses, including attorneys' fees and Creditor's legal expenses, incurred in connection with the enforcement of this Agreement. Creditor may pay someone else to help enforce this Agreement, and Debtor shall pay the costs and expenses of such enforcement. Costs and expenses include Creditor's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Debtor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties. All obligations of Debtor under this Agreement shall be joint and several, and all references to Debtor shall mean each and every Debtor. This means that each of the persons signing below is responsible for all obligations in this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by fax, and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the addresses provided herein. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to

change the party's address. To the extent permitted by applicable law, if there is more than one Debtor, notice to any Debtor will constitute notice to all Debtors, For notice purposes, Debtor will keep Creditor informed at all times of Debtor's current addressees.

Power of Attorney. Debtor hereby appoints Creditor as its true and lawful attorney-in-fact irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Debtor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Debtor, or otherwise, which in the discretion of Creditor may seem to be necessary or advisable. This power is given as security for the Indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Creditor.

Preference Payments. Any monies Creditor pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the Indebtedness and, at Creditor's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY CREDITOR" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be denied to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

Waiver. Creditor shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Creditor. No delay or omission on the part of Creditor in exercising any right shall operate as a waiver of such right or any other right. A waiver by Creditor of a provision of this Agreement shall not prejudice or constitute a waiver of Creditor's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Creditor, nor any course of dealing between Creditor and Debtor, shall constitute a waiver of any of Creditor's rights or of any of Debtor's obligations as to any future transactions, Whenever the consent of Creditor is required under this Agreement, the granting of such consent by Creditor in any instance shall not constitute

continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Creditor.

Waiver of Co-obligor's Rights. If more than one person or entity is obligated for the Indebtedness, Debtor irrevocably waives, disclaims and relinquishes all claims against such other person or entity which Debtor has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

DEBTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND DEBTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED _____.

DEBTOR:

DEBTOR CORPORATION

By: _____

—
President

By: _____

—
Secretary

Note this form needs to be updated due to changes in the Uniform Commercial Code.

EXHIBIT 1

Executed by DEBTOR CORPORATION ("Debtor") in favor of CREDITOR CORPORATION ("Secured Party")

Collateral Description

All unencumbered assets of Debtor which include:

- 1) Debtor's Capital Assets listed per Debtor's 11/15/99 Balance Sheet marked Attachment A and attached hereto.
- 2) All cash assets in Bank of America account number 09631-04130.
- 3) All of the Debtor's now owned and hereinafter acquired accounts (whether or not earned by performance), proceeds of any letters of credit naming Debtor as Beneficiary, contract rights, chattel paper, instruments, documents and all other forms of obligations at any time owing to Debtor, all guaranties and other security therefor, whether secured or unsecured, all merchandise returned to or repossessed by Debtor, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party (collectively "Receivables").
- 4) All of Debtor's now owned and hereinafter acquired goods, merchandise and other personal property, wherever located to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in Debtor's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise and other personal property, and all documents of title or other documents representing them (collectively, "Inventory").
- 5) All of Debtor's present and hereafter acquired machinery, molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dies, jigs, goods and other tangible personal property (other than inventory) of every kind and description used in Debtor's operations or owned by Debtor and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions and improvements to any of the foregoing, wherever located.
- 6) All general intangibles of Debtor, whether now owned or hereafter created or acquired by Debtor, including, without limitation, all choses in action, causes of action, corporate or other business records, deposit accounts, inventions, designs, patents, patent applications, trade marks, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, tax refunds and claims, computer programs, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Debtor to secure payments of any of the Receivables by an account debtor, all rights to indemnification and other intangible property of every kind and nature (other than Receivables).
- 7) All investment property and money of the Debtor, whether now owned or hereafter acquired by Debtor, any and all property new or any time hereafter in Creditor's possession (including claims and credit balances) and all proceeds (including proceeds of any insurance policies and claims against third parties), all products and all books and records related to any of the foregoing.
- 8) Except as to inventory held for sale, Debtor has no right to dispose of or sell any of the above-described collateral.

Note this form needs to be updated due to changes in the Uniform Commercial Code.

1/3/03

VIA FAX AND MAIL

Harold Thomas, CEO
Mitchell Smith, VP
Pleasurama, Inc.
910 Santa Monica Blvd., #590
Santa Monica, CA 90401

Re: \$10,322.72 due to U-2 Printing for printing merchandise and services

Gentlemen:

This letter is written notice that this law office has been engaged by U-2 Printing to commence a lawsuit on this undisputed account forthwith seeking the full unpaid principal, interest, attorney fees and costs. You and your company have in the past continually breached your promises to pay the outstanding invoices 30 days net. U-2 Printing previously has had to make repeated calls to attempt to prod your company to pay this undisputed obligation. Peter Stuckey at U-2 Printing at U-2 Printing previously has made several telephone calls and sent you a 1/3/01 letter to attempt to prod your company to pay this undisputed obligation. You and your representatives have repeatedly made false promises to pay these invoices to Peter Stuckey and others at U-2 Printing.

It is U-2 Printing's position that you are personally responsible on this account based, in part, on alter ego liability and fraud. \$10,322.72 must be received by U-2 Printing by noon on **1/19/01**. Payment by major credit card is acceptable. You are advised that this letter is the only demand you will receive from this office. This letter is not the first of a series of payment requests by this office. If this payment is not received or a written settlement arrangement satisfactory to U-2 Printing is not negotiated and signed by the parties by 1/19/01, a lawsuit will be filed **immediately**. Govern yourself accordingly.

Sincerely,

Mark P. Kronos