

04-15-2005



4/13/05

Form PTO-1594 (Rev. 03/05)
OMB Collection 0651-0027 (exp. 6/30/2005)

102982339

DEPARTMENT OF COMMERCE
United States Patent and Trademark Office

RECORDATION FORM COVER SHEET TRADEMARKS ONLY

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

1. Name of conveying party(ies):

PITA PIT INC.

- Individual(s)
- General Partnership
- Corporation- State: DELAWARE
- Other _____
- Association
- Limited Partnership

Citizenship (see guidelines) USA

Additional names of conveying parties attached? Yes No

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

Execution Date(s) 4/04/05

- Assignment
- Security Agreement
- Other (Security Agreement attached)
- Merger
- Change of Name

2. Name and address of receiving party(ies)

Additional names, addresses, or citizenship attached? Yes No

Name: STERLING SAVINGS BANK

Internal

Address: _____

Street Address: 111 NORTH WALL STREET

City: SPOKANE

State: WASHINGTON

Country: USA Zip: 99201

- Association
- General Partnership
- Limited Partnership
- Corporation
- Other Bank

Citizenship Washington chartered Savings Bank
Citizenship USA
If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
(Designations must be a separate document from assignment)

4. Application number(s) or registration number(s) and identification or description of the Trademark.

A. Trademark Application No.(s)

75686017, 75686018

B. Trademark Registration No.(s)

2502588, 2488457

Additional sheet(s) attached? Yes No

C. Identification or Description of Trademark(s) (and Filing Date if Application or Registration Number is unknown):

SEE ATTACHED EXHIBIT A

5. Name & address of party to whom correspondence concerning document should be mailed:

Name: JODY M. MCCORMICK

Internal Address: WITHERSPOON, KELLEY, DAVENPORT & TOOLE, P.S.

Street Address: 422 WEST RIVERSIDE AVENUE SUITE 1100

City: SPOKANE

State: WASHINGTON Zip: 99201

Phone Number: (509) 624-5265

Fax Number: (509) 458-2717

Email Address: jmm@wkdttlaw.com

6. Total number of applications and registrations involved:

2

7. Total fee (37 CFR 2.6(b)(6) & 3.41) \$ 65.00

- Authorized to be charged by credit card
- Authorized to be charged to deposit account
- Enclosed

8. Payment Information:

a. Credit Card Last 4 Numbers 2635
Expiration Date 03/07

b. Deposit Account Number _____

Authorized User Name _____

9. Signature:

JACK T. RILEY
Signature
Name of Person Signing

4-6-05
Date

Total number of pages including cover sheet, attachments, and document: 23

Documents to be recorded (including cover sheet) should be faxed to (703) 306-5995, or mailed to: Mail Stop Assignment Recordation Services, Director of the USPTO, P.O. Box 1450, Alexandria, VA 22313-1450

04/14/2005 ECOOPER 00000005 75686017

01 FC:8521
02 FC:8522

(40.00 OR
25.00 OR)

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OPR/FINANCE

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made as of April 4, 2005, by PITA PIT USA INC., an Idaho corporation and PITA PIT INC., a Delaware corporation (collectively, "Debtor"), jointly and severally, in favor and for the benefit of STERLING SAVINGS BANK ("Lender").

RECITALS

A. Debtor has requested a loan from Lender in the principal amount of [REDACTED] Dollars (\$ [REDACTED]) (the "Loan").

B. Debtor has agreed to enter into this Agreement in order to induce Lender to provide Debtor the Loan.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Debtor agrees as follows:

1. Security Interests.

(a) In order to secure (i) the due and punctual payment of the Note; (ii) the due and punctual payment and performance of all obligations of Debtor contained herein; (iii) the due and punctual payment and performance of all indebtedness, obligations and liabilities of Debtor contained in all other agreements executed or delivered by Debtor in connection with the Loan (together with this Agreement, the "Loan Documents"); and (iv) the payment and performance of all other indebtedness, liabilities and obligations of Debtor to Lender of every kind and description, whether direct, indirect or contingent, whether now existing or hereafter arising or incurred, due or to become due, whether otherwise secured or unsecured and howsoever evidenced, incurred or arising, including all future advances to Debtor (all of the foregoing indebtedness, obligations and liabilities described in this subsection are hereinafter collectively called the "Obligations"), Debtor hereby grants to Lender and its successors and assigns a continuing security interest in, and hereby collaterally assigns to Lender the following described fixtures and personal property (hereinafter collectively called the "Collateral"):

All fixtures and all tangible and intangible personal property of Debtor, whether now owned or hereafter acquired by Debtor, or in which Debtor may now have or hereafter acquire an interest, and wherever located, including, without limitation:

(i) all machinery, equipment, furnishings, audio, video, computer and other electronic equipment of every kind, tools, furniture, goods, whether now owned or hereafter acquired by Debtor or in which Debtor may now have or hereafter acquire an interest;

(c) The security interests granted pursuant to this Section 1 (the "Security Interests") are granted as security only and shall not subject Lender to, or transfer to Lender, or in any way affect or modify, any obligation or liability of Debtor under any of the Collateral or any transaction which gave rise thereto.

(d) For avoidance of doubt it is expressly understood and agreed that, to the extent the Uniform Commercial Code in effect in Idaho (the "UCC") is revised subsequent to the date hereof such that the definition of any of the foregoing terms included in the description of Collateral is changed, the parties agree that any property which is included in such changed definitions which would not otherwise be included in the foregoing grant on the date hereof be included in such grant immediately upon the effective date of such revision, it being the intention of the parties hereto that the description of Collateral set forth herein be construed to include the broadest possible range of property and assets and all tangible and intangible personal property and fixtures of Debtor of every kind and description.

2. Delivery of Pledged Securities and Chattel Paper.

(a) All of Debtor's securities, securities entitlements, investment property, partnership interests and membership interests in limited liability companies, whether now owned or hereafter acquired by Debtor (collectively, the "Pledged Securities") shall be promptly delivered to Lender by Debtor pursuant hereto, and shall, if certificated, be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignments in blank, with signatures appropriately guaranteed, and accompanied in each case by any required transfer tax stamps, all in form and substance satisfactory to Lender. Schedule A attached hereto and made a part hereof sets forth a complete description of all Pledged Securities owned by Debtor on the date hereof. If the Pledged Securities are not certificated, Debtor shall cause the issuer to register Lender as the registered collateral assignee and provide Lender evidence of such registration. Debtor shall from time to time promptly and in accordance with the foregoing provisions deliver to Lender any and all Pledged Securities which may hereafter be acquired by Debtor.

(b) Lender may at any time or from time to time, in its sole discretion, require Debtor to cause any chattel paper included in the Customer Receivables to be delivered to Lender or any agent or representative designated by it, or to cause a legend referring to the Security Interests to be placed on such chattel paper and upon any ledgers or other records concerning the Customer Receivables.

3. Filing; Further Assurances.

(a) Debtor will, at its sole cost and expense, execute, deliver, file and record (in such manner and form as Lender may require), or permit Lender to file and record, any financing statements, continuation statements and amendments thereto, any carbon, photographic or other reproduction of a financing statement, continuation statement or amendment thereto or this Agreement (which the parties hereto agree shall be sufficient as a financing statement

hereunder), any specific assignments or other paper that may be necessary or desirable, or that Lender may request, in order to create, confirm, preserve, perfect or validate any Security Interest or to enable Lender to exercise and enforce its rights and remedies hereunder or under applicable law with respect to any of the Collateral. Debtor hereby appoints Lender as Debtor's attorney-in-fact to execute and file in the name and on behalf of Debtor such additional financing statements, continuation statements and amendments thereto as Lender may at any time request or require with respect to the Collateral.

(b) Debtor shall, at any time and from time to time, take such steps as Lender may request to permit Lender to (i) obtain an acknowledgement, in form and substance satisfactory to Lender, of any bailee having possession of any of the Collateral that the bailee holds such Collateral for Lender, (ii) obtain "control" of any investment property, deposit accounts, letter-of-credit rights or electronic chattel paper with any agreements establishing control to be in form and substance satisfactory to Lender, and (iii) otherwise insure the continued perfection and priority of Lender's security interest in any of the Collateral and of the preservation of its rights therein.

4. Representations and Warranties of Debtor. Debtor hereby represents and warrants as follows:

(a) Except as described in Exhibit 2 attached hereto and made a part hereof, Debtor is, or to the extent that certain of the Collateral is to be acquired after the date hereof, will be, the owner of the Collateral free from any adverse lien, security interest or encumbrance.

(b) Except for such financing statements as may be described in Exhibit 2 attached hereto and made a part hereof (the "Permitted Liens"), no financing statement covering all or any part of the Collateral is on file in any public office, other than the financing statements filed pursuant to this Agreement.

(c) All additional information, representations and warranties contained in Exhibit 3 attached hereto and made a part hereof.

(d) There are no restrictions upon the voting rights or the transfer of all or any of the Pledged Securities existing on the date hereof (other than may appear on the face of the certificate thereof) and Debtor has the right to vote, pledge, or grant a security interest in and otherwise transfer the Pledged Securities free of any encumbrances (other than applicable restrictions imposed by federal or state securities laws or regulations).

(e) Except as otherwise delivered to Lender pursuant to the terms and provisions of this Agreement, Debtor has exclusive possession and control of the Collateral.

5. Covenants of Debtor. Debtor hereby covenants and agrees as follows:

(a) Debtor will pay or cause to be paid the Obligations when due.

(b) Debtor will defend the Collateral against all claims and demands of all persons at any time claiming any interest therein.

(c) Debtor will provide Lender, at least fifteen (15) business days prior to occurrence, with written notice of (i) any change in the chief executive office of Debtor or the office where Debtor maintains its books and records pertaining to the Customer Receivables, or (ii) the movement or location of Collateral to or at any address other than as set forth in Exhibit D.

(d) Debtor will promptly pay any and all taxes, assessments and governmental charges upon the Collateral prior to the date penalties are attached thereto, except to the extent that such taxes, assessments and charges shall be contested in good faith by Debtor and adequate reserves have been set aside therefor.

(e) Debtor will immediately notify Lender of any event causing a substantial loss or diminution in the value of all or any material part of the Collateral and the amount or an estimate of the amount of such loss or diminution in value.

(f) Debtor will have and maintain insurance at all times with respect to the Tangible Collateral as required under the Loan Agreement.

(g) Debtor will not sell or offer to sell or otherwise assign, transfer or dispose of the Collateral or any interest therein, without the prior written consent of Lender; provided, however, that Debtor may sell its inventory, if any, in the ordinary course of its business and may sell obsolete equipment that has been replaced or is no longer needed in the ordinary course of business.

(h) Except for the Permitted Liens, Debtor will keep the Collateral free from any adverse lien, security interest or encumbrance and in good order and repair, reasonable wear and tear excepted, and will not waste or destroy the Collateral or any part thereof.

(i) Debtor will not use any part of the Collateral in violation of any statute, ordinance or insurance policy covering such Collateral.

(j) Debtor will not change its name, identity or structure without the prior written consent of Lender.

(k) Debtor will perform and observe, or cause to be performed and observed, all of Debtor's material obligations under the Constituent Documents, and will not, without the prior written consent of Lender, amend or modify the Constituent Documents in any material way or permit the admission of additional members or partners.

(l) Debtor will keep its records concerning the Collateral, including the Customer Receivables and all chattel paper included in the Customer Receivables, at Debtor's executive

office as shown on Exhibit D hereto, or at such other place or places of business as Lender may approve in writing. Debtor will hold and preserve such records and chattel paper and will permit representatives of Lender at any time during normal business hours to examine and inspect the Collateral and to make abstracts from such records and chattel paper, and will furnish to Lender such information and reports regarding the Collateral as Lender may from time to time request.

6. Collections with Respect to Customer Receivables.

Debtor will, at its sole cost and expense, and subject at all times to Lender's right to give directions and instructions:

(a) endeavor to collect or cause to be collected from customers indebted on Customer Receivables, as and when due, any and all amounts, including interest, owing under or on the account of each Customer Receivable; and

(b) take or cause to be taken such appropriate action to repossess goods, the sale or rental of which gave rise to any Customer Receivable, and to enforce any rights or liens under Customer Receivables, in the name of Debtor or Lender, as Lender may deem proper;

provided, however, that (a) Debtor will at all times use its best judgment to protect the interests of Lender, and (b) Debtor shall not be required under this Section 6 to take any action which would be contrary to any applicable law or court order. Debtor shall, at the request of Lender following the occurrence of an Event of Default (defined below), notify the account debtors of the Security Interests in any of the Customer Receivables and Lender may itself at any such time so notify account debtors. Lender shall have full power at any time after such notice to collect, compromise, endorse, sell or otherwise deal with any or all outstanding Customer Receivables or the proceeds thereof in the name of either Lender or Debtor, as Lender shall determine. In the event that, after notice to any account debtors to pay Lender, Debtor receives any payment on a Customer Receivable, all such payments shall be held by Debtor in trust for Lender and immediately turned over to Lender.

7. Record Ownership of Pledged Securities. Upon the occurrence and during the continuance of an Event of Default, Lender may upon written notice to Debtor cause any or all of the Pledged Securities to be transferred of record into the name of Lender or its nominee. Debtor will promptly give to Lender copies of any notices or other communications received by Debtor with respect to Pledged Securities registered in the name of Debtor and Lender will promptly give to Debtor copies of any notices and communications received by Lender with respect to Pledged Securities registered in the name of Lender or its nominee.

8. Right to Receive Distributions on Pledged Securities.

(a) Unless an Event of Default shall have occurred and be continuing, Debtor shall be entitled, from time to time, to collect and receive for its own use all dividends, interest and other payments and distributions made upon or with respect to the Pledged Securities, except:

(i) stock dividends;

(ii) dividends payable in securities or other property;

(iii) dividends or distributions on dissolution, or on partial or total liquidation, or in connection with a reduction of capital, capital surplus or paid-in surplus; and

(iv) other securities issued with respect to or in lieu of the Pledged Securities (whether upon conversion of the convertible securities included therein or through stock split, spin-off, split-off, reclassification, merger, consolidation, sale of assets, combination of shares or otherwise).

(b) Lender shall have the right to receive and retain all dividends, interest and other payments and distributions made upon or with respect to the Pledged Securities, except those which Debtor is specifically authorized to receive as provided above, and Debtor shall take all such action as may be necessary or appropriate to give effect to such right. From time to time upon receiving a written request from Debtor accompanied by a certificate signed by its president or principal financial officer stating that no Event of Default has occurred and is continuing, Lender shall deliver to Debtor suitable assignments and orders for the payment to Debtor or upon its order of all dividends, interest and other payments and distributions to which Debtor is entitled as aforesaid, upon or with respect to any Pledged Securities which are registered in the name of Lender or its nominee.

9. Right to Vote Pledged Securities.

(a) Debtor shall have the right, from time to time, to vote and to give consents, ratifications and waivers with respect to the Pledged Securities and to exercise conversion rights with respect to the convertible securities included therein, and Lender shall, upon receiving a written request from Debtor accompanied by a certificate signed by its principal financial officer stating that no Event of Default has occurred and is continuing, deliver to Debtor or as specified in such request such proxies, powers of attorney, consents, ratifications and waivers as Lender shall approve in respect to any Pledged Securities which are registered in the name of Lender or its nominee, and make such arrangements with respect to the conversion of convertible securities as shall be specified in Debtor's request and be in a form and substance satisfactory to Lender.

(b) If an Event of Default shall have occurred, and provided Lender elects to exercise the rights hereinafter set forth by notice to Debtor of such election, Lender shall have the right to the extent permitted by law, and Debtor shall take all such action as may be necessary or

appropriate to give effect to such right, to vote and to give consents, ratifications and waivers and take any other action with respect to all the Pledged Securities with the same force and effect as if Lender were the absolute and sole owner thereof. The curing of any such Event of Default shall not divest Lender of its rights under Sections 7, 8, 9 and 10 hereof unless and until Lender in writing reinstates the rights of Debtor which existed prior to the occurrence of the Event of Default.

10. General Authority. Debtor hereby irrevocably appoints Lender to be Debtor's true and lawful attorney, with full power of substitution, in the name of Debtor, Lender or otherwise, for the sole use and benefit of Lender, but at Debtor's expense, to the extent permitted by law to exercise, at any time and from time to time after any Event of Default has occurred, all or any of the following powers with respect to all or any of the Collateral (which power shall be in addition and supplemental to any powers, rights and remedies of Lender described herein or otherwise available to Lender under applicable law):

(a) to demand, sue for, collect, receive and give acquaintance for any and all moneys due or to become due upon or by virtue thereof;

(b) to receive, take, endorse, assign and deliver any and all checks, notes, drafts, documents and other negotiable and non-negotiable instruments and chattel paper taken or received by Lender in connection therewith;

(c) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto;

(d) to sell, transfer, assign or otherwise deal in or with the same or the proceeds or avails thereof or any related goods securing the Customer Receivables, as fully and effectually as if Lender were the absolute owner thereof;

(e) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto;

(f) to discharge any taxes, liens, security interests or other encumbrances at any time placed thereon, and

(g) to the extent permitted by law, including without limitation, federal and state securities laws, to execute any document or form, in the name of Debtor, which may be necessary or desirable in connection with any sale of the Pledged Securities by Lender, including, without limitation, Form 144 (or any successor form) promulgated by the Securities and Exchange Commission; provided that Lender shall give Debtor not less than ten (10) days prior written notice of the time and place of any sale or other intended disposition of any of the Pledged Securities. Such appointment as attorney is irrevocable and coupled with an interest.

11. Events of Default. Debtor shall be in default under this Agreement upon the occurrence of any one or more of the following events (each such event is herein referred to as an "Event of Default"):

(a) failure of Debtor to make any payment when due on the Loan.

(b) failure of Debtor or others to comply with or to perform when due any term, obligation, covenant or condition contained in this Agreement or in any of the Loan Documents, or failure of Debtor to comply with or to perform any other term, obligation, covenant or condition contained in any other agreement between Lender and Debtor.

(c) should Debtor default under any loan, extension of credit, mortgage, deed of trust, 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 the Loan or perform its obligations respectively under this Agreement or any of the Loan Documents.

(d) any warranty, representation, or statement made or furnished to Lender by or on behalf of Debtor or others under this Agreement, or the Loan Documents is false or misleading in any material respect, either now or at the time made or furnished.

(e) this Agreement or any of the Loan Documents ceases to be in full force and effect, including but not limited to failure of this Agreement and the financing statement filed in connection herewith to create a valid and perfected first priority lien or security interest in the Collateral, at any time and for any reason.

(f) the discontinuance of Debtor's going concern business, the dissolution, termination, winding up of Debtor's corporate status, insolvency of Debtor, appointment of a receiver for any part of Debtor's property, any assignment for the benefit of Debtor's creditors, Debtor entering into any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Debtor .

(g) other than a Permitted Lien, the granting of any security interest, mortgage or other lien or encumbrance, or the filing of any lien against any of the Collateral.

(h) the breach by any guarantor of said guarantor's obligations under any guaranty of Debtor's obligations under the Loan and the Loan Documents.

(i) any change in ownership of Debtor , without Lender's prior written consent, which shall not be unreasonably withheld.

If any default (other than a monetary Event of Default under the other Loan Documents) is curable and if Debtor has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured (and no Event of Default will have occurred) if Debtor, after

receiving written notice from Lender demanding cure of such default: (i) cures the default within fifteen (15) days; or (ii) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender'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.

12. Remedies Upon Event of Default. If an Event of Default shall have occurred and be continuing, Lender may take any of the following actions:

(a) Lender may exercise all the rights and remedies of a secured party under the UCC (whether or not the UCC is in effect in the jurisdiction where such rights and remedies are exercised) and, in addition, Lender may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, including provisions that require a secured party to act in a commercially reasonable manner, (i) apply the cash, if any, then held by it as Collateral hereunder, for the purposes and in the manner specified in Section 14 hereof, and (ii) if there shall be no such cash or if such cash shall be insufficient to pay all the Obligations in full, sell the Collateral, or any part or component thereof, at one or more public or private sales for cash, upon credit or for future delivery, and at such price or prices as Lender may deem appropriate. Notwithstanding anything to the contrary contained in this Agreement, Lender shall not be deemed to have accepted any Collateral in kind in lieu of cash in satisfaction and payment of the Obligations unless Lender expressly agrees to such acceptance in a written instrument executed by Lender.

(b) Lender may require Debtor to assemble all or any part of the Collateral and make it available to Lender at a place to be designated by Lender which is convenient. Any holder of an Obligation may be the purchaser of any or all of the Collateral so sold at any public sale (and, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale) and thereafter hold the same absolutely, free from any right or claim of whatsoever kind. Upon any such sale, Lender shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold absolutely, free from any claim or right of any kind, including any equity or right of redemption of Debtor.

(c) Unless the Collateral to be sold is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender shall give Debtor ten (10) business days prior written notice of its intention to make any such public or private sale. Lender and Debtor agree that such notice constitutes "reasonable notification" within the meaning of Article 9 of the UCC. Such notice in the case of a public sale shall state the time and place fixed for such sale. Such notice in the case of a private sale or disposition shall state the time after which any private sale or other intended disposition is to be made.

(d) Any such public sale shall be held at such time or times within ordinary business hours and at public or private place or places as Lender may fix in the notice of such sale. At any public or private sale, the Collateral may be sold in one lot as an entirety or in separate parcels,

as Lender may determine. Lender shall not be obligated to make such sale pursuant to any such notice. Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be adjourned. In case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by Lender until the selling price is paid by the purchaser thereof, but Lender shall not incur any liability in case of the failure of such purchaser to take up and pay for the Collateral so sold and, in case of any such failure, such Collateral may again be sold upon like notice.

(e) Lender, instead of exercising the power of sale herein conferred upon them, may proceed by a suit or suits at law or in equity to foreclose the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(f) Notwithstanding anything herein contained to the contrary, Debtor's execution and delivery of this Agreement and any related agreements does not and will not constitute, create, or have the effect of constituting or creating, directly or indirectly, actual or practical ownership of Debtor by Lender, or control, affirmative or negative, direct or indirect, by Lender over the management or any other aspect of the operation of Debtor or any of its properties.

(g) All rights and remedies contained herein shall be separate and cumulative and in addition to all other rights and remedies available to a secured party under applicable law, and the exercise of one shall not in any way limit or prejudice the exercise of any other such rights or remedies.

(h) If at any time when Lender shall determine to exercise its right to sell all or any part of the Pledged Securities pursuant to subsection (a)(ii) of this Section, and if such Pledged Securities or the part thereof to be sold shall not, for any reason whatsoever, be effectively registered under the Securities Act of 1933, as from time to time in effect (the "Securities Act") or the securities laws of any state, Lender, in its sole and absolute discretion, is hereby expressly authorized to sell such Pledged Securities or such part thereof by private sale in such manner and under such circumstances as Lender may deem commercially reasonable in order that such sale may legally be effected without such registration. Lender shall sell all or any part of the Pledged Securities at a price which it deems commercially reasonable under the circumstances.

(i) Lender as attorney-in-fact pursuant to the provisions hereof may, in the name and stead of Debtor, make and execute all conveyances, assignments and transfers of any Collateral sold in accordance with this Agreement. Debtor shall, if so requested by Lender, ratify and confirm any sale or sales by executing and delivering to Lender, or to such purchaser or purchasers, all such instruments as Lender may request for such purpose.

(j) The receipt by Lender of the purchase money paid at any such sale made by it shall be a sufficient discharge therefor to any purchaser (other than Lender) of the Collateral, or

any portion thereof, sold as aforesaid; and no such purchaser (or his or its representatives or assigns) (other than Lender), after paying such purchase money and receiving such receipt, shall be bound to see to the application of such purchase money or any part thereof or in any manner whatsoever be answerable for any loss, misapplication or nonapplication of any such purchase money, or any part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

13. Right of Lender to Use and Operate Tangible Collateral, Etc. Upon the occurrence and during the continuance of an Event of Default, to the extent permitted by law and subject to Section 18 hereof, Lender shall have the right and power to enter into any premises where Tangible Collateral is located and take possession of all or any part of the Tangible Collateral, and to exclude Debtor and all persons claiming under Debtor wholly or partly therefrom, and thereafter to hold, store, and/or use, operate, manage and control the same. Upon any such taking of possession, Lender may, from time to time, at the expense of Debtor, make all such repairs, replacements, alterations, additions and improvements to and of the Tangible Collateral as Lender may deem appropriate. In such case, Lender shall have the right to manage and control the Tangible Collateral and to carry on the business and to exercise all rights and powers of Debtor in respect thereto as Lender shall deem appropriate, including the right to enter into any and all such agreements with respect to the leasing and/or operation of the Tangible Collateral or any part thereof as Lender may deem fit; and Lender shall be entitled to collect and receive all rents, issues, profits, fees, revenues and other income of the same and every part thereof. Such rents, issues, profits, fees, revenues and other income shall be applied to pay the expenses of holding and operating the Tangible Collateral and of conducting the business thereof, and of all maintenance, repairs, replacements, alterations, additions and improvements, and to make all payments which Lender may be required or may elect to make, if any, for taxes, assessments, insurance and other charges upon the Tangible Collateral or any part thereof, and all other payments which Lender may be required or authorized to make under any provision of this Agreement including, without limitation, legal costs and attorneys' fees. The remainder of such rents, issues, profits, fees, revenues and other income shall be applied to the payment of the Obligations in such order or priority as Lender shall determine (subject to the provisions hereof) and, unless otherwise provided by law or by a court of competent jurisdiction, any surplus shall be paid over to Debtor. In addition, Lender is entitled, but shall not be obligated, without notice to or demand upon Debtor, to have a receiver appointed to exercise all of the foregoing rights.

14. Application of Collateral and Proceeds. The proceeds of any sale of, or other realization upon, all or any part of the Collateral shall be applied in the following order of priorities:

(a) first, to pay the expenses of such sale or other realization, including commissions to Lender's agents, and all expenses, liabilities and advances incurred or made by Lender in connection therewith, and any other unreimbursed expenses for which Lender is to be reimbursed pursuant to the provisions hereof;

(b) second, to the payment of the Obligations in such order and manner as Lender, in its sole discretion, shall determine; and

(c) finally, unless applicable law otherwise provides, to pay to Debtor, or its successors or assigns, or as a court of competent jurisdiction may direct, any surplus then remaining from such proceeds.

15. Expenses; Lender's Lien. Debtor will forthwith upon demand pay to Lender:

(a) the amount of any taxes which Lender may at any time be required to pay by reason of the Security Interests including, without limitation, any applicable transfer taxes or to free any of the Collateral from any lien thereon, and

(b) the amount of any and all out-of-pocket expenses, including the fees and disbursements of its counsel and of any agents not regularly in its employ, which Lender may incur in connection with (i) the preparation and administration of this Agreement, (ii) the collection, sale or other disposition of any of the Collateral, (iii) the exercise by Lender of any of the powers, rights or remedies conferred upon it hereunder, or (iv) any default on Debtor's part hereunder.

16. Indemnity. In order to induce Lender to make the Loan, Debtor hereby agrees to defend, indemnify and hold Lender, its directors, officers, employees, attorneys, successors and assigns, harmless from and against any and all claims, loss, liability, cost, damage and expense, including, without limitation, legal and accounting fees and expenses, arising, asserted, incurred or imposed in any manner whatsoever out of or in connection with the performance, nonperformance or errors by and of Lender or its agents, nominees, successors and assigns of the rights and obligations of Lender under this Agreement, including, without limitation, the use, possession, occupation, lease, operation, consumption or sale of all or any part of the Collateral and excepting those relating to Lender's gross negligence or willful misconduct.

17. Termination of Security Interests; Release of Collateral. Upon the repayment and performance in full of all the Obligations, the Security Interests shall terminate and all rights to the Collateral shall revert to Debtor. Upon any such termination of the Security Interests or release of Collateral, Lender will, at Debtor's expense to the extent permitted by law, execute and deliver to Debtor such documents as Debtor shall reasonably request to evidence the termination of the Security Interests or the release of such Collateral, as the case may be.

18. Right of Set-Off. In furtherance and not in limitation of any provisions herein contained, Debtor hereby agrees that any and all deposits or other sums at any time claimed by or due from Lender to Debtor shall at all times constitute security for the Obligations and Lender may, following the occurrence and during the continuance of an Event of Default, exercise any right of set-off against such deposits or other sums as may accrue or exist under applicable law.

19. Rights of Lender. Debtor hereby authorizes Lender, without giving notice to Debtor or obtaining Debtor's consent and without affecting the liability of Debtor hereunder, from time to time, to grant, renew or extend indulgences with respect to the Loan, take or release any other collateral as security for the Loan and enforce any such security rights in any order and manner, or add, release or discharge any obligor, guarantor, endorser, surety or other party to or from any of the Loan Documents.

20. Debtor's Waivers. Debtor hereby waives (a) any defense based upon any legal disability or other defense of any guarantor or other person, or by reason of the cessation or limitation of the liability of Debtor from any cause other than full payment of all sums payable under the Note and the other Loan Documents; (b) any defense based upon any lack of authority of the officers, directors, partners or agents acting or purporting to act on behalf of Debtor or any principal thereof or any defect in the formation of Debtor or any principal thereof; (c) all rights and defenses arising out of an election of remedies by the Lender, (d) any rights and defenses based upon any borrowing or any grant of a security interest under Section 364 of the Bankruptcy Code; (e) any rights and defenses based upon any waiver by Lender of its rights, powers or remedies under the Loan Documents or any delay by Lender in exercising the same; (f) presentment, demand, protest and notice of any kind, including, without limitation, notice of default, and any defenses relating thereto arising under applicable law; (g) the benefit of any statute of limitations affecting the liability of Debtor hereunder or the enforcement hereof; (h) any rights and defenses based on the fair value limitations of applicable law; (i) any rights and defenses based on any transfer of all or part of any security for the Loan to Lender by deed in lieu of foreclosure; and (j) any principle or provision of law, statutory or otherwise, which is or might be in conflict with the terms and provisions of this Agreement. Debtor hereby agrees that the payment of all sums payable under the Note and the other Loan Documents or any part thereof or other act which tolls any statute of limitations applicable to the Note and the other Loan Documents shall similarly operate to toll the statute of limitations applicable to Debtor's liability hereunder. Debtor hereby waives any right of contribution, reimbursement or indemnity against any guarantor and surety of every type.

21. Notices. All notices required by or given under this Agreement shall be in writing and personally delivered, faxed, sent by overnight courier or mailed by certified or registered mail with return receipt requested to the addresses or numbers set forth as follows:

Debtor: Pita Pit USA Inc.
Pita Pit Inc.
Attn: Jack T. Riggs
801 S. 11th Street
Coeur d'Alene, Idaho 83814
Fax No. (208) 667-1231

Lender: Sterling Savings Bank
Attn: Ryan D. Petrik
111 North Wall Street

Notices which are personally delivered, faxed or given by overnight courier shall be effective on delivery. Notices which are mailed shall be deemed effective on the third day after deposit with the U.S. Post Office, as evidenced by the official postmark. Either party may change its address for notices by at least five (5) days' advance written notice to the other.

22. **Waivers; Non-Exclusive Remedies.** No failure on the part of Lender to exercise, and no delay in exercising, and no course of dealing with respect to, any right, power or remedy under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise by Lender of any right, power or remedy under this Agreement preclude any other right, power or remedy. The remedies in this Agreement are cumulative and are not exclusive of any other remedies provided by law. Debtor, to the extent it may lawfully do so, hereby consents to the jurisdiction of the courts of the State of Idaho, located in the City of Boise, and the Federal District Courts having jurisdiction in such City and State for the purpose of any suit or proceeding brought in connection with or with respect to this Agreement.

23. **Waiver of Jury Trial.** DEBTOR HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY AND HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS AGREEMENT AND ANY OTHER AGREEMENTS OR INSTRUMENTS EXECUTED IN CONNECTION HERewith, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY DEBTOR, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY DEBTOR.

24. **Amendments and Waivers.** Neither this Agreement nor any provision hereof may be changed, modified, waived, discharged or terminated verbally but only by a statement in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought.

25. **Applicable Law; Meaning of Terms.** THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF IDAHO APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SAID STATE, except to the extent that remedies provided by the laws of any state other than such state are governed by the laws of said state. Unless otherwise defined herein, or unless the context otherwise requires, all terms used herein which are defined in the UCC have the meanings

therein stated.

26. **Severability.** If any provision hereof is finally determined by a court of competent jurisdiction to be invalid or unenforceable, the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of Lender.

27. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, including, without limitation, any subsequent holders of the Note or any of the Obligations, each of whom shall, without further act, become a party hereto by becoming a holder of the Note or such Obligations. Lender may assign all or any part of its benefits, rights, duties and obligations hereunder without the consent of Debtor. Debtor may not assign its benefits, rights, duties or obligations under this Agreement without the prior written consent of Lender, which consent may be conditioned or withheld in Lender's absolute discretion.

28. **Headings.** The headings in this Agreement are for the purposes of reference only and shall not limit or otherwise affect the meaning hereof.

29. **Construction.** Unless the context otherwise requires, the following rules of construction apply to this Agreement: (a) words in the singular include the plural and words in the plural include the singular; (b) the neuter gender shall include the masculine or feminine as the context may require; (c) provisions of this Agreement apply to successive events and transactions; (d) the term "person" shall mean any individual, partnership, joint venture, firm, company, corporation, association, trust, or other enterprise or any local, state or federal regulatory authority or governmental body; (e) in the event there is more than one Debtor the provisions of this Agreement shall be construed to apply to each Debtor as the case may be unless the context clearly requires otherwise; (f) the phrases "Lender's consent," "consent of Lender", "approval of Lender", "Lender's approval," "satisfaction of Lender," or "Lender's satisfaction," or similar phrases shall be deemed to include the phrase "in its sole and absolute discretion."

30. **Counterparts.** This Agreement may be executed by the parties hereto in several counterparts hereof and by different parties hereto on separate counterparts hereof, each of which shall be an original and all of which counterparts shall together constitute one and the same agreement. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as an in-hand delivery of an original executed counterpart thereof.

31. **Statute of Frauds.** The following provisions apply to the extent this Agreement is governed by the law of the state identified in each subsection, if any:

DEBTOR EXPRESSLY ACKNOWLEDGES AND UNDERSTANDS THAT ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE AND HEREBY CONFIRMS THAT LENDER HAS NOT MADE OR

GIVEN ANY PROMISES OR COMMITMENTS THAT ARE NOT EXPRESSLY SET FORTH HEREIN OR IN THE OTHER LOAN DOCUMENTS.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

UNDER IDAHO LAW, A PROMISE OR COMMITMENT TO LEND MONEY OR TO GRANT OR EXTEND CREDIT IN AN ORIGINAL PRINCIPAL AMOUNT OF FIFTY THOUSAND DOLLARS (\$50,000.00) OR MORE, MADE BY A PERSON OR ENTITY ENGAGED IN THE BUSINESS OF LENDING MONEY OR EXTENDING CREDIT, SUCH AS LENDER, MUST BE IN WRITING AND SIGNED BY LENDER TO BE ENFORCEABLE.

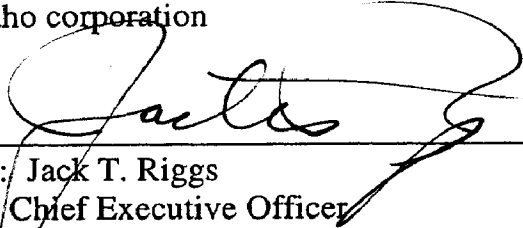
NO EVIDENCE IS ADMISSIBLE TO CHARGE A PERSON UPON A REPRESENTATION AS TO THE CREDIT, SKILL OR CHARACTER OF A THIRD PERSON, UNLESS THE REPRESENTATION, OR SOME MEMORANDUM THEREOF, BE IN WRITING, AND EITHER SUBSCRIBED BY OR IN THE HANDWRITING OF THE PARTY TO BE CHARGED.

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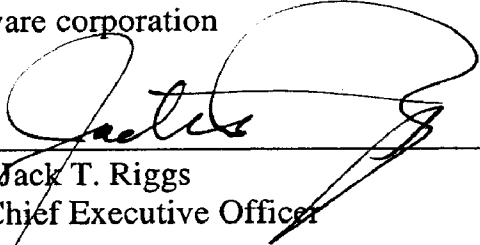
The parties hereto have duly executed this Agreement as of the date first written above.

DEBTOR:

PITA PIT USA INC.,
an Idaho corporation

By: 
Name: Jack T. Riggs
Title: Chief Executive Officer

PITA PIT INC.,
a Delaware corporation

By: 
Name: Jack T. Riggs
Title: Chief Executive Officer

Schedule A

Pledged Securities Existing on Date Hereof

1. 10.883661 shares of Pita Pit Inc., a Delaware corporation held by Pita Pit USA Inc., an Idaho corporation

SECURITY AGREEMENT – Sch A-1

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Exhibit 1

Financing Statements on File on Date Hereof

1. Financing Statements in favor of Lender.
2. Financing Statement in favor of Pita Pit Limited, a Canadian corporation evidencing an indebtedness that is junior and subordinate to the interest created by this Agreement.

SECURITY AGREEMENT – EX 1 - 1

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TRADEMARK
REEL: 003147 FRAME: 0506

Exhibit 2

Additional Representations and Warranties

1. The exact names of Debtor are: (a) Pita Pit USA Inc., an Idaho corporation; and (b) Pita Pit Inc., a Delaware corporation. Debtor has not used any other name within the previous ten (10) years except as provided below. Debtor's Federal Tax Identification Number(s) are _____ and _____.

2. Debtor uses in its business and/or owns the following trade names:

The Pita Pit

3. The address of the chief executive office of Debtor, and where Debtor maintains its records concerning the Collateral, including, without limitation, all original chattel paper and other original evidence of accounts, accounts receivable and other receivables, is:

801 S. 11th Street
Coeur d'Alene, Idaho 83814

4. All personal property in which Debtor owns or has an interest is located at:

801 S. 11th Street
Coeur d'Alene, Idaho 83814

and

SECURITY AGREEMENT – EX 2 - 1

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