

FORM PTO-1618A
Expires 06/30/99
OMB 0651-0027

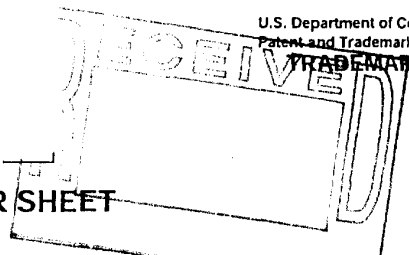
06-23-1998

U.S. Department of Commerce
Patent and Trademark Office



100744971

RECORDATION FORM COVER SHEET
TRADEMARKS ONLY



TO: The Commissioner of Patents and Trademarks: Please record the attached original document(s) or copy(ies).

Submission Type

- New
- Resubmission (Non-Recordation)
Document ID #
- Correction of PTO Error
Reel # Frame #
- Corrective Document
Reel # Frame #

Conveyance Type

- Assignment
- License
- Security Agreement
- Nunc Pro Tunc Assignment
Effective Date
Month Day Year
- Merger
- Change of Name
- Other

Conveying Party

Mark if additional names of conveying parties attached

Name Execution Date
Month Day Year

Formerly

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other
- Citizenship/State of Incorporation/Organization

Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City

State/Country

Zip Code

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other

If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative should be attached. (Designation must be a separate document from Assignment.)

Citizenship/State of Incorporation/Organization

06/22/1998 TYON11 00000137 1747064

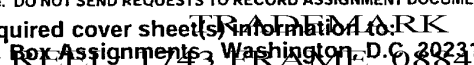
FOR OFFICE USE ONLY

01 FC:481
02 FC:482

40.00 OP
125.00 OP

Public burden reporting for this collection of information is estimated to average approximately 30 minutes per Cover Sheet to be recorded, including time for reviewing the document and gathering the data needed to complete the Cover Sheet. Send comments regarding this burden estimate to the U.S. Patent and Trademark Office, Chief Information Officer, Washington, D.C. 20231 and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Paperwork Reduction Project (0651-0027), Washington, D.C. 20503. See OMB Information Collection Budget Package 0651-0027, Patent and Trademark Assignment Practice. DO NOT SEND REQUESTS TO RECORD ASSIGNMENT DOCUMENTS TO THIS ADDRESS.

Mail documents to be recorded with required cover sheet(s) information to:
Commissioner of Patents and Trademarks, Box Assignments, Washington, D.C. 20231



Domestic Representative Name and Address

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

Correspondent Name and Address

Area Code and Telephone Number

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

Pages

Enter the total number of pages of the attached conveyance document including any attachments.

#

Trademark Application Number(s) or Registration Number(s)

Mark if additional numbers attached

Enter either the Trademark Application Number or the Registration Number (DO NOT ENTER BOTH numbers for the same property).

Trademark Application Number(s)			Registration Number(s)		
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="1747064"/>	<input type="text" value="2068305"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="1994730"/>	<input type="text" value="1750352"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="2029823"/>	<input type="text" value="1821120"/>	<input type="text"/>

Number of Properties

Enter the total number of properties involved.

#

Fee Amount

Fee Amount for Properties Listed (37 CFR 3.41):

\$

Method of Payment:

Enclosed

Deposit Account

Deposit Account

(Enter for payment by deposit account or if additional fees can be charged to the account.)

Deposit Account Number:

#

Authorization to charge additional fees:

Yes

No

Statement and Signature

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document. Charges to deposit account are authorized, as indicated herein.

Baseline II, Inc.

By Mr. Lee Royle, President

6-1-98

Name of Person Signing

Signature

Date Signed

LOAN AND SECURITY AGREEMENT

AGREEMENT, dated as of January 1, 1997 between BASELINE II, INC., a Delaware corporation with its principal office at 838 Broadway, New York, New York 10003 ("Borrower"), and PAUL KAGAN ASSOCIATES, INC., a California corporation with its principal office at 126 Clock Tower Place, Carmel, California 93923 ("Lender").

BACKGROUND

Borrower has heretofore borrowed the sum of \$550,000 from Lender, which is evidenced by (i) an unsecured demand promissory note dated November 30, 1993 in the initial principal amount of \$350,000, (ii) an unsecured demand promissory note dated July 15, 1994 in the initial principal amount of \$200,000, and (iii) an unsecured demand promissory note dated September 27, 1996 in the initial principal amount of \$187,000 (collectively, the "Existing Notes"). The total outstanding principal and interest on the Existing Notes as of the date hereof is \$886,769 (the "Existing Obligations"). The parties desire to (a) recast each of the Existing Notes as a secured note pursuant to the terms and conditions of this Loan and Security Agreement (this "Agreement"), and (b) provide the terms and conditions pursuant to which lender may make additional secured loans to Borrower for the working capital needs of Borrower.

NOW, THEREFORE, the parties hereby agree as follows:

1. Existing Notes. Upon the full execution of this Agreement, Borrower shall execute and deliver to Lender three (3) secured promissory notes each of which shall represent the principal and interest outstanding on one of the Existing Notes substantially in the form attached hereto as Exhibit A (the "Restated Notes") in full satisfaction of the Existing Obligations. Upon receipt of the Restated Notes, Lender shall cancel the Existing Notes and deliver to Borrower the Existing Notes marked as canceled.

2. Terms of Additional Loans.
 - (a) Subject to the terms and conditions hereof, Lender may hereafter, from time to time in its sole discretion, make one or more loans to Borrower in such amounts as may be requested in writing by Borrower (each, a "Loan" and collectively, the "Loans"). Lender shall notify Borrower in writing within ten (10) business days of receipt of Borrower's request whether and when Lender will advance such funds to Borrower.

 - (b) Each Loan shall be evidenced by a promissory note of Borrower, substantially in the form attached hereto as Exhibit B (together with any amendment, replacement, extension, renewal or substitution thereof, each, a "Note" and, together with the Restated Notes, the

- "Notes"). Each Note shall (i) (be payable to the order of Lender on the dates and in the amounts set forth therein) or (be payable upon the demand of Lender); and (ii) bear interest from the date thereof on the unpaid principal amount from time to time outstanding at a per annum rate of 10%.
- (c) Borrower shall have the right at any time and from time to time to prepay all or any portion of the indebtedness evidenced by a Note without premium or penalty. All prepayments shall be applied first to accrued and unpaid interest on such Note.
 - (d) All payments by Borrower on account of principal of and interest on the Notes shall be made to Lender, at its office set forth in paragraph 12 below, in lawful money of the United States of America and in immediately available funds. If any such payment is scheduled to become due and payable on a day which is not a business day, such payment shall instead become due and payable on the immediately following business day and, in case of any payment of principal of a Note, interest thereon shall be payable at the then applicable rate during such extension.
 - (e) Interest on the Notes shall be calculated on the basis of a 360-day year and, as so calculated, shall be charged for the actual number of days for each year (365 or 366, as applicable).
3. Use Of Proceeds. Borrower will use proceeds of each Loan for the working capital needs of Borrower.
4. Grant Of Security Interest In Collateral. As collateral security for the payment in full of the Existing Obligations, the Loans and all other amounts now or hereafter owing to Lender from time to time under the Notes or this Agreement and for the performance of all obligations of Borrower under or in connection with this Agreement (collectively, the "Obligations"), Borrower hereby grants to Lender a first priority security interest in and lien upon, and hereby assigns and pledges to Lender, the following described property, whether now existing or hereafter acquired and wherever located (collectively, the "Collateral"):
- (a) all inventory and other goods which, in connection with its business are held or being processed for sale or lease or to be furnished contracts of service, or have been so furnished, including raw materials, work in progress, finished goods, and materials and supplies used or consumed in its business ("Inventory");
 - (b) all accounts, accounts receivable, receivables, contracts, contract rights and leases and all other rights to payment, whether or not evidenced by an instrument or chattel paper and whether or not payment has been earned by performance (collectively, "Accounts");
 - (c) all instruments, negotiable instruments, and all other writings which evidence a right to the payment of money which is in the ordinary course of business transferred by delivery with any necessary endorsement or assignment ("Instruments");
 - (d) all (i) copyrights, copyright registrations and applications for copyright registration, including, without limitation, all renewals and extensions thereof, the right to recover for

all past, present and future infringements thereof, and all other rights of any kind whatsoever accruing thereunder or pertaining thereto (collectively, "Copyrights"), (ii) patents and patent applications, including, without limitation, the inventions and improvements described and claimed therein together with the reissues, divisions, continuations, renewals, extension and continuations-in-part thereof, all income, royalties, damages and payments now or hereafter due and/or payable under and with respect thereto, including, without limitation, damages and payments for past or future infringements thereof, the right to sue for past, present and future infringements thereof, and all rights corresponding thereto throughout the world ("Patents"), and (iii) trademarks, trade names, corporate names, company names, business names, fictitious business names, trade style, service marks, logos, prints and labels on which said trademarks, corporate names, company names, business names, fictitious business names, trade names, trade styles and service marks have appeared or appear, designs and general intangibles of like nature, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all right, title and interest therein and thereto, and all registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof, or any country or any political subdivision thereof, all whether owned or hereafter acquired (collectively, "Trademarks") together with (A) all inventions, processes, production methods, propriety information, know-how and trade secrets used or useful its business; (B) all licenses or user or other agreements granted to it with respect to any of the foregoing, in each case whether now or hereafter owned or used; (C) all information, customer lists, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, catalogs, computer and automatic machinery software and programs, and the like; (D) all field repair data, sales data and other information relating to sales or service of products now or hereafter manufactured; (E) all accounting information and all media in which or on which any of the information or knowledge or data or records may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data; (F) all licenses, consents, permits, variances, certifications and approvals of governmental agencies now or hereafter held; and (G) all causes of action, claims and warranties now or hereafter owned or acquired in respect of any of the items listed above;

(e) all documents, documents of title, bills of lading, dock warrants, dock receipts, warehouse receipts and orders for the delivery of goods, and all other documents which in the regular course of business or financing are treated as adequately evidencing that a person in possession is entitled to receive, hold and dispose of the document and the goods it covers ("Documents");

(f) all "equipment", as such term is defined in the Uniform Commercial Code as in effect from time to time in the State of New York (the "Uniform Commercial Code"), now owned or hereafter acquired wherever located and, in any event, including all machinery and equipment, including processing equipment, conveyors, machine tools, data processing and computer equipment with software and peripheral equipment (other than

software constituting part of the Accounts), and all engineering, processing and manufacturing equipment, machinery, furniture, material handling equipment, tools, attachments, accessories and other equipment of every kind and nature, trade fixtures and fixtures not forming a part of real property, all whether now owned or hereafter acquired, and wherever situated, together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings, instructions, warranties and rights with respect thereto and all products and proceeds thereof and condemnations awards and insurance proceeds with respect thereto;

(g) all "contracts", as such term is defined in the Uniform Commercial Code, now owned or hereafter acquired or entered into by it and, in any event, including all contracts, undertakings or agreements (other than rights evidenced by Chattel Paper, Documents or under which it may now or hereinafter have any right, title or interest, including any agreement relating to the terms of payment of the terms of performance of any Account ("Contracts");

(h) all chattel paper, including any writing or writings which evidence both a monetary obligation and a security interest in or a lease of specific goods, and, when a transaction is evidenced both by a security agreement or a lease and by an instrument or a series of instruments, the group of writings taken together ("Chattel Paper");

(i) all books and records (including computer databases for accessing it) related to any of the foregoing; and

(j) all other tangible or intangible property, including, without limitation, all products and accessions of and to any of the property described in clauses (a) through (i) in this Section 4 (including, without limitation, any proceeds of insurance thereon), and, to the extent related to any property described in said clauses or such proceeds, products and correspondence, credit files, records, invoices and other papers, including without limitation all tapes, cards, computer runs and other papers and documents in the or under its control or any computer bureau or service company from time to time acting for it.

The security interest granted hereby shall be continuing and shall secure all present and future Obligations whether or not at some point prior in time all Obligations then Outstanding shall have been satisfied.

5. Financing Statements and Notice. Borrower hereby authorizes Lender to file UCC financing statements and any amendments thereto or continuations thereof and any other appropriate security documents or instruments, naming Borrower as debtor and Lender as secured party and, in the case of filings to be made in the State of New York, without the signature of Borrower provided, Lender has requested that Borrower execute any such document, instrument or notice and Borrower has not complied with such request within five (5) days of the Lender's making such request. At Lender's request, Borrower will join with Lender in executing any such financing statements, amendments or continuations. In order to perfect, maintain or protect its security interest, Lender may

give notice of its security interest in Collateral and may deliver a copy of this Agreement to any person.

6. Preservation of Collateral and Security Interest. Borrower shall maintain tangible Collateral in at least as good condition as it on the date hereof or when acquired by Borrower, ordinary wear and tear excepted, and not permit anything to be done that will impair the value of the Collateral in any material way. Borrower shall at all times keep accurate and complete records with respect to Collateral and shall furnish to Lender upon request copies of its records relating to Collateral and all additional information reasonably requested by Lender. Lender representatives shall, during reasonably business hours and upon notice given two (2) business days in advance, have the right to enter upon Borrower's premises, inspect Collateral, and examine and make copies of Borrower's records relating to Collateral.
7. Default. Any of the following events shall constitute an "Event of Default" under this Agreement:
 - (a) if payment of any part of the principal or interest on the Notes shall not be made when and as the same shall become due and payable and such default shall continue for ten (10) days after written notice thereof has been sent to Borrower; or
 - (b) if Borrower shall default in the due observance or performance of any other covenants, conditions or provisions of this Agreement and such default shall continue for thirty (30) days after written notice thereof has been sent to Borrower; or
 - (c) if any representation or warranty made in this Agreement or in any agreement, financial statement, certificate or other document furnished, pursuant to this Agreement or otherwise, to Lender by Borrower proves to be false or misleading in any material respect as of the date of the making or furnishing thereof or to have omitted any material fact or substantial contingent or unliquidated liability of or claim against Borrower; or
 - (d) if Borrower shall file a petition in bankruptcy or for reorganization or for an arrangement or any composition, readjustment, liquidation, dissolution or similar relief pursuant to the Bankruptcy Code (the "Code") or under any similar present or future federal or state law, or shall be generally not paying its debts as they become due, or shall take any corporate action in furtherance of any of the foregoing; or
 - (e) if a petition or answer shall be filed proposing the entry of an order for relief for Borrower under the Code or its reorganization or arrangement, or any composition, readjustment, liquidation, dissolution or similar relief with respect to it pursuant to the Code or any similar present or future federal or state law, and Borrower shall consent to the filing thereof, or such petition or answer shall not be discharged or denied within thirty (30) days after the filing thereof; or
 - (f) if a custodian, receiver, trustee or liquidator (or other similar official) of Borrower or of all or substantially all of its assets or of the Collateral or any portion thereof shall be appointed and shall not be discharged within thirty (30) days thereafter, or if Borrower shall consent to or acquiesce in such appointment.

8. Events Of Default; Remedies. Should any Event of Default occur, Lender may declare the entire unpaid principal amount of each of the Notes and unpaid interest thereon and all other Obligations immediately due and payable and directly exercise in any combination, and without prejudice to any right remedy not exercised, (i) Lender's rights under the Uniform Commercial Code, and (ii) Lender's other rights at law or equity. Without limiting the generality of the foregoing, Lender may exercise any one or more of the following remedies:
- (a) Lender personally or by agents or attorneys shall have the right, subject to compliance with any applicable mandatory legal requirements, to take immediate possession of the Collateral, or any portion thereof, and for that purpose may pursue the same wherever and in whomsoever's possession it may be found, and at Lender's request, Borrower shall make the Collateral available to Lender at such place as Lender may reasonably designate.
 - (b) Subject to compliance with any mandatory legal requirements, Lender may at any time after the Notes have been declared to be immediately due and payable, either with or without taking possession and either before or after taking possession, and without instituting any legal proceedings whatsoever, and, to the extent required by law having first given reasonable notice of such sale to Borrower (Borrower agreeing that in such event thirty (30) days' prior notice shall be reasonable notice), sell or dispose of the Collateral, or any part thereof, at public auction or private sale to the highest bidder, in one lot as an entirety or in separate lots, and either for cash or on credit and on such terms as Lender may determine, and at any place (whether or not it be the location of the Collateral or any part thereof) designated in the notice above referred to; provided, however, that any such sale or sales, or for any such adjourned sale or sales, without further notice, and Lender may bid and become the purchaser at any such sale.
9. Application Of Sale Proceeds. The proceeds of any sale of the Collateral, or any part thereof, and the proceeds and the avails of any remedy under this Agreement shall be paid and applied as follows:
- (a) First, to the payment of costs and expenses of foreclosure or suit, if any, and of such sale, and of all proper expenses, liabilities and advances, including legal reasonable attorneys' fees, incurred or made in connection therewith or otherwise in connection with this Agreement by Lender, and of all taxes, assessments or liens superior to the security interest of this Agreement, except any taxes, assessments or other superior liens subject to which said sale may have been made;
 - (b) Second, to the payment of all amounts then due and payable on account of the Notes for interest and then for principal;
 - (c) Third, to the payment of all other amounts then due in respect of the Obligations; and
 - (d) Fourth, to the payment of the surplus, if any, to Borrower, its successors and assigns, or to whomsoever may be lawfully entitled to receive the same.

If the proceeds of any such sale are insufficient to cover the costs and expenses of such sale, as aforesaid, and the payment in full of the Notes and such other amounts due in respect of the Obligations, Borrower shall remain liable for any deficiency.

10. Covenants, Warranties And Agreements Of Borrower. Borrower represents and warrants to Lender that:

- (a) (i) Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and is duly qualified to do business as a foreign corporation in each jurisdiction in which the failure to be so qualified would materially adversely affect the financial condition, result of operations, assets, liabilities or business of Borrower; (ii) Borrower has the corporate power to execute and deliver, and to engage in the transactions contemplated by, this agreement and the Notes (collectively, the "Operative Documents") and to comply with the provisions of each of the Operative Documents; (iii) the execution, delivery and performance of the Operative Documents have been authorized by all necessary corporate action on the part of the Borrower; and (iv) the Operative Documents have been duly executed and delivered by Borrower and are legal the, valid and binding obligation of Borrower enforceable against Borrower in accordance with the terms hereof and thereof.
- (b) Neither the execution and delivery by Borrower of the Operative Documents nor the consummation by Borrower of transactions contemplated thereby, nor compliance by Borrower with the provisions thereof, conflicts with or results in a breach of any of the provisions of the certificate of incorporation or by-laws of Borrower, or of any applicable law, rule or regulation, or to the knowledge of Borrower, of any judgment, order, writ, injunction, decree of any court, administrative agency or other governmental authority, or of any agreement or other instrument to which Borrower is a party or by which it is bound, or constitutes a default under any thereof.
- (c) No consent, approval or other authorization of or by any court, administrative agency or other governmental authority is required in connection with the execution, delivery or performance by Borrower of, or the consummation by Borrower of the transactions contemplated by, the Operative Documents.
- (d) The chief executive office of Borrower, each jurisdiction where Borrower maintains an office and each jurisdiction where Collateral is located is as set forth on Schedule 1. Borrower hereby warrants and represents that, except for Lender's security interest hereunder and as otherwise described on Schedule 2 hereto, Borrower is the sole owner of the Collateral, free from any liens, claim, set-off, defense or counterclaim; and that all items of Collateral are in all material respects what they purport to be.
- (e) Borrower will keep in full effect its existence, rights and franchises as a corporation and will obtain and preserve its qualification to do business as a foreign corporation in each jurisdiction in which the failure to be so qualified would materially adversely affect the financial condition, results of operations, assets, liabilities or business of Borrower.

- (f) Borrower will not sell, lease, transfer, exchange or otherwise dispose of any of the Collateral other than in the ordinary course of business, or create, incur or suffer to exist any lien, security interest or other encumbrance on its interest in any of the Collateral other than in the ordinary course of business.
11. Further Assurances. Borrower agrees that, from time to time upon the written request of Lender, it shall execute and deliver such further documents and do such other acts and things as Lender may reasonably request in order fully to effect the purposes of this Agreement.
12. Notices. Unless otherwise expressly specified or permitted by the terms of this Agreement, all notices and communications under this Agreement shall be deemed to have been given or made, in the case of mailed notices or communications, when received, or in the case of telexed notices or communications, when dispatched, if addressed in each case as follows: (a) if to Lender, 126 Clock Tower Place, Carmel, California 93923, Attention: Paul Kagan, or (b) if to Borrower, at 838 Broadway, New York, New York 10003, Attention: Lee Royle, or at such other address as it shall from time to time designate by notice to the other parties of this Agreement.
13. Execution; Controlling Law; Successors And Assigns. This Agreement may be executed in one or more counterparts, each of which, when so executed, shall be deemed to be an original, and such counterparts, together, shall constitute one and the same agreement, which shall be sufficiently evidenced by one of such original counterparts. This Agreement shall be governed by and be construed in accordance with the laws of the State of New York. This Agreement shall inure to the benefit of and be binding upon, Borrower and Lender and their respective successors and assigns.
14. Jurisdiction. Lender and Borrower hereby irrevocably consent to the exclusive jurisdiction of the Courts of the State of New York and of any United States District Court located in such State in connection with any action or proceeding arising out of or relating to this Agreement, or any document or instrument delivered pursuant to this Agreement.
15. Headings. The headings of paragraphs and subparagraphs used in this Agreement are for the convenience of reference only and are not of substantive effect.
16. Invalidity. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under all applicable laws and regulations. If, however, any provision of this Agreement shall be prohibited by or invalid under any such law or regulation, it shall be deemed modified to conform to the minimum requirements of such law or regulation or, if for any reason it is not deemed so modified, it shall be ineffective and invalid only to the extent of such prohibition or invalidity without the remainder thereof or any of the remaining provisions of this Agreement being prohibited or invalid.
17. Entire Agreement. This Agreement contains the entire agreement between Lender and Borrower with respect to the subject matter of this Agreement and supersedes all courses

of conduct heretofore pursued, and all oral representations and agreements heretofore made, by Lender with respect thereto, whether or not relied or acted upon. No modification of this Agreement shall be enforceable against Lender unless made in a writing that is duly executed by Lender and specifically refers to each provision of this Agreement being modified. No course of conduct hereafter pursued, and no oral representation or agreement hereafter made, by Lender, whether or not relied or acted upon, shall modify or terminate this Agreement or impair or otherwise affect any obligation of Borrower pursuant to this Agreement.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the day and year first above written.

LENDER:

PAUL KAGAN ASSOCIATES, INC.


By: 

Name: PAUL F. KAGAN

Title: PRESIDENT

BORROWER:

BASELINE II, INC.

By: 

Name: Lee Royle

Title: President

DEMAND NOTE

\$ _____

New York, New York

January __, 1997

FOR VALUE RECEIVED, undersigned promises to pay to the order of PAUL KAGAN ASSOCIATES, INC., at its offices located at 126 Clock Tower Place, Carmel, California 93923, or, at the holder's option, at such place as may be designated from time to time by the holder, the principal sum of _____ Dollars (\$_____) in lawful money of the United States of America, payable on demand, together with interest on the unpaid principal amount of the Note outstanding from time to time from the date hereof, at the rate as hereinafter provided.

This Note shall bear interest at a per annum rate of 10%. Interest on this Note shall be payable on the date the unpaid principal balance is paid in full. In no event shall the rate of interest on this Note exceed the maximum rate authorized by applicable law. Interest will be calculated for each day at 1/360th of the applicable per annum rate, which will result in a higher effective annual rate.

This Note is issued pursuant to and as permitted by the Loan and Security Agreement, of even date herewith (as amended or supplemented, the "Security Agreement"), between Borrower and Lender. This Note is secured as provided in and subject to the provisions of the Security Agreement. Reference is hereby made to the Security Agreement for a description of the provisions upon which this Note is issued and secured, the nature and extent of the security and the rights of the holder of the Note and others in respect of the Note and such security.

The undersigned shall have the right to prepay at any time, without premium or penalty, all or any portion of the principal indebtedness evidenced by this Note, together with accrued interest on the principal so prepaid to the date of such prepayment.

During the continuance of an Event of Default under the Security Agreement, the principal hereof and the interest accrued and unpaid hereon may be declared to be due and payable forthwith as provided in the Security Agreement.

If any amount with respect to this Note is not paid when due, whether because such amount becomes due on a Saturday, Sunday or a banking holiday, or for any other reason, the

undersigned will pay interest thereon at the applicable rate until the date of actual receipt of such amount by the holder of this Note.

Should any of the indebtedness represented by this Note be collected in any action or proceeding, or this Note be placed in the hands of attorneys for collection after default, Borrower agrees to pay, in addition to the principal and interest due and hereon, all costs of collecting this Note, including reasonable attorneys' fees and expenses.

No modification, rescission, waiver, forbearance, release or amendment of any provision of this Note shall be made, except by a written agreement duly executed by the undersigned and the holder hereof.

The undersigned and all endorsers, guarantors and sureties hereof hereby severally waive diligence, demand, presentment, protest and notice of any kind, and assent to extensions of the time of payment, release, surrender or forbearance or other indulgence, without notice.

This Note shall be governed by the laws of the State of New York. In the event of any litigation with respect to this Note, the undersigned waives the right to a trial by jury and all rights of set off and rights to interpose counterclaims and cross claims. The undersigned hereby irrevocably consents to the jurisdiction of the courts of the State of New York and of any Federal court located in such State in connection with any action or proceeding arising out of or relating to this Note.

BASELINE II, INC.

By: _____

Name:

Title:

DEMAND NOTE

\$ _____

New York, New York

_____, 199_

FOR VALUE RECEIVED, undersigned promises to pay to the order of PAUL KAGAN ASSOCIATES, INC., at its offices located at 126 Clock Tower Place, Carmel, California 93923, or, at the holder's option, at such place as may be designated from time to time by the holder, the principal sum of _____ DOLLARS (\$ _____) in lawful money of the United States of America, payable on demand, together with interest on the unpaid principal amount of the Note outstanding from time to time from the date hereof, at the rate as hereinafter provided.

This Note shall bear interest at a per annum rate of 10%. Interest on this Note shall be payable on the date the unpaid principal balance is paid in full. In no event shall the rate of interest on this Note exceed the maximum rate authorized by applicable law. Interest will be calculated for each day at 1/360th of the applicable per annum rate, which will result in a higher effective annual rate.

This Note is issued pursuant to and as permitted by the Loan and Security Agreement, of even date herewith (as amended or supplemented, the "Security Agreement"), between Borrower and Lender. This Note is secured as provided in and subject to the provisions of the Security Agreement. Reference is hereby made to the Security Agreement for a description of the provisions upon which this Note is issued and secured, the nature and extent of the security and the rights of the holder of the Note and others in respect of the Note and such security.

The undersigned shall have the right to prepay at any time, without premium or penalty, all or any portion of the principal indebtedness evidenced by this Note, together with accrued interest on the principal so prepaid to the date of such prepayment.

During the continuance of an Event of Default under the Security Agreement, the principal hereof and the interest accrued and unpaid hereon may be declared to be due and payable forthwith as provided in the Security Agreement.

If any amount with respect to this Note is not paid when due, whether because such amount becomes due on a Saturday, Sunday or a banking holiday, or for any other reason, the undersigned will pay interest thereon at the applicable rate until the date of actual receipt of such amount by the holder of this Note.

Should any of the indebtedness represented by this Note be collected in any action or proceeding, or this Note be placed in the hands of attorneys for collection after default, Borrower agrees to pay, in addition to the principal and interest due and hereon, all costs of collecting this Note, including reasonable attorneys' fees and expenses.

No modification, rescission, waiver, forbearance, release or amendment of any provision of this Note shall be made, except by a written agreement duly executed by the undersigned and the holder hereof.

The undersigned and all endorsers, guarantors and sureties hereof hereby severally waive diligence, demand, presentment, protest and notice of any kind, and assent to extensions of the time of payment, release, surrender or forbearance or other indulgence, without notice.

This Note shall be governed by the laws of the State of New York. In the event of any litigation with respect to this Note, the undersigned waives the right to a trial by jury and all rights of set off and rights to interpose counterclaims and cross claims. The undersigned hereby irrevocably consents to the jurisdiction of the courts of the State of New York and of any Federal court located in such State in connection with any action or proceeding arising out of or relating to this Note.

BASELINE II, INC.

By: _____

Name:

Title

Schedule 1

Chief Executive Office

838 Broadway

New York, New York 10003

Locations of Collateral