

01-04-1999



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RECORDATION FORM COVER SHEET
TRADEMARKS ONLY

MKD 12-28-98

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

Merger

Change of Name

Other

Effective Date
Month Day Year
12 17 98

Conveying Party

Mark if additional names of conveying parties attached

Name Execution Date
Month Day Year
12 17 98

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

Citizenship/State of Incorporation/Organization

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.)

12/31/1998 DNGUYEN 00000239 1904250

FOR OFFICE USE ONLY

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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

TRADEMARK
REEL: 1834 FRAME: 0262

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)

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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.

Jinntung Su

Name of Person Signing

Signature

12-18-98

Date Signed

**RECORDATION FORM COVER SHEET
CONTINUATION
TRADEMARKS ONLY**

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

U.S. Department of Commerce
Patent and Trademark Office
TRADEMARK

Conveying Party

Enter Additional Conveying Party

Mark if additional names of conveying parties attached

Execution Date
Month Day Year

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Formerly

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Other

Citizenship State of Incorporation/Organization

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SECURITY AGREEMENT

This Security Agreement (this "Security Agreement") is entered into as of this 17th day of December, 1998, by and between Paradigm Software Development, Inc., a Washington corporation (the "Company"), with its principal office at 146 North Canal Street, Suite 200, Seattle, Washington 98103, and the lenders listed on Schedule I (the "Lenders"; each of the Lenders shall individually be referred to as the "Lender").

RECITALS

A. The Company and the Lenders are parties to a Bridge Loan Agreement dated as of the date hereof (as amended and in effect from time to time, the "Bridge Loan Agreement"), subject to the terms and conditions of which the Company has agreed to sell to the Lenders, and the Lenders have agreed to purchase from the Company, Secured Notes dated as of the date hereof (as amended and in effect from time to time, the "Notes") and Warrants. Capitalized terms defined in the Notes and used without other definition herein shall have the same respective meanings herein as in the Notes.

B. It is a condition precedent to the purchase of the Notes and Warrants by the Lenders that the Company enter into this Security Agreement with the Lenders.

C. The Company desires to grant to the Lenders a continuing security interest in the collateral listed on Schedule II hereto (the "Collateral") to secure performance by the Company of its obligations under the Bridge Loan Agreement and Notes (the "Obligations"), all as more specifically set forth in this Security Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Grant of Security Interest.

1.1 As security for the Company's performance of the Obligations, whether matured or unmatured, liquidated or unliquidated, absolute or contingent, whether incurred, arising or accruing prior to, on or after the date of this Security Agreement; however evidenced and including interest accruing both before and after (a) judgment and (b) the commencement of any proceedings under bankruptcy, insolvency, reorganization, receivership or other laws providing relief to debtors ("Insolvency Laws") the Company hereby grants, assigns and pledges to the Lenders a security interest, in and a lien upon all of the Company's right, title and interest in and to the Collateral and any and all proceeds thereof.

Section 2. Priority of Security Interest.

The Lenders agree that irrespective of (a) the time, order, manner or method of creation, attachment or perfection of the respective security interests and/or liens granted in or on any or all of the property or assets of the Company, (b) the time or manner of the filing of their respective financing statements, (c) whether any Lender or any bailee or agent thereof holds possession of any or all of the property or assets of the Company, (d) the dating, execution or delivery of any agreement, document or instrument granting security interests and/or liens in or on any or all of the property or assets of the Company, (e) the giving or failure to give notice of the acquisition or expected acquisition of any purchase money or other security interests and (f) any provision of the UCC or any other applicable law to the contrary, any and all security interests, liens, rights and interests, whether now or hereafter arising and howsoever existing, in or on any or all of the Collateral shall be and hereby treated pari pasu among the Lenders to any and all security interests, liens, rights and interests of the Lenders in and to the Collateral under this Security Agreement. For purposes of the foregoing allocation of priorities, any claim of a right of setoff shall be treated in all respects as a security interest and no claimed right of setoff shall be asserted to defeat or diminish the rights or priorities provided for herein.

Section 3. Covenants of the Company. The Company hereby agrees and covenants as follows:

3.1 The Company shall maintain the Collateral at the address of the Company set forth above shall not change its principal place of business or the location of the Collateral without at least 30 days prior written notice to the Lenders.

3.2 The Company shall provide the Lenders with such information as the Lenders may from time to time reasonably request relating to the Collateral.

3.3 At the Lenders' request, the Company shall promptly execute and deliver to the Lenders one or more financing statements, in a form satisfactory to the Lenders, and amendments thereto, as may be necessary or appropriate to protect the Lenders' position under the Uniform Commercial Code as enacted and in effect in the State of Washington (or any other relevant jurisdiction designated by applicable law) on the date hereof (the "UCC").

3.4 At the Lenders' request, the Company shall promptly execute and deliver to the Lenders all such other notices, statements, documents and instruments, and perform such acts as the Lenders reasonably deem necessary to protect, preserve or enforce their rights under this Security Agreement.

3.5 The Company shall maintain insurance on the Collateral in an amount equal to its full replacement value, including coverage for fire, theft and vandalism. The Lenders shall be named as additional insureds and loss payees on such policies of insurance, and the Company shall deliver to the Lenders, upon request, certificates of insurance which provide for thirty (30) days advance cancellation notice of cancellation to the Lenders.

3.6 The Company shall maintain the Collateral in good condition and repair, ordinary wear and tear excepted.

3.7 The Company shall promptly notify the Lenders of any material damage to or loss of the Collateral and report such damage or loss to the insurer; and any proceeds of insurance shall be used by the Company to replace or repair the Collateral or paid over to the Lenders in repayment of the Notes.

3.8 The Company shall permit the Lenders to inspect the Collateral at reasonable times upon reasonable notice.

3.9 The Company shall notify the Lenders of, and shall defend the Collateral against, all claims and demands of all persons at any time claiming any interest therein.

3.10 The Company shall not sell, convey, transfer, dispose of, or otherwise alienate the Collateral, or any part thereof or any interest therein, by operation of law or otherwise, or agree to do so, without the prior written consent of the Lenders, except in the ordinary course of business.

3.11 The Company shall comply in all material respects with all applicable law, the failure to comply with which could adversely effect the Collateral, the Company's rights therein or the Lenders' security interest therein or ability to realize thereon.

4. Representations and Warranties of the Company.

4.1 The Company hereby represents and warrants to the Lenders that, except for the interest of the Lenders in the Collateral, (a) the Company is the sole and exclusive owner of the Collateral; (b) the Company has full right and authority to execute, deliver, perform and observe this Security Agreement; (c) the Collateral is free and clear of encumbrances, liens, pledges, security interest and claims except those of the Lenders hereunder; and (d) no consent or authorization is necessary in connection with the Company's execution, delivery, performance and observation of this Security Agreement.

4.2 The Company hereby further represents and warrants that the Collateral is not used for personal, family or household purposes and that the Collateral is used for a business other than farming operations.

Section 5. Default; Remedies Upon Default.

The occurrence of a default (or Event of Default) under any of the Obligations; Company's failure to perform or observe any of its covenants or obligations under this Security Agreement, or the falsity in any material respects of any representation or warranty made by the Company in this Security Agreement, shall be deemed a default under this Security Agreement if not cured within 10 days following the Lenders' delivery of written notice thereof. The Company shall also be in default under this Security Agreement if (a) the Company fails to satisfy, when due and payable, any

Obligation or perform or comply with any other obligation under the Bridge Loan Agreement or Notes; (b) a trustee, liquidator, custodian, sequestrator or receiver (or similar official) is appointed for the Company or a substantial part of the Company's assets; (c) the Company assigns assets for the benefit of creditors; (d) any proceeding under Insolvency Laws is commenced by or against the Company or (e) the Company is unable generally to pay its undisputed debts as they become due. Upon the occurrence of any of the foregoing events (each, an "Event of Default"), the Lenders may accelerate and declare all Obligations immediately due and payable upon written notice to the Company, and, as against the Collateral, the Lenders shall have all of the rights and remedies of a secured party under the UCC. In addition, the Company agrees that upon the occurrence and during the continuance of an Event of Default:

(a) In the event of a sale or other disposition of the Collateral by the Lenders, the Lenders may apply the proceeds of any such sale or disposition to the satisfaction of its reasonable attorneys' fees, legal expenses, and other costs and expenses incurred in connection with the taking, re-taking, holding, preparing for sale, and selling of such Collateral;

(b) Upon the Lenders' request, the Company will assemble the Collateral, taking all necessary or appropriate action to preserve and keep it in good condition, and make it available to the Lenders at such place and time as the Lenders may reasonably specify by written notice to the Company, all at the expense of the Company; and

(c) The Lenders may notify the account debtors on accounts, chattel papers and general intangibles, and the obligors on instruments for which the Company is an obligee, of the Lenders' interest in such accounts, chattel papers, general intangibles and instruments, and to make all payments in respect thereof directly to the Lenders. After any such notice is given, the Company shall hold any proceeds of such Collateral received by it in trust for the Lenders, without commingling, and shall promptly pay over any such proceeds, with any necessary endorsements, to the Lenders.

Section 6. Subordination

The Lenders agree that, regardless of the time of filing or perfection, the priority otherwise available for any reason under applicable law, or any other circumstance whatsoever, including the failure by any holder of debt as described in Section 2.10 of the Schedule of Exceptions to the Loan Agreement (the "Senior Indebtedness") to obtain or maintain continuous perfection of any security interest, such security interest shall nonetheless be entitled to priority over the security interests granted to the Lenders hereunder. The Lenders further agree that this subordination provision shall remain in full force and effect so long as any principal, interest (including interest accruing after the initiation of any proceeding by or against the Company under applicable Insolvency Laws) remains outstanding or any Senior Indebtedness holder has any commitment to lend or otherwise extend credit to the Company and shall be reinstated if any payment made by or on behalf of the Company to such Company is avoided, rescinded or required to be returned by such Senior Indebtedness holder for any reason.

Notwithstanding any other provision of this Security Agreement, the Lenders agree not to exercise any rights or remedies hereunder, or take any other action to foreclose on the Collateral, to the extent inconsistent with the rights of holders of Senior Indebtedness.

Section 7. Attorney-in-Fact.

The Company hereby irrevocably appoints the Lenders as its attorney-in-fact, coupled with an interest, with full power of substitution, (a) for the purpose of executing for the Company, and in its name, any documents or instruments which the Company is required to execute pursuant to this Security Agreement, provided that the Company does not do so within two business days after a request or demand by the Lenders to do so, (b) for the purpose of filing or delivering any of the same, (c) for the purpose of taking control of, in any manner, any cash or noncash items of payment or proceeds thereof which come into the Lenders' possession following an Event of Default, and (d) for endorsing thereon the name and signature of the Company, which shall be deemed valid endorsement by the Company.

Section 8. Waivers.

8.1 The Company hereby covenants that any and all of the Lenders' rights with respect to the security interest hereunder shall continue unimpaired, and the Company shall be and remain obligated in accordance with the terms hereof, notwithstanding the release or substitution of any Collateral at any times, or of any rights or interest herein, or any delay, extension of time, renewal, compromise or other indulgence granted by the Lenders with respect to the Obligations, any of the Company's obligations hereunder or any obligations of any other party. The Company hereby waives any and all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound thereby as fully and effectually as if the Company had expressly agreed thereto in advance. The Company further waives notice, demand, protest, notice of acceptance or any other action taken in reliance hereon.

8.2 The Company hereby agrees that any failure of the Lenders to exercise any right or remedy under this Security Agreement, any other agreement between the Lenders and the Company, or otherwise, or delay by the Lenders in exercising the same, will not operate as a waiver thereof. No waiver by the Lenders will be effective unless and until it is in writing and signed by the Lenders.

8.3 The Lenders shall have no obligation to resort to the Collateral, any guarantee or any other security which is or may become available to it. The Company further waives any right to require the Lenders to (i) proceed against any other party liable on any other Payment obligation, (ii) proceed against or exhaust any collateral, or (iii) pursue any other remedy in its power, and waives any defense arising by reason of any disability or other defense of the Company or any other person, or by reason of the cessation from any cause whatsoever of the liability of the Company or any other person.

Section 9. Term and Termination.

This Security Agreement shall remain in full force and effect from the date hereof until the payment in full of all Obligations, at which time all rights provided to the Lenders herein and this Security Agreement shall terminate. Upon the termination of this Security Agreement, the Lenders shall execute and deliver to the Company all such documents and instruments as the Company may reasonably request to evidence the termination of this Security Agreement and the Lenders' rights hereunder. In the event that any payment made by the Company to the Lenders is avoided or must be returned by the Lenders for any reason, the provisions of this Agreement shall be reinstated until all such amounts are finally paid in full.

Section 10. Successors and Assigns.

This Security Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors and assigns.

Section 11. Further Assurances.

The parties shall execute and deliver such further instruments and take such further actions as may be reasonably necessary to carry out the purposes and intent of this Security Agreement.

Section 12. GOVERNING LAW.

THIS SECURITY AGREEMENT IS MADE AND ENTERED INTO IN THE STATE OF WASHINGTON AND SHALL BE GOVERNED BY, ENFORCED AND CONSTRUED IN ALL RESPECTS IN ACCORDANCE WITH THE INTERNAL SUBSTANCE LAWS OF THE STATE OF WASHINGTON.

Section 13. Severability.

If any provision of this Security Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision of this Security Agreement which may prove invalid or unenforceable under any applicable law shall not affect the validity or enforceability of any other provision hereof.

Section 12. Counterparts.

This Security Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute but one and the same instrument.

Section 14. Notices.

Any requests, demand, or notices required or permitted under this Security Agreement shall be given in writing and shall be deemed effectively given upon personal delivery or by facsimile or two business days hours after deposit in the United States mail (postage prepaid), by certified mail, return receipt requested, addressed to the receiving party at the address set forth on the first page hereof or at such other address as such party may specify by written notice to the other party hereto.

Section 15. Attorneys' Fees.

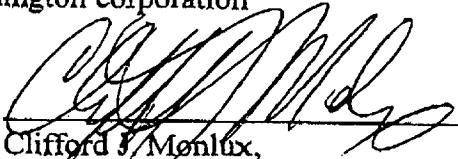
If any action or proceeding is brought to construe or enforce this Security Agreement, the prevailing party shall be entitled to collect from the losing party all costs and expenses incurred, including reasonable attorneys' fees.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Security Agreement as of the date first above written.

COMPANY:

PARADIGM SOFTWARE DEVELOPMENT, INC.,
a Washington corporation

By: 
Clifford J. Monlux,
President and Chief Executive Officer

LENDERS:

VERTEX TECHNOLOGY FUND PTE LTD.

By: _____
Name: _____
Title: _____

THE ENTREPRENEURS' FUND, L.P.

By: BW Management, LLC, its general partner

By: _____
Jeffrey T. Webber, Managing Director

RBW INVESTMENTS, LLC

By: _____
Jeffrey T. Webber, Managing Director

By: _____
Ronald K. Loder, Trustee of the Ronald
K. Loder and Yolanda R. Loder Family
Trust U/D/T dated 6/25/93, as amended

[Signature Page to Security Agreement Dated December __, 1998]

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COMPANY:

PARADIGM SOFTWARE DEVELOPMENT, INC.,
a Washington corporation

By:

Clifford J. Monks,
President and Chief Executive Officer

LENDERS:

VERTEX TECHNOLOGY FUND PTE LTD.

By:

LEE KHENG NAM
Name: LEE KHENG NAM
Title: PRESIDENT

THE ENTREPRENEURS' FUND, L.P.

By: **BW Management, LLC, its general partner**

By:

Jeffrey T. Webber, Managing Director

RBW INVESTMENTS, LLC

By:

Jeffrey T. Webber, Managing Director

**THE RONALD K. LODER AND YOLANDA
R. LODER FAMILY TRUST U/D/T DATED
6/28/93, AS AMENDED**

By:

Ronald K. Loder, Trustee

[Signature Page to Security Agreement Dated December __, 1998]

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By: _____
Name: _____
Title: _____

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By: BW Management, LLC, its general partner

By: _____
Jeffrey T. Webber, Managing Director

RBW INVESTMENTS, LLC

By: _____
Jeffrey T. Webber, Managing Director

**THE RONALD K. LODER AND YOLANDA
R. LODER FAMILY TRUST U/D/T DATED
6/25/93, AS AMENDED**

By: _____
Ronald K. Loder, Trustee

[Signature Page to Security Agreement Dated December __, 1998]

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a Washington corporation

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Clifford J. Monlux,
President and Chief Executive Officer

LENDERS:

VERTEX TECHNOLOGY FUND PTE LTD.

By: _____
Name: _____
Title: _____

THE ENTREPRENEURS' FUND, L.P.

By: BW Management, LLC, its general partner

By: _____
Jeffrey T. Webber, Managing Director

RBW INVESTMENTS, LLC

By: _____
Jeffrey T. Webber, Managing Director

**THE RONALD K. LODER AND YOLANDA
K. LODER FAMILY TRUST U/D/T DATED
6/25/93, AS AMENDED**

By: *Ronald K. Loder*
Ronald K. Loder, Trustee

(Signature Page to Security Agreement Dated December 11, 1998)

Lenders

Vertex Technology Fund Pte. Ltd.

c/o Vertex Management, Inc.
3 Lagoon Drive, Suite 220
Redwood City, CA 94065

The Entrepreneurs' Fund, L.P.

c/o R.B. Webber & Co.
1717 Embarcadero Road
Suite 200
Palo Alto, CA 94304

RBW Investments, LLC

c/o R.B. Webber & Co.
1717 Embarcadero Road
Suite 200
Palo Alto, CA 94304

**The Ronald K. Loder and
Yolanda R. Loder Family
Trust U/D/T dated 6/25/93,
as amended**

31831 Camino Capistrano
Suite 200
San Juan Capistrano, CA 92675

Description of Collateral

All personal and fixture property of every kind and nature including without limitation all furniture, fixtures, equipment, raw materials, inventory, goods, accounts, contract rights, rights to the payment of money, insurance refund claims and all other insurance claims and proceeds, tort claims, proceeds of fraudulent transfer, preference, or similar claims, pension fund overfunded amounts, chattel paper, documents, instruments (including certificated securities), deposit accounts, investment accounts and all general intangibles including, without limitation, all uncertificated securities, tax refund claims, license fees, Intellectual Property Collateral, computer programs, computer software, engineering drawings, service marks, customer lists, and all licenses, permits, agreements of any kind or nature pursuant to which the Company possesses, uses or has authority to possess or use property (whether tangible or intangible) of others or others possess, use or have authority to possess or use property (whether tangible or intangible) of the Company, and all recorded data of any kind or nature, regardless of the medium of recording including, without limitation, all software, writings, plans, specifications and schematics.

"Intellectual Property Collateral" means all of the Company's right, title and interest in and to all of the following: all general intangibles including, without limitation, all know-how, license fees, patents, patent applications, trademarks, trademark applications, related goodwill, associated product lines, trade names, mask-works, copyrights, copyright applications, rights to sue and recover for past infringement of patents, trademarks and copyrights, the right to prosecute applications for patents, trademarks and copyrights, all rights corresponding thereto throughout the world, all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, the rights to make, use, advertise and sell, and all other rights with respect to, the inventions disclosed or claimed therein, all inventions, designs, proprietary or technical information, know-how, other data or information, software, databases, all embodiments or fixations thereof and related documentation, registrations, franchises, and all direct and indirect proceeds of any of the foregoing (such as, by way of example, license royalties and proceeds of infringement suits).