

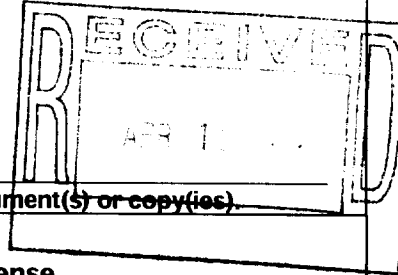
04-19-1999

TRADEMARK



101015771

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

Merger
Effective Date
Month Day Year

Change of Name

Other

4.12.99

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)

Individual General Partnership Limited Partnership 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.)

Corporation Association

Other

Citizenship/State of Incorporation/Organization

04/16/1999 DNGUYEN 00000046 2222534

FOR OFFICE USE ONLY

01 FC:481
02 FC:482

(40.00 OP
50.00 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

TRADEMARK
REEL: 001885 FRAME: 0079

REEL: 1885 FRAME: 0079

Domestic Representative Name and Address Enter for the first Receiving Party only.

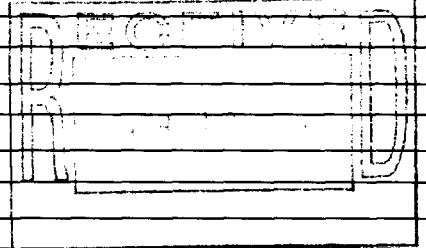
Name

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" value="75398141"/>	<input type="text"/>	<input type="text"/>	<input type="text" value="2222534"/>	<input type="text"/>	<input type="text"/>
<input type="text" value="75398142"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<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.

Robert C. Shearer

Name of Person Signing

Signature

4/6/99

Date Signed

Schedule A Patents

<u>File No</u>	<u>Inventor</u>	<u>Name of Inventor</u>	<u>Serial Patent Reg. No</u>	<u>Status</u>
DPII:003	Fielder & Thigpen	Improved Bi-Center Bit	5,678,644	Issued 10/27/97
DPII:008	Besson, Fielder, & Thigpen	Improved Cutting Element	09/021,012	Filed 2/09/98
DPII:010	Fielder	Stabilizing Cutter	5,830,196	Issued 9/8/98
DPII:012	Fielder, Robollido, Silva, & Weston	Improved Bi-Center Bit with Oppositely Disposed Cutting Surface	08/955,147	Filed 10/21/97
DPII:013	Thigpen, Fielder, Weston, & Rebollido	Improved Bit & Nozzle System	09/057,714	Filed 4/2/98
DPII:020	Leitko, etal	Improved Coring Tool	09/014,116	Filed 1/27/98
DPII:025	Fielder, Weston, & Thigpen	Cutting Element with Stress Reduction	09/129,179	Filed 4/15/98
DPII:028	Fielder	Stabilizing Drill Bit	09/149,196	Filed 9/8/98
DPII:029	Rebollido & Tuson	Drill Bit Stabilizing Pads	60/088,012	Filed 5/28/98
DPII:030	Fielder	Dowhole Cutting Tool Incorporating Selective Cutter Placement	60/088,011	Filed 5/29/98
DPII:031	Fielder	Two Stage Drill Bit	60/088,010	Filed 5/28/98
DPII:037	Fielder & Silva	Downhole Bit Adapted to Drill Casing Shoe	60/118,518	Filed 2/3/99

Schedule B Trademarks

<u>File No.</u>	<u>Trademark</u>	<u>Status</u>	<u>Registration No.</u>
DPII:014	DPI	Registered 11/17/98.	2222534
DPII:015	SpeedReamer	Applied for registration 11/24/98.	75398141
DPII:016	LoTorque	Applied for registration 11/24/98. Smith Int'l. & Camco have been notified of their infringement. Camco has agreed to discontinue use of trademark.	75398142
DPII:017	Target Cutter	Will not register.	
DPII:035	SpeedDrill	Will apply for registration 4/99.	

SECURITY AGREEMENT
(Patents & Trademarks)

THIS SECURITY AGREEMENT AND ASSIGNMENT OF PATENTS AND TRADEMARKS ("Agreement"), made and entered into as of the 29th day of March, 1999, by and between **DIAMOND PRODUCTS INTERNATIONAL, INC.**, a Texas corporation (the "Borrower"), and **BANK ONE, TEXAS, N.A.**, a national banking association (the "Lender"),

W I T N E S S E T H:

WHEREAS, of even date herewith Borrower and Lender are entering into that certain Amended and Restated Credit Agreement (the "Loan Agreement") pursuant to which the Lender has agreed to renew, rearrange and modify an existing credit facility with (i) a revolving credit facility up to the amount of \$1,600,000 (the "Revolving Loan"), and (ii) a term loan facility in the amount of \$7,000,000 (the "Term Loan"); the Revolving Loan to be evidenced by that certain promissory note of even date herewith in the original principal amount of \$1,600,000 (the "Renewal Revolving Credit Note") and the Term Loan to be evidenced by that certain promissory note of even date herewith in the original principal amount of \$7,000,000 (the "Renewal Term Note"); the Renewal Revolving Credit Note and the Renewal Term Note are herein collectively called the "Notes"); and

WHEREAS, as security for the payment of principal of and interest on the Notes and as security for the other obligations set forth in the Loan Agreement, Borrower desires to grant to Lender a security interest in all of its right, title and interest in and to all "Patents" and "Trademarks" in the name of Borrower, as those terms are defined in Paragraph 2 hereof, relating to the technology, know how, and processes involved in producing or providing Borrower's products and services ("Products and Services") and to grant to Lender a power of attorney to foreclose upon and sell Borrower's interests in the Patents and Trademarks (hereinafter collectively referred to as the "Collateral") under the circumstances set forth in this Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties mutually covenant and agree as follows:

1. The Loan Agreement and the terms and provisions thereof (including, without limitation, the definitions of terms set forth therein) are incorporated herein in their entirety.
2. (a) To secure the payment and performance of all Borrower's obligations arising from or related to the Notes, Loan Agreement and the Loan Documents ("Borrower's Obligations"), Borrower hereby grants to Lender a first and valid security interest in all Borrower's right, title and interest in the United States and throughout the world in and to all of its now owned and hereafter acquired United States and foreign patents and all patent and design patent applications, and all reissues, continuations or divisions thereof, and all proceeds thereof, including, without limitation those set forth on Schedule A attached hereto and made a part hereof (hereinafter collectively referred to as "Patents"). All presently known and unexpired patents and all currently pending patent applications relating solely to the Products and Services in which Borrower has an interest are listed on Schedule A. Subject to the provisions of Paragraph 14, Borrower hereby further grants to the Lender a first and valid security interest in all the Borrower's right, title and interest in and to all income, royalties, damages and payments now and hereafter due and/or payable under all

Patents and, subject to the provisions of Paragraph 14, in and to all rights during the term of this Agreement to sue, collect and retain for its own benefit damages and payments for past or future infringements of the Patents.

(b) To secure the payment and performance of all Borrower's Obligations, including, without limitation, the obligation to pay the principal of and interest on the Notes, Borrower hereby grants to Lender a first and valid security interest in all Borrower's right, title and interest in the United States and throughout the world in and to all of its now owned and hereafter acquired trademarks, service marks and trade names, and all registrations and applications to register the same, and all renewals thereof, and the goodwill of the business relating solely thereto, and all proceeds thereof including, without limitation those set forth on Schedule B attached hereto and made a part hereof (hereinafter collectively referred to as "Trademarks"). All presently known trademark registrations and all currently pending trademark applications in which Borrower has an interest are listed on Schedule B. Subject to the provisions of Paragraph 14, Borrower hereby further grants to the Lender a first and valid security interest in all Borrower's right, title and interest in and to all income, royalties, damages and payments now and hereafter due and/or payable under all Trademarks and, subject to the provisions of Paragraph 14, in and to all rights during the term of this Agreement to sue, collect and retain for its own benefit damages and payments for past or future infringements of the Trademarks.

3. Borrower agrees that it shall not license, transfer, convey or encumber any interest in or to the Collateral out of the ordinary course of its business without the prior express written consent of the Lender.

4. To the best of Borrower's knowledge, information and belief, all Collateral consisting of applications for Patents and for registrations of Trademarks has been duly and properly filed and all Collateral consisting of Patents and of registrations of Trademarks (including, without limitation, any and all renewals, reissues, continuations or divisions thereof, as the case may be) has been duly and properly filed and issued and is valid and enforceable where the failure to be so filed or issued or the failure to be valid and enforceable would have a material adverse effect on the business or the profits of Borrower.

5. Promptly upon the filing of any patent application or application for registration of a trademark (other than an application made solely for state trademark registration), and upon the issuance of any patent or trademark registration, Borrower agrees to execute an addendum to this Agreement, which addendum shall identify such patent or trademark application or such patent or trademark registration as necessary to perfect a security interest in such patent or trademark application or such patent or trademark registration, and, with respect to United States patent or patent applications and United States trademark applications or trademark registrations, Borrower shall cause such addendum to be recorded in the United States Patent and Trademark Office.

6. Borrower shall not take any action, nor permit any action to be taken by others subject to Borrower's control, including licensees, or fail to take any action, or permit others subject to Borrower's control, including licensees, to fail to take any action, subject to the provisions of Paragraph 10, which would, in the case of any such actions or failures to act taken singly or together, affect the validity, grant and enforceability of the Collateral herein.

7. Borrower shall promptly notify the Lender, in writing, of any suit, action, proceeding or counterclaim brought against Borrower relating to, concerned with, or affecting the Collateral,

and shall, on request, deliver to the Lender a copy of all pleadings, papers, orders or decrees theretofore and thereafter filed in any such suit, action or proceeding, and shall keep the Lender fully advised in writing of the progress of any such suit.

8. In the event of any material infringement of the Collateral by others or in the event of any other conduct detrimental to the Collateral by others known or brought to the attention of Borrower, Borrower shall promptly notify the Lender in writing of such infringement or other conduct and the full nature, extent, evidence and facts of such infringement or other conduct known to Borrower (and with respect to the alleged infringement of the Borrower's trademark "LoTorque" referenced on Schedule B, such disclosure on Schedule B satisfies the written notice obligation as well as the obligation to demand the alleged infringer cease and desist the alleged infringement, and with respect to the alleged infringement by Smith International, it is acknowledged that there has been no response from Smith International to the Borrower's demand to cease and desist the alleged infringement). No later than thirty (30) days after such notice to the Lender, Borrower shall send to the person or entity committing such infringement or engaging in such other conduct a letter by personal delivery or by United States first-class registered or certified mail (return receipt requested) demanding that said person or entity cease and desist forthwith from committing said infringement or engaging in said other conduct. In the event that within thirty days after the sending of said letter, said person or entity has not ceased and desisted from said infringement or other conduct and such infringement is reasonably determined to likely materially adversely effect the business or financial condition of the Borrower, Borrower shall forthwith bring and diligently and vigorously maintain a suit to stop, and to seek such other appropriate relief with respect to, such infringement and other conduct until a decision is obtained from which no review or appeal can or has been taken or until otherwise resolved in a manner reasonably satisfactory to the Lender; provided, however, if in the judgment of the Borrower bringing suit or seeking other relief with respect to such infringement or other conduct would not be cost justified, then Borrower shall so advise Lender in writing and Borrower may in its discretion decline to bring suit or seek other relief. Subject to the foregoing proviso and the other provisions of this Agreement, Borrower shall assume and continue, at its own cost and expense, through counsel of its own choice who is acceptable to the Lender, full and complete responsibility for the prosecution of any infringement of or other conduct adversely affecting the Collateral and otherwise defend and assure the grant, validity and enforceability of the Collateral, whether by judicial or nonjudicial means, all in order that Borrower comply fully with the provisions of this Paragraph 8.

9. If requested by the Lender, Borrower shall, not more than once each year, provide the Lender a complete status report of all Collateral. Upon request by the Lender, Borrower shall deliver to counsel for the Lender copies of any such Collateral and other documents concerned with or related to the prosecution, protection, maintenance, enforcement and issuance of the Collateral.

10. Borrower shall notify the Lender at least two months prior to any voluntary abandonment of any Collateral and obtain the written permission of the Lender to such abandonment, which permission shall not be unreasonably withheld. In the event that such permission to abandon is denied by the Lender, then Borrower shall take all reasonably necessary action, at its own expense, to continue and maintain such Collateral in force.

11. Subject to any other express provision of this Agreement, upon the occurrence and during the continuance of an Event of Default or upon the failure, neglect or refusal by Borrower to file, prosecute, defend, issue, maintain, enforce or otherwise take action in respect to the Collateral as required hereby, or to carry out any other obligation or duty of Borrower under this

Agreement (other than failure to bring suit or seek other relief with respect to infringement or other conduct because such actions would not be cost justified in Borrower's judgment, in which case such failure is permissible under this Agreement), then Borrower hereby appoints and designates the Lender its sole attorney to take any such action as the Lender reasonably deems necessary under the circumstances, including, without limitation, the employment of counsel, and Borrower shall pay all fees and expenses, including reasonable attorneys' fees and expenses, incurred by the Lender in connection with such action.

12. Upon full and complete payment and performance of Borrower's Obligations under the Loan Agreement, including, without limitation, the obligation to pay the principal of and interest on the Notes, this Agreement and the power of attorney granted in Paragraph 11 hereof shall automatically terminate and the Lender shall release the Collateral from this Agreement, and shall execute and deliver (at Borrower's sole cost and expense, either directly or in reimbursement of costs and expenses reasonably incurred by the Lender) all documents as may be reasonably necessary to render the Collateral free and clear of any security interest created pursuant to this Agreement.

13. During the term of this Agreement, Borrower agrees whenever any of the Trademarks are used by or on behalf of Borrower to affix or cause to be affixed a notice that the mark is a trademark, a service mark or is registered, which notice shall be in a form accepted or required by the trademark marking laws of each country in which the mark is so used.

14. During the term of this Agreement, all income, royalties, payments and damages due and payable to Borrower under the Collateral shall be paid to Borrower; provided, however, upon the occurrence and during the continuance of an Event of Default, all income, royalty payments and damages received thereafter shall be paid directly to the Lender and shall be applied by the Lender on account of Borrower's Obligations owed under the Loan Agreement. The Lender shall have the right to notify payors to make their payments directly to the Lender upon the occurrence and during the continuance of an Event of Default.

15. Should any part or provision of this Agreement be held unenforceable or conflicting with the law of any jurisdiction, the validity of the remaining parts or provisions hereof shall not be affected thereby. Should any part or provision of this Agreement be deemed by a court or other governmental authority of competent jurisdiction to be an assignment of any Trademark so as to result in Borrower's abandonment thereof, such part or provision (but no other) shall be construed as providing for a security interest and not an assignment, all in order to preclude such abandonment and, if such construction shall not be accepted by such court or other governmental authority, such part or provision (but no other) shall be deemed null and void as to such Trademark in the jurisdiction where abandonment might otherwise result.

16. Borrower agrees, upon the reasonable request by the Lender during the term of this Agreement:

(a) to execute, acknowledge and deliver all additional instruments and documents necessary or desirable to effect the purpose of this Agreement, in a form reasonably acceptable to counsel for the Lender;

(b) to do all such other acts as may be reasonably necessary or appropriate in order to carry out the intent and purpose of this Agreement, and to protect the security interests of the Lender in the Collateral; provided, however, Borrower shall not be required to take any action to perfect the Lender's security interest in Collateral outside the United States of America.

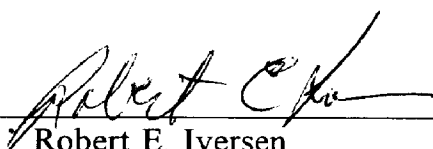
17. This Agreement and the obligations that it secures and all rights and liabilities of the parties shall be governed by Texas law, except when federal law or the law of a foreign sovereign jurisdiction is applicable.

18. Borrower represents and warrants to the Lender that none of the Collateral is subject to any lien, security interest or other encumbrance other than that of the Lender granted hereby. In the event, however, that any of the Collateral is in fact subject to any such lien, security interest or other encumbrance, Borrower shall diligently seek to obtain a release of such lien, security interest or other encumbrance.


19. THIS SECURITY AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year hereinabove written.

DIAMOND PRODUCTS INTERNATIONAL, INC.,

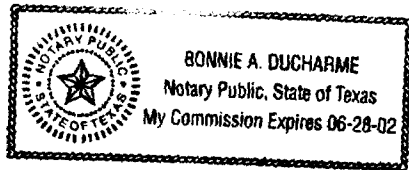
By: 
Robert E. Iversen
President

BANK ONE, TEXAS, N.A.

By: 
Laurel Varney Mason
Vice President

THE STATE OF TEXAS §
 §
COUNTY OF HARRIS §

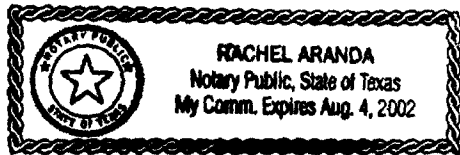
The foregoing instrument was acknowledged before me this 30TH day of March, 1999, by Robert E. Iversen, President of DIAMOND PRODUCTS INTERNATIONAL, INC., a Texas corporation, on behalf of said corporation.



Bonnie A. Ducharme
Notary Public, State of Texas

THE STATE OF TEXAS §
 §
COUNTY OF Dallas §

This instrument was acknowledged before me on the 26 day of March, 1999, by Laurel Varney Mason, Vice President of BANK ONE, TEXAS, N.A., a national banking association, on behalf of said association.



Rachel Aranda
Notary Public, State of Texas

COPY

SECURITY AGREEMENT (Patents & Trademarks)

THIS SECURITY AGREEMENT AND ASSIGNMENT OF PATENTS AND TRADEMARKS ("Agreement"), made and entered into as of the 29th day of March, 1999, by and between DIAMOND PRODUCTS INTERNATIONAL, INC., a Texas corporation (the "Borrower"), and BANK ONE, TEXAS, N.A., a national banking association (the "Lender"),

WITNESSETH:

WHEREAS, of even date herewith Borrower and Lender are entering into that certain Amended and Restated Credit Agreement (the "Loan Agreement") pursuant to which the Lender has agreed to renew, rearrange and modify an existing credit facility with (i) a revolving credit facility up to the amount of \$1,600,000 (the "Revolving Loan"), and (ii) a term loan facility in the amount of \$7,000,000 (the "Term Loan"); the Revolving Loan to be evidenced by that certain promissory note of even date herewith in the original principal amount of \$1,600,000 (the "Renewal Revolving Credit Note") and the Term Loan to be evidenced by that certain promissory note of even date herewith in the original principal amount of \$7,000,000 (the "Renewal Term Note"); the Renewal Revolving Credit Note and the Renewal Term Note are herein collectively called the "Notes"; and

WHEREAS, as security for the payment of principal of and interest on the Notes and as security for the other obligations set forth in the Loan Agreement, Borrower desires to grant to Lender a security interest in all of its right, title and interest in and to all "Patents" and "Trademarks" in the name of Borrower, as those terms are defined in Paragraph 2 hereof, relating to the technology, know how, and processes involved in producing or providing Borrower's products and services ("Products and Services") and to grant to Lender a power of attorney to foreclose upon and sell Borrower's interests in the Patents and Trademarks (hereinafter collectively referred to as the "Collateral") under the circumstances set forth in this Agreement;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties mutually covenant and agree as follows:

1. The Loan Agreement and the terms and provisions thereof (including, without limitation, the definitions of terms set forth therein) are incorporated herein in their entirety.

2. (a) To secure the payment and performance of all Borrower's obligations arising from or related to the Notes, Loan Agreement and the Loan Documents ("Borrower's Obligations"), Borrower hereby grants to Lender a first and valid security interest in all Borrower's right, title and interest in the United States and throughout the world in and to all of its now owned and hereafter acquired United States and foreign patents and all patent and design patent applications, and all reissues, continuations or divisions thereof, and all proceeds thereof, including, without limitation those set forth on Schedule A attached hereto and made a part hereof (hereinafter collectively referred to as "Patents"). All presently known and unexpired patents and all currently pending patent applications relating solely to the Products and Services in which Borrower has an interest are listed on Schedule A. Subject to the provisions of Paragraph 14, Borrower hereby further grants to the Lender a first and valid security interest in all the Borrower's right, title and interest in and to all income, royalties, damages and payments now and hereafter due and/or payable under all

Patents and, subject to the provisions of Paragraph 14, in and to all rights during the term of this Agreement to sue, collect and retain for its own benefit damages and payments for past or future infringements of the Patents.

(b) To secure the payment and performance of all Borrower's Obligations, including, without limitation, the obligation to pay the principal of and interest on the Notes, Borrower hereby grants to Lender a first and valid security interest in all Borrower's right, title and interest in the United States and throughout the world in and to all of its now owned and hereafter acquired trademarks, service marks and trade names, and all registrations and applications to register the same, and all renewals thereof, and the goodwill of the business relating solely thereto, and all proceeds thereof including, without limitation those set forth on Schedule B attached hereto and made a part hereof (hereinafter collectively referred to as "Trademarks"). All presently known trademark registrations and all currently pending trademark applications in which Borrower has an interest are listed on Schedule B. Subject to the provisions of Paragraph 14, Borrower hereby further grants to the Lender a first and valid security interest in all Borrower's right, title and interest in and to all income, royalties, damages and payments now and hereafter due and/or payable under all Trademarks and, subject to the provisions of Paragraph 14, in and to all rights during the term of this Agreement to sue, collect and retain for its own benefit damages and payments for past or future infringements of the Trademarks.

3. Borrower agrees that it shall not license, transfer, convey or encumber any interest in or to the Collateral out of the ordinary course of its business without the prior express written consent of the Lender.

4. To the best of Borrower's knowledge, information and belief, all Collateral consisting of applications for Patents and for registrations of Trademarks has been duly and properly filed and all Collateral consisting of Patents and of registrations of Trademarks (including, without limitation, any and all renewals, reissues, continuations or divisions thereof, as the case may be) has been duly and properly filed and issued and is valid and enforceable where the failure to be so filed or issued or the failure to be valid and enforceable would have a material adverse effect on the business or the profits of Borrower.

5. Promptly upon the filing of any patent application or application for registration of a trademark (other than an application made solely for state trademark registration), and upon the issuance of any patent or trademark registration, Borrower agrees to execute an addendum to this Agreement, which addendum shall identify such patent or trademark application or such patent or trademark registration as necessary to perfect a security interest in such patent or trademark application or such patent or trademark registration, and, with respect to United States patent or patent applications and United States trademark applications or trademark registrations, Borrower shall cause such addendum to be recorded in the United States Patent and Trademark Office.

6. Borrower shall not take any action, nor permit any action to be taken by others subject to Borrower's control, including licensees, or fail to take any action, or permit others subject to Borrower's control, including licensees, to fail to take any action, subject to the provisions of Paragraph 10, which would, in the case of any such actions or failures to act taken singly or together, affect the validity, grant and enforceability of the Collateral herein.

7. Borrower shall promptly notify the Lender, in writing, of any suit, action, proceeding or counterclaim brought against Borrower relating to, concerned with, or affecting the Collateral,

and shall, on request, deliver to the Lender a copy of all pleadings, papers, orders or decrees theretofore and thereafter filed in any such suit, action or proceeding, and shall keep the Lender fully advised in writing of the progress of any such suit.

8. In the event of any material infringement of the Collateral by others or in the event of any other conduct detrimental to the Collateral by others known or brought to the attention of Borrower, Borrower shall promptly notify the Lender in writing of such infringement or other conduct and the full nature, extent, evidence and facts of such infringement or other conduct known to Borrower (and with respect to the alleged infringement of the Borrower's trademark "LoTorque" referenced on Schedule B, such disclosure on Schedule B satisfies the written notice obligation as well as the obligation to demand the alleged infringer cease and desist the alleged infringement, and with respect to the alleged infringement by Smith International, it is acknowledged that there has been no response from Smith International to the Borrower's demand to cease and desist the alleged infringement). No later than thirty (30) days after such notice to the Lender, Borrower shall send to the person or entity committing such infringement or engaging in such other conduct a letter by personal delivery or by United States first-class registered or certified mail (return receipt requested) demanding that said person or entity cease and desist forthwith from committing said infringement or engaging in said other conduct. In the event that within thirty days after the sending of said letter, said person or entity has not ceased and desisted from said infringement or other conduct and such infringement is reasonably determined to likely materially adversely effect the business or financial condition of the Borrower, Borrower shall forthwith bring and diligently and vigorously maintain a suit to stop, and to seek such other appropriate relief with respect to, such infringement and other conduct until a decision is obtained from which no review or appeal can or has been taken or until otherwise resolved in a manner reasonably satisfactory to the Lender; provided, however, if in the judgment of the Borrower bringing suit or seeking other relief with respect to such infringement or other conduct would not be cost justified, then Borrower shall so advise Lender in writing and Borrower may in its discretion decline to bring suit or seek other relief. Subject to the foregoing proviso and the other provisions of this Agreement, Borrower shall assume and continue, at its own cost and expense, through counsel of its own choice who is acceptable to the Lender, full and complete responsibility for the prosecution of any infringement of or other conduct adversely affecting the Collateral and otherwise defend and assure the grant, validity and enforceability of the Collateral, whether by judicial or nonjudicial means, all in order that Borrower comply fully with the provisions of this Paragraph 8.

9. If requested by the Lender, Borrower shall, not more than once each year, provide the Lender a complete status report of all Collateral. Upon request by the Lender, Borrower shall deliver to counsel for the Lender copies of any such Collateral and other documents concerned with or related to the prosecution, protection, maintenance, enforcement and issuance of the Collateral.

10. Borrower shall notify the Lender at least two months prior to any voluntary abandonment of any Collateral and obtain the written permission of the Lender to such abandonment, which permission shall not be unreasonably withheld. In the event that such permission to abandon is denied by the Lender, then Borrower shall take all reasonably necessary action, at its own expense, to continue and maintain such Collateral in force.

11. Subject to any other express provision of this Agreement, upon the occurrence and during the continuance of an Event of Default or upon the failure, neglect or refusal by Borrower to file, prosecute, defend, issue, maintain, enforce or otherwise take action in respect to the Collateral as required hereby, or to carry out any other obligation or duty of Borrower under this

Agreement (other than failure to bring suit or seek other relief with respect to infringement or other conduct because such actions would not be cost justified in Borrower's judgment, in which case such failure is permissible under this Agreement), then Borrower hereby appoints and designates the Lender its sole attorney to take any such action as the Lender reasonably deems necessary under the circumstances, including, without limitation, the employment of counsel, and Borrower shall pay all fees and expenses, including reasonable attorneys' fees and expenses, incurred by the Lender in connection with such action.

12. Upon full and complete payment and performance of Borrower's Obligations under the Loan Agreement, including, without limitation, the obligation to pay the principal of and interest on the Notes, this Agreement and the power of attorney granted in Paragraph 11 hereof shall automatically terminate and the Lender shall release the Collateral from this Agreement, and shall execute and deliver (at Borrower's sole cost and expense, either directly or in reimbursement of costs and expenses reasonably incurred by the Lender) all documents as may be reasonably necessary to render the Collateral free and clear of any security interest created pursuant to this Agreement.

13. During the term of this Agreement, Borrower agrees whenever any of the Trademarks are used by or on behalf of Borrower to affix or cause to be affixed a notice that the mark is a trademark, a service mark or is registered, which notice shall be in a form accepted or required by the trademark marking laws of each country in which the mark is so used.

14. During the term of this Agreement, all income, royalties, payments and damages due and payable to Borrower under the Collateral shall be paid to Borrower; provided, however, upon the occurrence and during the continuance of an Event of Default, all income, royalty payments and damages received thereafter shall be paid directly to the Lender and shall be applied by the Lender on account of Borrower's Obligations owed under the Loan Agreement. The Lender shall have the right to notify payors to make their payments directly to the Lender upon the occurrence and during the continuance of an Event of Default.

15. Should any part or provision of this Agreement be held unenforceable or conflicting with the law of any jurisdiction, the validity of the remaining parts or provisions hereof shall not be affected thereby. Should any part or provision of this Agreement be deemed by a court or other governmental authority of competent jurisdiction to be an assignment of any Trademark so as to result in Borrower's abandonment thereof, such part or provision (but no other) shall be construed as providing for a security interest and not an assignment, all in order to preclude such abandonment and, if such construction shall not be accepted by such court or other governmental authority, such part or provision (but no other) shall be deemed null and void as to such Trademark in the jurisdiction where abandonment might otherwise result.

16. Borrower agrees, upon the reasonable request by the Lender during the term of this Agreement:

(a) to execute, acknowledge and deliver all additional instruments and documents necessary or desirable to effect the purpose of this Agreement, in a form reasonably acceptable to counsel for the Lender;

(b) to do all such other acts as may be reasonably necessary or appropriate in order to carry out the intent and purpose of this Agreement, and to protect the security interests of the Lender in the Collateral; provided, however, Borrower shall not be required to take any action to perfect the Lender's security interest in Collateral outside the United States of America.

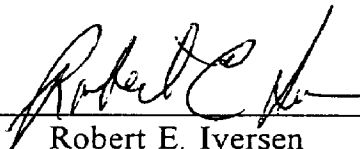
17. This Agreement and the obligations that it secures and all rights and liabilities of the parties shall be governed by Texas law, except when federal law or the law of a foreign sovereign jurisdiction is applicable.

18. Borrower represents and warrants to the Lender that none of the Collateral is subject to any lien, security interest or other encumbrance other than that of the Lender granted hereby. In the event, however, that any of the Collateral is in fact subject to any such lien, security interest or other encumbrance, Borrower shall diligently seek to obtain a release of such lien, security interest or other encumbrance.


19. THIS SECURITY AGREEMENT REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year hereinabove written.

DIAMOND PRODUCTS INTERNATIONAL, INC.,

By: 
Robert E. Iversen
President

BANK ONE, TEXAS, N.A.

By: 
Laurel Varney Mason
Vice President

THE STATE OF TEXAS

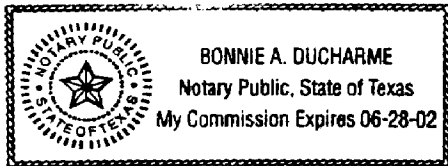
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COUNTY OF HARRIS

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The foregoing instrument was acknowledged before me this 30TH day of March, 1999, by Robert E. Iversen, President of DIAMOND PRODUCTS INTERNATIONAL, INC., a Texas corporation, on behalf of said corporation.



Bonnie A. Ducharme
Notary Public, State of Texas

THE STATE OF TEXAS

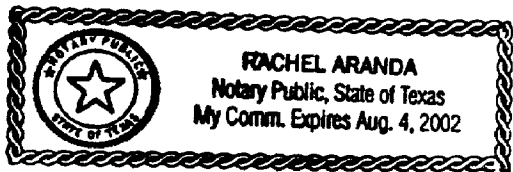
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COUNTY OF Dallas

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This instrument was acknowledged before me on the 26 day of March, 1999, by Laurel Varney Mason, Vice President of BANK ONE, TEXAS, N.A., a national banking association, on behalf of said association.



Rachel Aranda
Notary Public, State of Texas

Schedule A Patents

<u>File No</u>	<u>Inventor</u>	<u>Name of Inventor</u>	<u>Serial Patent Reg. No</u>	<u>Status</u>
DP11:003	Fielder & Thigpen	Improved Bi-Center Bit	5,678,644	Issued 10/27/97
DP11:008	Besson, Fielder, & Thigpen	Improved Cutting Element	09/021,012	Filed 2/09/98
DP11:010	Fielder	Stabilizing Cutter	5,830,196	Issued 9/8/98
DP11:012	Fielder, Robollido, Silva, & Weston	Improved Bi-Center Bit with Oppositely Disposed Cutting Surface	08/955,147	Filed 10/21/97
DP11:013	Thigpen, Fielder, Weston, & Rebollido	Improved Bit & Nozzle System	09/057,714	Filed 4/2/98
DP11:020	Leitko, etal	Improved Coring Tool	09/014,116	Filed 1/27/98
DP11:025	Fielder, Weston, & Thigpen	Cutting Element with Stress Reduction	09/129,179	Filed 4/15/98
DP11:028	Fielder	Stabilizing Drill Bit	09/149,196	Filed 9/8/98
DP11:029	Rebollido & Tuson	Drill Bit Stabilizing Pads	60/088,012	Filed 5/28/98
DP11:030	Fielder	Dowhole Cutting Tool Incorporating Selective Cutter Placement	60/088,011	Filed 5/29/98
DP11:031	Fielder	Two Stage Drill Bit	60/088,010	Filed 5/28/98
DP11:037	Fielder & Silva	Downhole Bit Adapted to Drill Casing Shoe	60/118,518	Filed 2/3/99

Schedule B Trademarks

<u>File No.</u>	<u>Trademark</u>	<u>Status</u>	<u>Registration No.</u>
DPII:014	DPI	Registered 11/17/98.	2222534
DPII:015	SpeedReamer	Applied for registration 11/24/98.	75398141
DPII:016	LoTorque	Applied for registration 11/24/98. Smith Int'l. & Camco have been notified of their infringement. Camco has agreed to discontinue use of trademark.	75398142
DPII:017	Target Cutter	Will not register.	
DPII:035	SpeedDrill	Will apply for registration 4/99.	