

MAD 10/25/99

Form 10-1595

10-29-1999



101186345

U.S. DEPARTMENT OF COMMERCE

Patent and Trademark Office

COVER SHEET

BY

Record the attached original documents or copy thereof.

To the Honorable Commission

1. Name of conveying party(ies):

HEARTHSONG, INC.

- Individual(s)
- General Partnership
- Corporation- State of California
- Other
- Association
- Partnership

Additional name(s) of conveying party(ies) attached?

- yes
- no

2. Name and address of receiving party(ies)?

HARRIS TRUST AND SAVINGS BANK
111 West Monroe Street
Chicago, Illinois 60603



- Individual(s) citizenship
- Association
- General Partnership
- Limited Partnership
- Corporation-State of Illinois
- Other

Additional name(s) & address(es) attached?

- yes
- no

3. Nature of Conveyance:

- Assignment
- Security Agreement
- Other
- Merger
- Change of Names

Execution Date: September 17, 1999

4. Application number(s) or registration number(s):

If this document is being filed together with a new application, the execution date of the application is:

A. Trademark Application No.(s)
See Attached List

B. Trademark Registration No.(s)
See Attached List

Additional numbers attached? Yes No

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

Cynthia Clarke Weber, Esquire
SUGHRUE, MION, ZINN, MACPEAK & SEAS, PLLC
2100 Pennsylvania Avenue, N.W.
Washington, D.C. 20037-3213

6. Total number of applications and registration involved: 15

7. Total Fee (37 CFR 3.41): \$390.00
 Enclosed. Please charge any underpayment in connection with this Assignment to Deposit Account No. 19-4880.
 Authorized to be charged to Deposit Account

8. Deposit Account No. 19-4880
(Attach dupl. copy of this page if paying by Deposit Account)

DO NOT WRITE IN THIS SPACE

9. 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.

Cynthia Clarke Weber
Name

10/21/99
Date

TOTAL NUMBER OF PAGES COMPRISING COVER SHEET, ATTACHMENTS AND DOCUMENT:

OMB No. 0651-0011 (exp. 4/94)

Do not detach this portion

Mail documents to be recorded with required cover sheet information to:

10/28/1999 DNGUYEN 00000319 1797353

Commissioner of Patents and Trademarks
Box Assignments
Washington, D.C. 20231

01 FC:481 40.00 OP
02 FC:482 350.00 OP

TRADEMARK
REEL: 001982 FRAME: 0001

Schedule B-1

To Security Agreement
Re: Intellectual Property

REGISTERED U.S. TRADEMARKS
AND TRADEMARK APPLICATIONS

REGISTERED U.S. TRADEMARKS	REGISTRATION REG. NO.	APPLICATION NO.	DATE
Cook It! Club (and Design)	1,797,353	74/281,882	10/05/1993
Fingermajig	1,768,774	74/319,555	05/04/1993
Toys You'll Feel Good About Giving	1,714,548	74/233,391	09/08/1992
HearthSong	1,455,274	73/641,997	09/01/1987
Topsy Turvy Trolls	2,039,660	74/609,710	02/25/1997
HearthSong	1,460,401	73/641,939	10/06/1987
Magic Cabin Dolls	2,052,763	75/114,381	04/15/1997
Making Scents	2,037,576	74/601,400	02/11/1997
Magnuts	2,143,215	75/060,351	03/10/1998
Design (Magnuts)	2,151,323	75/119,474	04/14/1998
Magnuteersp	2,205,759	75/393,403	11/24/1998
Magnuts (and Design)	2,205,819	75/412,814	11/24/1998
Wind & Wonder	2,236,301	75/393,401	03/30/1999

PENDING U.S.
TRADEMARK
APPLICATIONS

	FILING NO.	APPLICATION NO.	FILING DATE
Wonder Wax		75/593468	11/24/1998
Sparkling Bath Blossoms		75/594703	11/24/1998

REGISTERED STATE TRADEMARKS
AND TRADEMARK APPLICATIONS

REGISTERED STATE TRADEMARKS	REGISTRATION REG. NO.	DATE
	None	

HEARTHSONG, INC.

SECURITY AGREEMENT
RE: INTELLECTUAL PROPERTY

This Security Agreement Re: Intellectual Property (the "*Agreement*") is dated as of September 17, 1999, by and among Foster & Gallagher, Inc., an Illinois corporation (the "*Company*") and the other parties executing this Agreement under the heading "Debtors" (such parties being hereinafter referred to collectively as the "*Debtors*" and individually as a "*Debtor*"), each with its mailing address at 6523 North Galena Road, Peoria, Illinois 61632, and HARRIS TRUST AND SAVINGS BANK, an Illinois banking corporation ("*HTSB*"), with its mailing address at 111 West Monroe Street, Chicago, Illinois 60603, acting as collateral agent hereunder and under the Collateral Agency Agreement hereinafter identified and defined for the Secured Creditors also hereinafter identified and defined (HTSB acting as such collateral agent and any successor or successors to Harris acting in such capacity being hereinafter referred to as the "*Collateral Agent*");

PRELIMINARY STATEMENTS:

A. The Company and the Debtors party hereto as of the date hereof and HTSB, individually and as agent for the Revolver Banks hereinafter identified and defined (HTSB in such capacity being hereinafter referred to as the "*Bank Agent*"), have entered into an Amended and Restated Credit Agreement dated as of even date herewith (such Amended and Restated Credit Agreement as the same may be amended, modified or restated from time to time being hereinafter referred to as the "*Revolving Credit Agreement*") pursuant to which HTSB and other banks and financial institutions from time to time party to the Revolving Credit Agreement (HTSB, in its individual capacity, and such other banks and financial institutions being hereinafter referred to collectively as the "*Revolver Banks*" and individually as a "*Revolver Bank*") agreed, subject to certain terms and conditions, to extend credit on a revolving basis in the form of loans to the Company and the other Debtors from time to time party thereto (the Company and such other Debtors being referred to collectively as the "*Borrowers*") evidenced by Revolving Credit Notes of the Borrowers issued under and subject to the Revolving Credit Agreement, each payable to the order of the Revolver Bank named thereon (such Revolving Credit Notes and any and all notes issued in substitution or replacement therefor or in extension or renewal thereof, in each case whether in whole or in part, as any of the foregoing may from time to time be modified or amended, being hereinafter referred to collectively as the "*Revolving Credit Notes*") and also in the form of letters of credit issued from time to time by the Bank Agent for the account of any one or more of the Borrowers (such letters of credit as the same may from time to time be increased, extended or otherwise modified or amended being hereinafter referred to collectively as the "*Revolver Letters of Credit*"); and

B. The Borrowers and The Northwestern Mutual Life Insurance Company (together with any successors to and assigns of the indebtedness evidenced by its Series A ESOP Notes, "*NML*") and the Revolver Banks party as of the date hereof to the Revolving Credit Agreement (such Revolver Banks, together with any successors to and assigns of the indebtedness evidenced

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by their Series B ESOP Notes, being hereinafter referred to collectively as the "*ESOP Banks*") (NML and the ESOP Banks being hereinafter referred to collectively as the "*ESOP Lenders*") have entered into an Amended and Restated Note Agreement, dated as of even date herewith (such Amended and Restated Note Agreement, as the same may be amended, modified or restated from time to time being hereinafter referred to as the "*ESOP Note Agreement*") (the Revolving Credit Agreement and the ESOP Note Agreement being hereinafter referred to collectively as the "*Loan Agreements*"), pursuant to which the ESOP Lenders made loans to the Borrowers and in evidence of which loans, the Borrowers issued to NML those certain Senior ESOP Notes, Series A Due October 1, 2003 (the "*Series A ESOP Notes*"), and issued to the ESOP Banks those certain Senior ESOP Notes, Series B Due October 1, 2003 (the "*Series B ESOP Notes*") (the Series B Notes and the Series A Notes and any and all notes issued in substitution or replacement therefor or in extension or renewal thereof, in each case whether in whole or in part, as any of the foregoing may from time to time be modified or amended, being hereinafter referred to collectively as the "*ESOP Notes*"); and

C. Pursuant to various agreements with HTSB identified and defined in the Collateral Agency Agreement as the Hedging Agreements (herein also, the "*Hedging Agreements*"), HTSB has provided interest rate hedging arrangements to the Company and the Company has incurred certain liabilities to HTSB in connection therewith (HTSB, as the party to whom such liabilities are owed, and its successors and assigns in that capacity, being hereinafter referred to as the "*Hedging Creditor*" and the liability of the Company to the Hedging Creditor arising under or in relation to the Hedging Agreements being hereinafter referred to as the "*Hedging Liability*"); and

D. Pursuant to contracts identified and defined in the Collateral Agency Agreement as the FX Contracts (herein also, the "*FX Contracts*"), HTSB has entered into foreign exchange transactions with the Company and the Company has incurred certain liabilities to HTSB in connection therewith (HTSB, as the party to whom such liabilities are owed, and its successors and assigns in that capacity, being hereinafter referred to as the "*FX Creditor*" and the liability of the Company to the FX Creditor arising under or in relation to the FX Contracts being hereinafter referred to as the "*FX Liability*"); and

E. Melvyn Regal ("*Regal*") and Ellen Derges Foster ("*Foster*") (Regal and Foster being hereinafter referred to collectively as the "*Founders*") have made loans to the Borrowers (collectively, the "*Regular Founder Loans*") evidenced by those certain Promissory Notes of the Borrowers dated as of September 30, 1999 payable to the order of Regal and Foster, respectively, in the face principal amounts of \$3,157,896 and \$6,842,104 (such Promissory Notes and any and all notes issued in substitution or replacement therefor or in extension or renewal thereof, in each case whether in whole or in part, as any of the foregoing may from time to time be modified or amended, being hereinafter referred to collectively as the "*Regular Founder Notes*"), with the Regular Founder Loans to be distinguished for purposes of this Agreement from any other loans which might be made by the Founders to the Company (collectively, the "*Reborrowed Founder Loans*") as a result of reborrowings of amounts prepaid on the Regular Founder Loans and which (if made) would be evidenced by separate promissory notes of the Borrowers (such separate notes, if issued, and any and all notes issued in substitution or replacement therefor or in extension or renewal thereof, in each case whether in whole or in part, as any of the foregoing

may from time to time be modified or amended, being hereinafter referred to collectively as the "*Reborrowed Founder Notes*"), the Regular Founder Notes to evidence solely the Regular Founder Loans and the Reborrowed Founder Notes to evidence solely the Reborrowed Founder Loans (the parties hereto acknowledging that the Founders do not currently contemplate extending any Reborrowed Founder Loans); and

F. The Bank Agent, the Revolver Banks, the ESOP Lenders, the Hedging Creditor, the FX Creditor, the Founders, the Borrowers and Collateral Agent have entered into an Intercreditor and Collateral Agency Agreement dated as of the date hereof to set forth certain of their agreements with regard to the aforementioned extensions of credit and other financial accommodations to the Borrowers (such agreement as the same may be amended, modified or restated from time to time being hereinafter referred to as the "*Collateral Agency Agreement*") (the Bank Agent, the Revolver Banks, the ESOP Lenders, the Hedging Creditor, the FX Creditor, the Founders and the Collateral Agent being hereinafter referred to collectively as the "*Secured Creditors*" and individually as a "*Secured Creditor*"); and

G. As a condition to the extension and continued maintenance of the aforesaid extensions of credit and other financial accommodations to the Borrowers, the Debtors are required to provide the benefits and security contemplated by this Agreement; and

H. The Debtors are engaged in related businesses and the interdependant nature of their businesses is such that the viability of each Debtor is dependant upon the continued success of all the Debtors and upon the continuation of the Debtors' business relationships with each other, and the continuation thereof necessitate each Debtor's access to the aforementioned extensions of credit and other financial accommodations, which the Secured Creditors will only make available on the condition, among others, that the Debtors execute and deliver this Agreement; and

I. Accordingly, each Debtor will derive substantial direct and indirect benefit from the extension and continued maintenance of the aforementioned extensions of credit and other financial accommodations to the Borrowers;

NOW, THEREFORE, for and in consideration of the financial accommodations made by the Secured Creditors, and other good and valuable consideration, receipt whereof is hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1. TERMS DEFINED IN COLLATERAL AGENCY AGREEMENT.

All capitalized terms used herein without definition shall have the same meanings herein as such terms have in the Collateral Agency Agreement.

The term "Debtor" and "Debtors" as used herein shall mean and include the Debtors collectively and also each individually, with all grants, representations, warranties and covenants of and by the Debtors, or any of them, herein contained to constitute joint and several grants, representations, warranties and covenants of and by the Debtors; *provided, however*, that unless the context in which the same is used shall otherwise require, any grant, representation, warranty

or covenant contained herein related to the Collateral shall be made by each Debtor only with respect to the Collateral owned by it or represented by such Debtor as owned by it.

The term "*Material Collateral*" as used herein shall mean any Collateral which satisfies any one or more of the following criteria: (i) such Collateral is reasonably expected to have a value of \$100,000 or more; (ii) such Collateral is materially beneficial to the business of the Borrowers and their Subsidiaries (taken as a whole) in the ordinary course as presently conducted; or (iii) the Borrower's loss of such Collateral by the Borrowers and their Subsidiaries could reasonably be expected to have a Material Adverse Effect.

SECTION 2. GRANT OF SECURITY INTEREST IN THE COLLATERAL; OBLIGATIONS SECURED.

(a) Subject to Section 2(b) hereof, each Debtor hereby mortgages and pledges to the Collateral Agent for the ratable benefit of the Secured Creditors, and grants to the Collateral Agent for the ratable benefit of the Secured Creditors a lien on and security interest in and acknowledges and agrees that the Collateral Agent has and shall continue to have for the ratable benefit of the Secured Creditors a continuing security interest in, any and all right, title and interest of each Debtor, whether now existing or hereafter acquired or arising, in and to the following:

(i) *Patents.* Patents, whether now owned or hereafter acquired, or in which Company now has or hereafter acquires any rights (the term "*Patent*" means and includes (i) all letters patent of the United States of America or any other country or any political subdivision thereof, now existing or hereafter acquired, all registrations and recordings thereof, and all applications for letters patent of the United States of America or any other country or any political subdivision thereof, now existing or hereafter acquired, including without limitation registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States of America, any state thereof or any other country or any political subdivision thereof and (ii) all reissues, continuations, continuations-in-part or extensions thereof), including without limitation each Patent listed on Schedule A hereto, and all of the inventions now or hereafter described and claimed in such Debtor's Patents;

(ii) *Patent Licenses.* Patent Licenses, whether now owned or hereafter acquired, or in which Company now has or hereafter acquires any rights (the term "*Patent Licenses*" means and includes any written agreement granting to any Person any right to exploit, use or practice any invention on which a Patent is owned by another Person), including without limitation each Patent License listed on Schedule A hereto, and all royalties and other sums due or to become due under or in respect of such Debtor's Patent Licenses, together with the right to sue for and collect all such royalties and other sums;

(iii) *Trademarks.* Trademarks and Trademark registrations, whether now owned or hereafter acquired, or in which such Debtor now has or hereafter acquires any rights (the term "*Trademarks*" means and includes (i) all trademarks, trade names, trade

styles, service marks and logos, all prints and labels on which said trademarks, trade names, trade styles, service marks and logos have appeared or appear and all designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including without limitation registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States of America, any state thereof or any other country or any political subdivision thereof and (ii) all reissues, extensions or renewals thereof), including without limitation each Trademark registration listed on Schedule B hereto, and all of the goodwill of the business connected with the use of, and symbolized by, each Trademark and Trademark registration and all customer lists and other records of such Debtor relating to the distribution of products bearing a Trademark;

(iv) *Trademark Licenses.* Trademark Licenses, whether now owned or hereafter acquired, or in which such Debtor now has or hereafter acquires any rights (the term "*Trademark Licenses*" means and includes any written agreement granting to any Person any right to use or exploit any Trademark or Trademark registration of another Person), including without limitation the agreements described in Schedule B hereto, and all of the goodwill of the business connected with the use of, and symbolized by, each Trademark licensed and all royalties and other sums due or to become due under or in respect of the Company's Trademark Licenses, together with the right to sue for and collect all such royalties and other sums;

(v) *Copyrights.* Copyrights and Copyright registrations, whether now owned or hereafter acquired, or in which such Debtor now has or hereafter acquires any rights (the term "*Copyrights*" means and includes (i) all copyrights, whether or not published or registered, and all works of authorship and other intellectual property and the rights therein, including without limitation copyrights for computer programs and data bases, and all copyrightable materials, and all tangible property embodying such copyrights or copyrightable materials, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including without limitation registrations, recordings and applications in the United States Copyright Office or in any similar office or agency of the United States of America, any state thereof or any other country or any political subdivision thereof, and (ii) all renewals, derivative works, enhancements, modifications, new releases and other revisions thereof, and (iii) all accounts receivable, income, royalties, damages and payments now or hereafter due and/or payable with respect thereto, including without limitation payments under all licenses entered into in connection therewith, and (iv) all rights corresponding thereto throughout the world), including without limitation each Copyright registration listed on Schedule C hereto;

(vi) *Copyright Licenses.* Copyright Licenses, whether now owned or hereafter acquired, or in which such Debtor now has or hereafter acquires any rights (the term "*Copyright Licenses*" means and includes any written agreement granting to any Person the right to use or exploit any Copyright or Copyright registration of another Person, including without limitation the right to use the foregoing to prepare for sale or

distribution and sell or distribute any and all inventory now or hereafter owned by such Debtor and now or hereafter covered by such licenses, including without limitation the license and subscription agreements listed on Schedule C hereto, and all royalties and other sums due or to become due under or in respect of such Debtor's Copyright Licenses, together with the right to sue for and collect all such royalties and other sums;

(vii) *Know-How and Trade Secret Collateral.* All know-how, inventions, processes, methods, information, data, plans, blueprints, specifications, designs, drawings, engineering reports, test reports, material standards, processing standards and performance standards, to the extent that the foregoing pertain to manufacturing, production or processing operations of such Debtor and constitute trade secrets of such Debtor, and all licenses or other similar agreements granted to or by such Debtor with respect to any of the foregoing;

(viii) *General Intangibles and Records and Cabinets.* General intangibles relating to any of the above-described property and supporting evidence and documents relating to any of the above-described property, including without limitation written applications, correspondence, delivery receipts and notes, together with all books of account, ledgers and cabinets in which the same are reflected or maintained, all whether now existing or hereafter arising;

(ix) *Accessions and Additions.* All accessions and additions to and substitutions and replacements of any and all of the foregoing, whether now existing or hereafter arising; and

(x) *Proceeds and Products.* All proceeds and products of the foregoing and all insurance of the foregoing and proceeds thereof, whether now existing or hereafter arising, including without limitation (i) any claim of such Debtor against third parties for damages by reason of past, present or future infringement of any Patent or any Patent licensed under any Patent License, (ii) any claims by such Debtor against third parties for damages by reason of past, present or future infringement or dilution of any Trademark or Trademark registration or of any Trademark licensed under any Trademark License, or for injury to the goodwill of the business connected with the use of, or symbolized by, any Trademark or Trademark registration or of any Trademark licensed under any Trademark License, (iii) any claim of such Debtor against third parties for damages by reason of past, present or future infringements of any Copyright or Copyright registration or of any Copyright licensed under any Copyright License, and (iv) any claim by such Debtor against third parties for damages by reason of past, present or future misappropriation or wrongful use or disclosure of any trade secret or other property or right described above or of any such trade secret or other property or right licensed under any license or agreement described above, and together with the right to sue for and collect the damages described in the immediately preceding clauses (i), (ii), (iii) and (iv);

all of the foregoing being herein sometimes referred to as the "*Collateral*"; *provided, however,* that:

(1) the Collateral shall in no event include any of the foregoing Patents, Patent Licenses, Trademarks, Trademark Licenses, Copyrights, Copyright Licenses and other properties and agreements which, by their terms or by law (whether United States or foreign), prohibit the grant, transfer, assignment or pledge of a security interest by such Debtor to the Collateral Agent or for which such grant, transfer, assignment or pledge would invalidate or result in the forfeiture of the Debtor's rights in such Collateral upon such grant, transfer, assignment or pledge, *provided, further*, that if and when any such prohibition or resulting invalidation or forfeiture is no longer effective with respect to any such property or agreement, the term "*Collateral*" will be deemed to include such property or agreement; and

(2) the Collateral (and to the extent relevant, the terms Patents, Patent Licenses, Trademarks, Trademark Licenses, Copyrights and Copyright Licenses shall neither mean nor include the assets and properties of the Debtors excluded from the lien and security interest hereof by Section 4 of the Revolving Credit Agreement and Section 4 of the ESOP Note Agreement.

(b) This Agreement is made and given to secure, and shall secure, the prompt payment and performance when due of (i) (u) any and all indebtedness, obligations and liabilities of the Debtors, and any of them individually, to the Bank Agent and Revolver Banks, and to any of them individually, under or in connection with or evidenced by the Revolving Credit Agreement or any of the Revolving Credit Notes, (v) the obligations of the Borrowers to reimburse the Bank Agent and Revolver Banks for the amount of all drawings on all Revolver Letters of Credit and all other obligations of the Borrowers under any and all applications and reimbursement agreements for the Revolver Letters of Credit, (w) any and all Hedging Liability, (x) any and all indebtedness, obligations and liabilities of the Borrowers, and any of them individually, to the ESOP Lenders, and to any of them individually, under or in connection with or evidenced by the ESOP Note Agreement or any of the ESOP Notes, (y) any and all indebtedness, obligations and liabilities of the Borrowers to the Founders, and to any of them individually, under or in connection with or evidenced by the Regular Founder Notes (but in any event excluding, and thus not securing, the Reborrowed Founder Loans and any and all indebtedness, obligations and liabilities of the Borrowers to the Founders, and to any of them individually, under or in connection with or evidenced by the Reborrowed Founder Notes), and (z) any and all other Indebtedness (as such term is defined in the Collateral Agency Agreement), in the case of each of the foregoing, whether now existing or hereafter arising (and whether arising before or after the filing of a petition in bankruptcy and including all interest accrued after the petition date), due or to become due, direct or indirect, absolute or contingent, and howsoever evidenced, held or acquired and (ii) any and all expenses and charges, legal or otherwise, suffered or incurred by the Secured Creditors, and any of them individually, in collecting or enforcing any of such indebtedness, obligations and liabilities or in realizing on or protecting or preserving any security therefor, including, without limitation, the lien and security interest granted hereby (all of the indebtedness, obligations, liabilities, expenses and charges described in clauses (i) and (ii) above being hereinafter referred to collectively as the "*Obligations*"). Notwithstanding anything in this Agreement to the contrary, the right of recovery against any Debtor (other than the Company to which this limitation shall not apply) under this Agreement shall not exceed \$1.00 less than

the amount which would render such Debtor's obligations under this Agreement void or voidable under applicable law, including fraudulent conveyance law.

(c) Notwithstanding anything herein to the contrary, this Agreement shall not operate as a sale, transfer, conveyance or other assignment to the Collateral Agent of any applications by a Debtor for a trademark based on an intent to use the same if and so long as such application is pending and not matured into a registered trademark (such pending applications which are based on intent to use being hereinafter referred to collectively as "*Intent-To-Use Applications*"), but rather, if and so long as Debtor's Intent-To-Use Application is pending this Agreement shall operate only to create a security interest for collateral purposes in favor of the Collateral Agent for the benefit of the Secured Creditors, on such Intent-To-Use Application as collateral security for the Obligations.

SECTION 3. NO RELEASE.

Nothing set forth in this Agreement shall relieve any Debtor from the performance of any term, covenant, condition or agreement on the part of such Debtor to be performed or observed under or in respect of any of the Collateral or from any liability to any party under or in respect of any of the Collateral or impose any obligation on the Collateral Agent or any Secured Creditor to perform or observe any such term, covenant, condition or agreement on the part of such Debtor to be so performed or observed or impose any liability on the Collateral Agent or any Secured Creditor for any act or omission on the part of such Debtor relative thereto or for any breach of any representation or warranty on the part of such Debtor contained in this Agreement or under or in respect of the Collateral or made in connection herewith or therewith.

SECTION 4. USE OF COLLATERAL.

Notwithstanding anything to the contrary contained in this Agreement, until any Event of Default hereunder has occurred and is continuing and thereafter until otherwise notified by the Collateral Agent, each Debtor may continue to exploit, license, use, enjoy and protect the Collateral throughout the world in the ordinary course of its business as presently conducted and the Collateral Agent shall from time to time execute and deliver, upon written request of the relevant Debtor, any and all instruments, certificates or other documents, in the form so requested, necessary or appropriate in the reasonable judgment of such Debtor to enable such Debtor to continue to exploit, license, use, enjoy and protect the Collateral throughout the world in the ordinary course of its business as presently conducted.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE DEBTORS.

Each Debtor hereby represents and warrants to the Collateral Agent and the Secured Creditors as follows:

(a) Such Debtor is, and, as to the Collateral acquired by it from time to time after the date hereof, such Debtor will be, the owner or, as applicable, licensee of its Collateral. Each Debtor's rights in its Collateral are and shall remain free and clear of any lien, pledge, security interest, encumbrance, license, assignment, collateral

assignment or charge of any kind, including, without limitation, any filing of or agreement to file a financing statement as debtor under the Uniform Commercial Code or any similar statute, except for (i) the lien and security interest created by this Agreement, (ii) the Permitted Licenses (as hereinafter defined) and (iii) the Liens expressly permitted by the Loan Agreements (collectively, the "*Permitted Encumbrances*"). Subject to the Permitted Encumbrances and the Permitted Licenses, no Debtor has made any previous assignment, conveyance, transfer or agreement in conflict herewith. Except with respect to Property upon which the Debtors are not required by the Loan Agreements or this Agreement to grant a Lien in favor of the Collateral Agent as set forth in Section 4 of the Credit Agreement and Section 4 of the ESOP Loan Agreement, each Debtor further represents and warrants to the Collateral Agent and each Secured Creditor that Schedules A, B and C hereto, respectively, are true and correct lists of all Patents, Patent Licenses, registered Trademarks, registered Trademark Licenses, registered Copyrights and registered Copyright Licenses owned or used by the Debtors as of the date hereof and that Schedules A, B and C are true and correct with respect to the matters set forth therein as of the date hereof.

(b) Each Debtor has full corporate power to pledge and grant a security interest in all the Collateral pursuant to this Agreement.

(c) No authorization, consent, approval, license, qualification or exemption from, nor any filing, declaration or registration with, any court, governmental agency or regulatory authority, or with any securities exchange or any other party, is required in connection with (i) each Debtor's execution, delivery or performance of this Agreement, (ii) each Debtor's grant of a security interest (including the priority thereof when the appropriate filings have been made and accepted) in the Collateral in the manner and for the purpose contemplated by this Agreement or (iii) the rights of the Collateral Agent and Secured Creditors created hereby, except those that have already been obtained or made and those referred to in paragraph (f) of this Section 5.

(d) Each Debtor has made all necessary filings and recordations to protect its interests in the Collateral to the extent such failure to file or record would reasonably be expected to have a Material Adverse Effect.

(e) Each Debtor owns directly or has rights to use all the Collateral and all rights with respect to any of the foregoing in each case used in or of importance to the business of such Debtor in the ordinary course as presently conducted (to the extent the failure to have such rights would reasonably be expected to have a Material Adverse Effect). The use of the Collateral and all rights with respect to the foregoing by such Debtor does not, to the best of such Debtor's knowledge after due inquiry, infringe on the rights of any party, nor has any claim of such infringement been made.

(f) Upon filings and the acceptance thereof in the appropriate offices under the Uniform Commercial Code and in the United States Patent and Trademark Office and the United States Copyright Office, this Agreement will create a valid and duly perfected first priority lien and security interest in all the Collateral in which a lien or security

interest may be perfected by such filings and acceptance; and the lien and security interests so perfected shall be subject to no prior liens or encumbrances other than the Permitted Encumbrances and Permitted Licenses.

(g) To the best of each Debtor's knowledge after due inquiry, no claim has been made and remains outstanding that such Debtor's use of any of the Collateral does or may violate the rights of any third person.

SECTION 6. COVENANTS AND AGREEMENTS OF THE DEBTORS.

Each Debtor hereby covenants and agrees with the Collateral Agent and the Secured Creditors as follows:

(a) On a continuing basis, each Debtor will, at its own expense, subject to any Permitted Encumbrances and Permitted Licenses, make, execute, acknowledge and deliver, and file and record in the proper filing and recording places within the United States of America, all such instruments, including, without limitation, appropriate financing and continuation statements and collateral agreements, and take all such action, as may reasonably be deemed necessary or advisable by the Collateral Agent (i) to carry out the intent and purposes of this Agreement, (ii) to assure and confirm to the Collateral Agent the grant and perfection of a first priority security interest in the Collateral for the benefit of the Secured Creditors subject to any Permitted Encumbrances and Permitted Licenses or (iii) to enable the Collateral Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral.

(b) Without limiting the generality of the foregoing paragraph (a) of this Section 6, each Debtor (i) will not enter into any agreement that would impair or conflict in any material respect with such Debtor's obligations hereunder; (ii) will, promptly following its becoming aware thereof, notify the Collateral Agent and the Secured Creditors of (x) any final adverse determination in any proceeding in the United States Patent and Trademark Office or United States Copyright Office with respect to any Material Collateral or (y) the institution of any proceeding or any adverse determination in any federal, state, local or foreign court or administrative bodies regarding such Debtor's claim of ownership in or right to use any Material Collateral, its right to register any such Collateral or its right to keep and maintain such registration; (iii) will properly maintain and care for the Collateral to the extent necessary for the conduct of the business of the Borrowers and their Subsidiaries (taken as a whole) in the ordinary course as presently conducted and consistent with such Debtor's current practice; (iv) will not grant or permit to exist any lien or encumbrance upon or with respect to the Collateral or any portion thereof except the Permitted Encumbrances and Permitted Licenses and will not execute any security agreement or financing statement covering any of the Collateral except in the name of the Collateral Agent; (v) will not permit to lapse or become abandoned, will not contract for sale or otherwise sell, convey, assign or dispose of, or grant any option with respect to, and will not settle or compromise any pending or future material litigation or material administrative proceeding necessary to preserve such Debtor's rights in, any Material Collateral in each case without the prior written consent

of the Collateral Agent (*provided, however*, that this clause (v) shall not prevent any Debtor from selling or otherwise disposing of (except during the continuance of any Event of Default) any Collateral that in the Company's reasonable judgment has become obsolete to the business as presently conducted, nor shall this clause (v) prevent any Debtor from granting (in the ordinary course of the business of the Borrowers and their Subsidiaries (taken as a whole) as presently conducted and not during the continuance of any Event of Default) licenses (collectively, "*Permitted Licenses*") to use Patents, Trademarks and Copyrights to the extent such licenses are essential, appropriate or desirable to the business operations of the Borrowers and their Subsidiaries (taken as a whole) in the ordinary course of business); (vi) after knowledge thereof shall have come to the attention of the chief executive officer or chief financial officer of such Debtor obtaining knowledge thereof, will promptly notify the Collateral Agent and the Secured Creditors in writing of any event which may reasonably be expected to materially and adversely affect the value of any Material Collateral, the ability of such Debtor or the Collateral Agent to dispose of any Material Collateral or the rights and remedies of the Collateral Agent in relation thereto, including, without limitation, a levy or threat of levy or any legal process against any Material Collateral; (vii) will diligently keep reasonable records respecting the Collateral; (viii) hereby authorizes the Collateral Agent, in its sole discretion, to file one or more financing or continuation statements relative to all or any part of the Collateral without the signature of such Debtor where permitted by law; (ix) will furnish to the Collateral Agent and any Secured Creditor from time to time statements and schedules further identifying and describing the Collateral and such other materials evidencing or reports pertaining to the Collateral as the Collateral Agent or such Secured Creditor may reasonably request, all in reasonable detail (*provided, however*, that no such information need be furnished relating to any items of Collateral aggregating less than \$50,000 in value for all Debtors); (x) will pay when due any and all taxes, levies, maintenance fees, charges, assessments, licenses fees and similar taxes or impositions payable in respect of Material Collateral except to the extent being contested in good faith by appropriate proceedings which prevent the enforcement of the matter being contested (and such Debtor has established adequate reserves therefor) and preclude interference with the operation of the business of such Debtor in the ordinary course; and (xi) comply in all material respects with all laws, rules and regulations applicable to the Collateral to the extent the failure to so comply would reasonably be expected to have a Material Adverse Effect.

(c) If any Debtor shall (i) obtain any rights to any new invention (whether or not patentable), know-how, trade secret, design, process, procedure, formula, diagnostic test, service mark, trademark, trademark registration, trade name, copyright, copyright registration, or license or (ii) become entitled to the benefit of any patent, patent application, service mark, trademark, trademark application, trademark registration, copyright, copyright application, copyright registration, license renewal or copyright renewal or extension, or patent for any reissue, division, continuation, renewal, extension, or continuation-in-part of any Patent or any improvement on any Patent, the provisions of this Agreement shall automatically apply thereto and the same shall automatically constitute Collateral and be and become subject to the assignment, lien and security interest created hereby without further action by any party, all to the same extent and with

the same force and effect as if the same had originally been Collateral hereunder. If any Debtor so obtains or becomes entitled to any of the foregoing rights described in clauses (i) and (ii) above, such Debtor shall (x) give written notice thereof to the Collateral Agent and (y) amend Schedules A, B and C hereto, as applicable, to include such rights to the extent (1) the Collateral Agent reasonably requests or (2) more than three calendar months have elapsed since the last such notice and the Collateral so acquired subsequent to such notice would reasonably be expected to be Material Collateral. Each Debtor agrees, promptly following written request therefor by the Collateral Agent, to confirm the attachment of the lien and security interest created hereby to any such rights described in clauses (i) and (ii) above by execution of an instrument in form and substance acceptable to the Collateral Agent.

(d) Each Debtor will if the Collateral Agent reasonably requests, and in any event hereby authorizes the Collateral Agent to, modify this Agreement by amending Schedules A, B and C hereto to include any future Collateral.

(e) Each Debtor shall prosecute diligently applications for Patents, Trademarks and Copyrights now or hereafter pending that would reasonably be expected to constitute Material Collateral or to the extent reasonably requested by the Collateral Agent, make application on unpatented but patentable inventions and registrable but unregistered Trademarks and Copyrights that, file and prosecute opposition and cancellation proceedings and do all acts necessary to preserve and maintain all its rights in Collateral that would reasonably be expected to constitute Material Collateral or to the extent reasonably requested by the Collateral Agent. Any expenses incurred in connection with such actions shall be borne by the Debtors.

SECTION 7. GRANT OF LICENSE TO PATENTS, TRADEMARKS, COPYRIGHTS, ETC.

Without in any way limiting the scope of the lien and security interest created hereby, each Debtor hereby grants to the Collateral Agent for the ratable benefit of the Secured Creditors an irrevocable, nonexclusive license and right to use all of such Debtor's Patents, Patent applications, Patent Licenses, Trademarks, Trademark registrations, Trademark Licenses, trade names, trade styles, Copyrights, Copyright registrations, Copyright Licenses and similar intangibles in the processing, production, marketing, distribution or sale by the Collateral Agent of all or any part of its collateral for the Obligations in connection with and solely in connection with any foreclosure or other realization on such collateral upon the occurrence and during the continuance of any Event of Default. The license and rights granted the Collateral Agent hereby shall be exercisable without the payment of any royalty, fee, charge or any other compensation to any Debtor or any other party. Such license and rights shall include reasonable access to all records in which any of the licensed items may be recorded or stored. Such license and rights shall be absolute and unconditional to the extent used for the purpose stated above.

SECTION 8. SUPPLEMENTS; FURTHER ASSURANCES.

Each Debtor (i) agrees that it will join with the Collateral Agent in executing and, at such Debtor's own expense, file and refile, or permit the Collateral Agent to file and refile, such

financing statements, continuation statements and other instruments and documents (including without limitation this Agreement) in such offices (including, without limitation, the United States Patent and Trademark Office and the United States Copyright Office) as the Collateral Agent may reasonably deem necessary or appropriate in order to perfect and preserve the rights and interests granted to the Collateral Agent hereunder and (ii) hereby authorizes the Collateral Agent to file and refile such instruments and documents and any other instruments or documents related thereto without the signature of such Debtor where permitted by law and (iii) agrees to do such further acts and things, and to execute and deliver to the Collateral Agent such additional instruments and documents, as the Collateral Agent may reasonably require to carry into effect the purposes of this Agreement or to better assure and confirm unto the Collateral Agent its respective rights, powers and remedies hereunder; *provided, however*, that the Collateral Agent shall give the Company prior notice of any action to be taken by the Collateral Agent pursuant to this Section. All of the foregoing are to be at the sole cost of the Debtors. Any costs of the foregoing incurred by the Collateral Agent shall be payable by the Debtors upon demand, together with interest thereon from the date of incurrence at the Default Rate (as hereinafter defined) until so paid, and shall constitute additional Obligations hereunder.

SECTION 9. THE COLLATERAL AGENT MAY PERFORM.

If any Debtor fails to perform any agreement contained herein after receipt of a written request to do so from the Collateral Agent, the Collateral Agent may itself perform, or cause performance of, such agreement, and the expenses of the Collateral Agent, including the fees and expenses of its counsel, so incurred in connection therewith shall be payable by the Debtors under Section 14 hereof.

SECTION 10. REMEDIES UPON DEFAULT.

(a) The occurrence of any event or the existence of any condition which is specified as an Event of Default under the Collateral Agency Agreement shall constitute an "*Event of Default*" hereunder. The occurrence of any event or the existence of any condition which is specified as a Default under the Collateral Agency Agreement shall constitute a "*Default*" hereunder.

(b) Upon the occurrence and during the continuation of any Event of Default hereunder, the Collateral Agent shall have, in addition to all other rights provided herein or by law, the rights and remedies of a secured party under the Uniform Commercial Code as enacted in the State of Illinois and any successor statute(s) thereto (regardless of whether such Uniform Commercial Code is the law of the jurisdiction where the rights or remedies are asserted and regardless of whether such Uniform Commercial Code applies to the affected Collateral), and further the Collateral Agent may, without demand and without advertisement, notice, hearing or process of law, all of which each Debtor hereby waives to the extent permitted by law, at any time or times, sell and deliver any or all of the Collateral at public or private sale, for cash, upon credit or otherwise, at such prices and upon such terms as the Collateral Agent deems advisable, in its sole discretion. In addition to all other sums due the Collateral Agent or any Secured Creditor hereunder, the Debtors jointly and severally shall pay the Collateral Agent and any Secured Creditor all costs and expenses incurred by the Collateral Agent or such Secured

Creditor, including attorneys' fees and court costs, in obtaining, liquidating or enforcing payment of the Collateral or the Obligations or in the prosecution or defense of any action or proceeding by or against the Collateral Agent, such Secured Creditor or Debtors or any of them concerning any matter arising out of or connected with this Agreement or the Collateral or the Obligations, including, without limitation, any of the foregoing arising in, arising under or related to a case under the United States Bankruptcy Code, as amended (or any successor statute). To the extent permitted by applicable law, any requirement of reasonable notice shall be met if such notice is personally served on or mailed, postage prepaid, to the Debtors in accordance with Section 18(b) hereof at least ten days before the time of sale or other event giving rise to the requirement of such notice; *however*, no notification need be given to a Debtor if that Debtor has signed, after an Event of Default hereunder has occurred, a statement renouncing any right to notification of sale or other intended disposition. The Collateral Agent shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. The Collateral Agent or any Secured Creditor may be the purchaser at any such sale to the extent permitted by applicable law. To the extent permitted by applicable law, each Debtor hereby waives all of its rights of redemption from any such sale. Subject to the provisions of applicable law, the Collateral Agent may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, be made at the time and place to which the sale was postponed or the Collateral Agent may further postpone such sale by announcement made at such time and place.

(c) Without in any way limiting the foregoing, upon the occurrence and during the continuation of any Event of Default hereunder, the Collateral Agent may, to the full extent permitted by applicable law, with ten (10) days' prior notice to the Company, without demand, and without advertisement, notice, hearing or process of law, all of which each Debtor hereby waives to the extent permitted by law, (i) exercise any and all rights as beneficial and legal owner of the Collateral, including, without limitation, any and all consensual rights and powers with respect to the Collateral and (ii) sell or assign or grant a license to use, or cause to be sold or assigned or granted a license to use, any or all of the Collateral or any part hereof, in each case free of all rights and claims of any Debtor therein and thereto, but subject to the rights of Permitted Licenses and (in the case of Collateral licensed to any Debtor) the rights of the relevant licensor. In that connection, the Collateral Agent shall have the right to cause any or all of the Collateral to be transferred of record into the name of the Collateral Agent or its nominee as well as the right to impose (i) such limitations and restrictions on the sale or assignment of the Collateral as the Collateral Agent may deem to be necessary or appropriate to comply with any law, rule or regulation, whether federal, state or local, having applicability to the sale or assignment and (ii) requirements for any necessary governmental approvals.

(d) In the event the Collateral Agent shall have instituted any proceeding to enforce any right, power or remedy under this Agreement by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Collateral Agent, then and in every such case the Debtors, the Collateral Agent and each Secured Creditor shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all rights, remedies and powers of the Collateral Agent and the Secured Creditors shall continue as if no such proceeding had been instituted.

(e) Failure by the Collateral Agent to exercise any right, remedy or option under this Agreement or any other agreement between the Debtors or any of them and the Collateral Agent or provided by law, or delay by the Collateral Agent in exercising the same, shall not operate as a waiver; no waiver shall be effective unless it is in writing, signed by the party against whom such waiver is sought to be enforced and then only to the extent specifically stated. For purposes of this Agreement, an Event of Default shall be construed as continuing after its occurrence until the same is waived in writing by the Secured Creditors or the Required Lenders, as the case may be, in accordance with the terms of the Loan Agreements. Neither the Collateral Agent, nor any Secured Creditor, nor any party acting as attorney for the Collateral Agent or any Secured Creditor, shall be liable hereunder for any acts or omissions or for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct. The rights and remedies of the Collateral Agent under this Agreement shall be cumulative and not exclusive of any other right or remedy which the Collateral Agent or the Secured Creditors may have.

SECTION 11. THE COLLATERAL AGENT APPOINTED ATTORNEY-IN-FACT.

Each Debtor hereby irrevocably appoints the Collateral Agent, its nominee, or any other Person whom the Collateral Agent may designate as such Debtor's attorney-in-fact, with full authority in the place and stead of such Debtor and in the name of such Debtor, the Collateral Agent or otherwise, upon the occurrence and during the continuation of an Event of Default, or if such Debtor fails to perform any agreement contained herein, then to the extent necessary to enable the Collateral Agent to perform such agreement itself, from time to time in the Collateral Agent's discretion, to take any action and to execute any instrument which the Collateral Agent may reasonably deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to prosecute diligently any patent, trademark or copyright or any application for Patents, Trademarks or Copyrights pending as of the date of this Agreement or thereafter until the Obligations have been fully paid and satisfied and any commitment Loan Agreements or any other agreement with any one or more of the Secured Creditors or their affiliates constituting Obligations available to or for the account of the Borrowers, or any of them, under the Loan Agreements or any other agreement with any one or more of the Secured Creditors or their affiliates shall have expired or otherwise terminated, to make application on unpatented but patentable inventions and registrable but unregistered Trademarks and Copyrights, to file and prosecute opposition and cancellation proceedings, to do all other acts necessary or desirable to preserve all rights in Collateral and otherwise to file any claims or take any action or institute any proceedings which the Collateral Agent may deem necessary or desirable to enforce the rights of the Collateral Agent and the Secured Creditors with respect to any of the Collateral. Each Debtor hereby ratifies and approves all acts of any such attorney and agrees that neither the Collateral Agent nor any such attorney will be liable for any acts or omissions nor for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct. The foregoing powers of attorney, being coupled with an interest, are irrevocable until the Obligations have been fully paid and satisfied and any commitments of any Secured Creditor to make financial accommodations constituting Obligations available to or for the account of the Borrowers, or any of them, under the Loan Agreements or any other agreement with any one or more of the Secured Creditors or their affiliates, have expired or otherwise terminated.

SECTION 12. APPLICATION OF PROCEEDS.

The proceeds and avails of the Collateral at any time received by the Collateral Agent upon the occurrence and during the continuation of any Event of Default shall, when received by the Collateral Agent in cash or its equivalent, be applied by the Collateral Agent in reduction of the Obligations in accordance with the terms of the Collateral Agency Agreement. The Debtors shall remain liable to the Collateral Agent and the Secured Creditors for any deficiency. Any surplus remaining after the full payment and satisfaction of the Obligations shall be returned to the Debtors or to whomsoever the Collateral Agent reasonably determines is lawfully entitled thereto.

SECTION 13. INDEMNIFICATION; LITIGATION.

(a) Each Debtor hereby indemnifies the Collateral Agent and the Secured Creditors for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements (including reasonable attorneys' fees) of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Collateral Agent, the Secured Creditors or any of them in any way relating to or arising out of, directly or indirectly, the manufacture, use or sale of products or processes utilizing or embodying any Collateral or any transactions contemplated hereby or any enforcement of the terms hereof; *provided, however*, that the Debtors shall not be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified hereunder.

(b) Each Debtor shall have the right to commence and prosecute in its own name, as real party in interest, for its own benefit and at its own expense, such applications for protection of the Collateral, suits, proceedings or other actions for infringement, unfair competition, dilution or other damage as are in its reasonable business judgment necessary to protect the Collateral. To the extent required by Section 6(b)(ii), each Debtor shall promptly notify the Collateral Agent and the Secured Creditors in writing as to the commencement and prosecution of any such actions, or threat thereof, relating to the Collateral and shall provide to the Collateral Agent and the Secured Creditors such information with respect thereto as may be reasonably requested. The Collateral Agent and the Secured Creditors shall provide all reasonable and necessary cooperation in connection with any such suit, proceeding or action, including, without limitation, joining as a necessary party. Each Debtor shall indemnify and hold harmless the Collateral Agent and the Secured Creditors for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, expenses or disbursements (including reasonable attorneys' fees) of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Collateral Agent or any Secured Creditor in connection with or in any way arising out of such suits, proceedings or other actions; *provided, however*, that the Debtors shall not be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified hereunder.

(c) Upon the occurrence and during the continuation of any Event of Default, the Collateral Agent shall have the right, but shall in no way be obligated, to file applications for protection of the Collateral or bring suit in the name of any Debtor, the Collateral Agent or the Secured Creditors to enforce the Collateral. In the event of such suit, the relevant Debtor shall,

at the request of the Collateral Agent, do any and all lawful acts and execute any and all documents required by the Collateral Agent in aid of such enforcement and the Debtors shall promptly, upon demand, reimburse and indemnify the Collateral Agent, as the case may be, for all costs and expenses incurred by the Collateral Agent in the exercise of its rights under this Section. In the event that the Collateral Agent shall elect not to bring suit to enforce the Collateral, each Debtor agrees, to the extent required by Section 6, to use all reasonable measures, whether by action, suit, proceeding or otherwise, to prevent the infringement of any Material Collateral by others and for that purpose agrees to diligently maintain any action, suit or proceeding against any Person so infringing necessary to prevent such infringement.

SECTION 14. EXPENSES.

The Debtors jointly and severally shall, upon demand, pay to the Collateral Agent the amount of any and all costs and expenses, including the reasonable fees and expenses of its counsel and the reasonable fees and expenses of any experts and agents, which the Collateral Agent or any Secured Creditor may incur in connection with (i) the enforcement and administration of this Agreement (including, without limitation, the filing or recording of any documents), (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Collateral Agent or any Secured Creditor hereunder or (iv) the failure by any Debtor to perform or observe any of the provisions hereof. All amounts payable by the Debtors under this Section shall be due from the Debtors upon demand and shall bear interest from the date incurred by the Collateral Agent or any Secured Creditor, as appropriate, at the rate per annum (computed on the basis of a 360-day year for the actual number of days elapsed) determined by adding 2.75% to Domestic Rate (as defined in the Revolving Credit Agreement), with any change in such rater per annum to be effective on the date of said change (such rate per annum as so determined being hereinafter referred to as the "Default Rate"). All amounts so payable, together with such interest thereon, shall be part of the Obligations. The Debtors' obligations under this Section shall survive the termination of this Agreement and the discharge of the Debtors' other obligations hereunder.

SECTION 15. TERMINATION AND RELEASE.

This Agreement is made for collateral purposes only. This Agreement shall be a continuing agreement in every respect and shall remain in full force and effect until all of the Obligations, both for principal and interest (other than contingent indemnity obligations for which no claim has been made by the Collateral Agent, the Bank Agent or any Lender and which are not otherwise due and payable), have been fully paid and satisfied and any commitment to make financial accommodations constituting available Obligations to or for the account of the Borrowers, or any of them, under the Loan Agreements or any other agreement with any one or more of the Secured Creditors or their affiliates shall have expired or otherwise terminated. Upon such termination of this Agreement, the Collateral Agent shall, upon the request and at the expense of the Debtors, forthwith assign, transfer and deliver, against receipt and without recourse to the Collateral Agent, such of the Collateral as may then be in the possession of the Collateral Agent and as shall not have been sold or otherwise applied pursuant to the terms hereof to or on the order of the relevant Debtor. Said assignment, transfer and delivery shall

include an instrument in form recordable in the United States Patent and Trademark Office or the United States Copyright Office, as the case may be, by which the Collateral Agent shall terminate, release and, without representation, recourse or warranty, reassign to the relevant Debtor all rights in each Patent, Patent License, Trademark, Trademark License, Copyright and Copyright License, including each registration thereof and application therefor, conveyed and transferred to the Collateral Agent pursuant to this Agreement. To the extent any portion of the Collateral is sold, transferred or otherwise disposed of in accordance with the terms of this Agreement and the Loan Agreements, such Collateral shall be sold, transferred or otherwise disposed of free and clear of the Collateral Agent's lien and security interest herein provided for, except that the Collateral Agent's lien on the proceeds of any such sale, transfer or other disposition shall continue as provided for herein and in the Collateral Agency Agreement.

SECTION 16. THE COLLATERAL AGENT.

In acting under or by virtue of this Agreement, the Collateral Agent shall be entitled to all the rights, authority, privileges and immunities provided in the Collateral Agency Agreement, all of which said provisions are incorporated by reference herein with the same force and effect as if set forth herein in their entirety. The Collateral Agent hereby disclaims any representation or warranty to the Secured Creditors concerning the perfection of the security interest granted hereunder or in the value of any of the Collateral.

SECTION 17. PRIMARY SECURITY OBLIGATIONS ABSOLUTE.

The lien and security herein created and provided for stand as direct and primary security for the Obligations. No application of any sums received by the Collateral Agent in respect of the Collateral or any disposition thereof to the reduction of the Obligations or any portion thereof shall in any manner entitle any Debtor to any right, title or interest in or to the Obligations or any collateral security therefor, whether by subrogation or otherwise, unless and until all Obligations have been fully paid and satisfied and all agreements of the Secured Creditors to make financial accommodations constituting Obligations available to or for the account of the Borrowers, or any of them, have expired or otherwise terminated. Each Debtor acknowledges and agrees that the lien and security hereby created and provided for are absolute and unconditional and shall not in any manner be affected or impaired by any acts or omissions whatsoever of any Secured Creditor or any other holder of any of the Obligations, and without limiting the generality of the foregoing, the lien and security hereof shall not be impaired by any acceptance by any Secured Creditor or any other holder of any of the Obligations of any other security for or guarantors upon any Obligations or by any failure, neglect or omission on the part of any Secured Creditor or any other holder of any of the Obligations to realize upon or protect any of the Obligations or any collateral security therefor. The lien and security hereof shall not in any manner be impaired or affected by (and the Secured Creditors, without notice to anyone, are hereby authorized to make from time to time) any sale, pledge, surrender, compromise, settlement, release, renewal, extension, indulgence, alteration, substitution, exchange, change in, modification or disposition of any of the Obligations, or of any collateral security therefor, or of any guaranty thereof, or of any instrument or agreement setting forth the terms and conditions pertaining to any of the foregoing. The Secured Creditors may at their discretion at any time grant credit to the Company without notice to the other Debtors in such amounts and on such terms as the Secured

Creditors may elect without in any manner impairing the lien and security hereby created and provided for. In order to realize hereon and to exercise the rights granted the Secured Creditors hereunder and under applicable law, there shall be no obligation on the part of any Secured Creditor or any other holder of any of the Obligations at any time to first resort for payment to the Company or any other Debtor or to any guaranty of the Obligations or any portion thereof or to resort to any other collateral security, property, liens or any other rights or remedies whatsoever, and the Secured Creditors shall have the right to enforce this Agreement as against any Debtor or any of its Collateral irrespective of whether or not other proceedings or steps seeking resort to or realization upon or from any of the foregoing are pending.

SECTION 18. MISCELLANEOUS.

(a) This Agreement cannot be changed or terminated orally. This Agreement shall create a continuing security interest in the Collateral and shall be binding upon the Debtors, their successors and assigns and shall inure, together with the rights and remedies of the Collateral Agent and the Secured Creditors hereunder, to the benefit of the Collateral Agent, the Secured Creditors and their successors and assigns; *provided, however*, that no Debtor may assign its rights or delegate its duties hereunder without the Collateral Agent's prior written consent. Without limiting the generality of the foregoing, and subject to the provisions of the Loan Agreements and the Collateral Agency Agreement, any Secured Creditor may assign or otherwise transfer any indebtedness held by it secured by this Agreement to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to such Secured Creditor herein or otherwise, subject, however, to the provisions of the Loan Agreements and the Collateral Agency Agreement. Each Debtor hereby releases the Collateral Agent from any liability for any act or omission relating to the Collateral or this Agreement, except the Collateral Agent's gross negligence or willful misconduct.

(b) All communications provided for herein shall be in writing, except as otherwise specifically provided for hereinabove, and shall be deemed to have been given or made, if to any Debtor when given to the Company, or if to the Collateral Agent or any Secured Creditor, when given to such party in accordance with the Collateral Agency Agreement.

(c) No Secured Creditor shall have the right to institute any suit, action or proceeding in equity or at law for the foreclosure against any Collateral subject to this Agreement or for the execution of any trust or power hereof or for the appointment of a receiver, or for the enforcement of any other remedy under or upon this Agreement; it being understood and intended that no one or more of the Secured Creditors shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of this Agreement by its or their action or to enforce any right hereunder, and that all proceedings at law or in equity shall be instituted, had and maintained by the Collateral Agent in the manner herein provided and for the ratable benefit of the Secured Creditors.

(d) In the event that any provision hereof shall be deemed to be invalid by reason of the operation of any law or by reason of the interpretation placed thereon by any court, this Agreement shall be construed as not containing such provision, but only as to such jurisdictions where such law or interpretation is operative, and the invalidity of such provision shall not affect

the validity of any remaining provision hereof, and any and all other provisions hereof which are otherwise lawful and valid shall remain in full force and effect. Without limiting the generality of the foregoing, in the event that this Agreement shall be deemed to be invalid or otherwise unenforceable with respect to any Debtor, such invalidity or unenforceability shall not affect the validity of this Agreement with respect to the other Debtors.

(e) This Agreement shall be deemed to have been made in the State of Illinois and shall be governed by and construed in accordance with the laws of the State of Illinois, without regard to principles of conflicts of law, except as required by mandatory provisions of law and except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of Illinois. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning of any provision hereof.

(f) This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterpart signature pages, each constituting an original, but all together one and the same instrument. Each Debtor acknowledges that this Agreement is and shall be effective upon its execution and delivery by such Debtor to the Collateral Agent, and it shall not be necessary for the Collateral Agent to execute this Agreement or any other acceptance hereof or otherwise to signify or express its acceptance hereof.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the Debtors have caused this Agreement to be duly executed as of the date first above written.

"DEBTORS"

FOSTER & GALLAGHER, INC.

By Jon D. Elletson
Name: Jon D. Elletson
Title: Executive Vice President

CREATIVE TELESOLUTIONS CORPORATION

DAKOTA ADVERTISING, INC.

DRAKE ACQUISITION COMPANY

FLOWER OF THE MONTH CO.

HEALTH GROUP, INC.

HEARTHSONG, INC.

HOME MARKETPLACE, INC.

LEARN & PLAY, INC.

MAGAZINE MARKETPLACE, INC.

MAGIC CABIN DOLLS, INC.

MBC GREENHOUSE CO.

METRO-TELEPHONE, INC.

MICHIGAN BULB COMPANY

NEWCO HOLDINGS, INC.

NEW HOLLAND BULB, CO.

SAND LAKE REALTY, CO.

SPRING HILL NURSERIES COMPANY

STARK NURSERY COMPANY

(D/B/A AGRI SUN)

STARK BROTHERS NURSERIES AND ORCHARDS
COMPANY


STARK BRO'S WHOLESALE CO.

VERMONT WILDFLOWER FARM, INC.

By Jon D. Elletson
Name: Jon D. Elletson
Title: Secretary/Treasurer of each

GURNEY SEED & NURSERY CORP.

HENRY FIELD SEED AND NURSERY COMPANY

By 
Name: Jon D. Elletson
Title: Secretary of each

By Jon D. Elletson
Name: Jon D. Elletson
Title: Vice President/Secretary/Treasurer

STATE OF ILLINOIS)
COUNTY OF Peoria) SS

I, Susan E King, a Notary Public in and for said County, in the State aforesaid, do hereby certify that Jon D. Elletson, Secretary/Treasurer of HearthSong, Inc., a California corporation, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument as such Secretary/Treasurer, appeared before me this day in person and acknowledged that he signed and delivered the said instrument as his own free and voluntary act and as the free and voluntary act and deed of said corporation for the uses and purposes therein set forth.

Given under my hand and notarial seal, this 22nd day of September, 1999.

Susan E. King
Notary Public



Susan E. King
(Type or Print Name)

My Commission Expires:

4-9-2001

Accepted and agreed to in Chicago, Illinois as of the date first above written.

HARRIS TRUST AND SAVINGS BANK, as
Collateral Agent

By *Sandra J. Sanders*
Name: Sandra J. Sanders
Its Vice President

Address: :

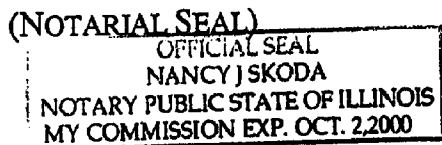
111 West Monroe Street
Chicago, Illinois 60603
Attention: Special Asset Division
Telephone: (312) 461-7729
Telecopy: (312) 765-1724

STATE OF ILLINOIS)
) SS
COUNTY OF Cook)

I, Nancy J. Skoda, a Notary Public in and for said County, in the State aforesaid, do hereby certify that Sandra J. Sanders, Vice President of Harris Trust and Savings Bank, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument as such Vice President, appeared before me this day in person and acknowledged that she/he signed and delivered the said instrument as her/his own free and voluntary act and as the free and voluntary act and deed of said Bank for the uses and purposes therein set forth.

Given under my hand and notarial seal, this 24th day of September, 1999.

Nancy J. Skoda
Notary Public



Nancy J. Skoda
(Type or Print Name)

My Commission Expires:

10/2/00

Schedule A-1

**To Security Agreement
Re: Intellectual Property**

**U.S. PATENT NUMBERS
AND PENDING U.S. PATENT APPLICATION NUMBERS**

U.S. PATENT No.	APPLICATION No.	TITLE OF PATENT	INVENTOR(S)
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None

PENDING U.S. PATENT APPLICATION NOS.	TITLE OF APPLICATION	INVENTOR	FILING DATE
---	-------------------------	----------	----------------

None

**FOREIGN PATENT NUMBERS
AND PENDING FOREIGN PATENT APPLICATION NUMBERS**

FOREIGN PATENT NO.	COUNTRY	APPLICATION NO.	TITLE OF PATENT	INVENTOR(S)	FILING DATE
-----------------------	---------	-----------------	-----------------	-------------	-------------

None

TRADEMARK

REEL: 001982 FRAME: 0029

Schedule A-2

**To Security Agreement
Re: Intellectual Property**

PATENT LICENSES

U.S. PATENT NUMBER

DATE ISSUED

LICENSE AGREEMENT

None

TRADEMARK

REEL: 001982 FRAME: 0030

Schedule B-1

**To Security Agreement
Re: Intellectual Property**

**REGISTERED U.S. TRADEMARKS
AND TRADEMARK APPLICATIONS**

REGISTERED U.S. TRADEMARKS	REGISTRATION REG. NO.	APPLICATION No.	DATE
Cook It! Club (and Design)	1,797,353	74/281,882	10/05/1993
Fingermajig	1,768,774	74/319,555	05/04/1993
Toys You'll Feel Good About Giving	1,714,548	74/233,391	09/08/1992
HearthSong	1,455,274	73/641,997	09/01/1987
Topsy Turvy Trolls	2,039,660	74/609,710	02/25/1997
HearthSong	1,460,401	73/641,939	10/06/1987
Magic Cabin Dolls	2,052,763	75/114,381	04/15/1997
Making Scents	2,037,576	74/601,400	02/11/1997
Magnuts	2,143,215	75/060,351	03/10/1998
Design (Magnuts)	2,151,323	75/119,474	04/14/1998
Magnuteersp	2,205,759	75/393,403	11/24/1998
 Magnuts (and Design)	 2,205,819	 75/412,814	 11/24/1998
Wind & Wonder	2,236,301	75/393,401	03/30/1999

**PENDING U.S.
TRADEMARK
APPLICATIONS**

	FILING NO.	APPLICATION NO.	FILING DATE
Wonder Wax		75/593468	11/24/1998
Sparkling Bath Blossoms		75/594703	11/24/1998

**REGISTERED STATE TRADEMARKS
AND TRADEMARK APPLICATIONS**

REGISTERED STATE TRADEMARKS	REGISTRATION REG. NO.	DATE
	None	

PENDING STATE
TRADEMARK
APPLICATIONS

FILING NO.

FILING DATE

None

COMMON LAW RIGHTS

None

REGISTERED FOREIGN TRADEMARKS
AND TRADEMARK APPLICATIONS

REGISTERED FOREIGN
TRADEMARKS

COUNTRY

REGISTRATION
NO.

DATE

None

PENDING FOREIGN
TRADEMARK
APPLICATIONS

COUNTRY

APPLICATION NO.

FILING DATE

None

Schedule B-2

**To Security Agreement
Re: Intellectual Property**

TRADEMARK LICENSES

None

Schedule C-1

**To Security Agreement
Re: Intellectual Property**

COPYRIGHTS

AUTHOR	U.S. COPYRIGHT NO.	TITLE	REG. DATE
HearthSong, Inc.	TX3 223-900	HearthSong Parachute Kit	12/24/1991
HearthSong, Inc.	TX3 266-247	HearthSong Valentine Kit	01/13/1992
HearthSong, Inc.	VA 685-053	Topsy Turvy Troll Figure	12/05/1994
HearthSong, Inc.	TX3 956-739	Topsy Turvy Trolls- Instruction Sheet	12/05/1994
HearthSong, Inc.	VA 757-390	HearthSong Star Design	03/28/1996
HearthSong, Inc.	VA 897-822	Nativity Set – Mary, Joseph & Child	01/08/1998
HearthSong, Inc.	VA 897-821	Nativity Set – Three Wise Men & Shepherd	01/08/1998

**PENDING U.S. COPYRIGHT
APPLICATION NO. (AUTHOR)**

TITLE

FILING DATE

None

TRADEMARK

REEL: 001982 FRAME: 0034

Schedule C-2

**To Security Agreement
Re: Intellectual Property**

COPYRIGHT LICENSES

U.S. COPYRIGHT REG. NO. (AUTHOR)	TITLE	DATE OF REG.	LICENSE AGREEMENT REFERENCE
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None