

02-28-2000



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OPR/FINANCE

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 Change of Name

Other

Effective Date
Month Day Year

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 conveying parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City

State/Country

Zip Code

Individual General Partnership Limited Partnership Corporation Association

Other

Citizenship/State of Incorporation/Organization

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

02/25/2000 DNGUYEN 00000249 75684792

FOR OFFICE USE ONLY

01 FC:481 40.00 DP
02 FC:482 300.00 DP

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: 002026 FRAME: 0697

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

(214) 969-2582

Name

Lee Ann Wheelis

Address (line 1)

Thompson & Knight L.L.P.

Address (line 2)

1700 Pacific Avenue, Suite 3300

Address (line 3)

Dallas, Texas 75201

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)

75684792 75684791 75684716

75684715 75684714 75684713

75684712 75783204 75783203

Number of Properties

Enter the total number of properties involved.

#

13

Fee Amount

Fee Amount for Properties Listed (37 CFR 3:41):

\$

340.00

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:

#

20-0821

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.

Lee Ann Wheelis

Name of Person Signing



Signature

1/25/00

Date Signed

TRADEMARKS ONLY

TRADEMARK

Conveying Party

Mark if additional names of conveying parties attached

Execution Date
Month Day Year

Enter Additional Conveying Party

Name

Formerly

Individual General Partnership Limited Partnership Corporation Association

Other

Citizenship/State of Incorporation/Organization

Receiving Party

Mark if additional names of conveying parties attached

Enter Additional Receiving Party

Name

DBA/AKA/TA

Composed of

Address (line 1)

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Address (line 3)

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State/Country

Zip Code

Individual General Partnership Limited Partnership Corporation Association

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.)

Other

Citizenship/State of Incorporation/Organization

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)

INTELLECTUAL PROPERTY SECURITY AGREEMENT

WHEREAS, iSong.com, inc., a Texas corporation having a principal place of business at 2109 Commerce, Dallas, Texas 75201 (herein called "**Grantor**"), owns certain "Intellectual Property" (as defined below); and

WHEREAS, Grantor and each of HVI-iSong.com, L.P., a Delaware limited partnership with a principal place of business at Fountain Place, 1445 Ross at Field, Dallas, Texas 75202, and Wagner & Brown, Ltd., a Texas limited partnership with a principal place of business at 300 N. Mar. enfeld. Suite 1100, Midland, Texas, 79701 (collectively, together with their respective successors and assigns, called "**Grantee**"), are parties to a Note and Warrant Purchase Agreement of even date herewith (herein, as from time to time amended, supplemented, or restated, called the "**Purchase Agreement**"); and

WHEREAS, pursuant to the terms of the Security Agreement of even date herewith between Grantor and Grantee (herein, as from time to time amended, supplemented, or restated, called the "**Security Agreement**"), Grantor has granted to Grantee for the benefit of Grantee a continuing security interest in various assets of Grantor, including all right, title and interest of Grantor in, to and under the Intellectual Property Collateral (as defined herein) whether now owned or existing or hereafter acquired or arising, to secure the Indebtedness (as defined in the Security Agreement);

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and to additionally secure such Indebtedness, Grantor does hereby grant to Grantee a continuing security interest in all of Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "**Intellectual Property Collateral**"), whether now owned or existing or hereafter acquired or arising:

- (a) each Patent (including, without limitation, each patent, design patent and patent application listed in Schedule 1 hereto) in which Grantor has or hereafter acquires any interest;
- (b) each Patent License in which Grantor has or hereafter acquires any interest;
- (c) each Trademark (including each common law trademark, federally registered trademark, registered state trademark, foreign trademark and any federal, state, or foreign trademark application, including, without limitation, each trademark and trademark application listed in Schedule 2 hereto) in which Grantor has or hereafter acquires any interest;
- (e) each Trademark License in which Grantor has or hereafter acquires any interest;

- (f) each Copyright (whether registered or not) in which Grantor has or hereafter acquires any interest;
- (g) each Copyright License in which Grantor has or hereafter acquires any interest;
- (h) each Trade Secret in which Grantor has or hereafter acquires any interest;
- (i) each Trade Secret License in which Grantor has or hereafter acquires any interest. and
- (h) all proceeds of and revenues from the foregoing, including without limitation all proceeds of and revenues from any claim by Grantor against third parties for past, present or future infringement of any Intellectual Property (including without limitation any Patent, design patent and any Patent issuing from any application referred to in Schedule 1 hereto, and any Trademark and any Trademark issuing from any application referred to in Schedule 2 hereto) and all rights and benefits of Grantor under any Patent License, Trademark License, Copyright License or Trade Secret License.

As used herein:

“Intellectual Property” means any Patents, including any pending patent applications; any Trademarks, including any common law trademarks, federally registered trademarks, registered state trademarks, and any federal, foreign or state trademark applications; any Copyrights, including those not registered with any official entity; and any Trade Secrets; whether recognized under the common law, laws of the United States or any state, or the laws of any other country.

“Patent” means all the following: (a) all letters patent and design letters patent of the United States or any other country and all applications for letters patent and design letters patent of the United States or any other country, including applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or other country, or any political subdivision thereof, including without limitation those described in Schedule 1 hereto. (b) all reissues, divisions, continuations, continuations-in-part, renewals and extensions thereof, (c) all claims for, and rights to sue for, past or future infringements of any of the foregoing, and (d) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

“Patent License” means any license or other agreement, whether now or hereafter in existence, under which is granted or authorized any right with respect to any Patent or any invention now or hereafter in existence, whether patentable or not, whether a patent or application for patent is in existence on such invention or not, and whether a patent or application for patent on such invention may come into existence.

“Trademark” means all the following: (a) all registered trademarks in the United States, whether on the Principal or Supplemental Register, or in any other country, (b) all trademarks registered in any state, (c) all applications for trademarks in the United States or any other country or in any state, (d) all common law trademarks, and (e) all income, royalties, damages and payments now or hereafter due or payable with respect to any other foregoing, including damages and payments for past or future infringements thereof.

“Trademark License” means any license or other agreement, whether now or hereafter in existence, under which is granted or authorized any right with respect to any Trademark now or hereafter in existence, whether registerable or not, whether a registration or application for trademark is in existence on such trademark or not, and whether a trademark or application for trademark on such trademark may come into existence.

“Copyright” means all the following: those rights subsisting in (a) Copyright registrations, whether from the United States or any other country, and the underlying work and (b) any other material in which copyright subsists under the laws of the United States or any other country.

“Copyright License” means any license or other agreement, whether now or hereafter in existence, under which is granted or authorized any right with respect to any Copyright, any copyrightable material, or any material in which copyright is claimed, now or hereafter in existence, whether copyrightable or not, whether a copyright registration is in existence on such material or not, and whether a copyright registration on such material may come into existence.

“Trade Secret” means all the following, without limitation: (a) any formula, pattern, device, or compilation of information which is used in business and gives an opportunity to gain advantage over competitors or others not in possession of the formula, pattern, device, or compilation, and (b) any formula, compound, mixture, tool, mechanism, plan or process used in manufacture, production, or treatment which is closely held by its owner and not available to the public.

“Trade Secret License” means any license or other agreement, whether now or hereafter in existence, under which is granted or authorized any right with respect to any Trade Secret, now or hereafter in existence, whether patentable or copyrightable or not, whether later divulged or kept secret.

Grantor hereby irrevocably constitutes and appoints Grantee and any officer or agent thereof with full power of substitution, as its true and lawful attorney-in-fact with full power and authority in the name of Grantor or in its name, from time to time, in Grantee’s discretion, so long as any default or event of default under the Note and Warrant Purchase Agreement or any of the other Loan Documents (as defined in the Security Agreement) has occurred and is continuing, to take with respect to the Intellectual Property Collateral any and all appropriate action which Grantor might take with respect to the Intellectual Property Collateral and to execute any and all documents and instruments which may be necessary or desirable to carry out the terms of this Intellectual Property Security Agreement and to accomplish the purposes hereof.

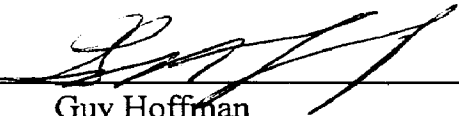
Except to the extent expressly allowed in the Security Agreement, Grantor agrees not to sell, license, exchange, assign or otherwise transfer or dispose of, or grant any rights with respect to, or mortgage or otherwise encumber, any of the foregoing Intellectual Property Collateral, without the prior express approval of Grantee.

This security interest is granted in conjunction with the security interests granted to Grantee pursuant to the Security Agreement. Grantor does hereby further acknowledge and affirm that the rights and remedies of Grantee with respect to the security interest in the Intellectual Property Collateral made and granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Grantor has caused this Intellectual Property Security Agreement to be duly executed by its officer thereunto duly authorized as of the 7th day of January, 2000.

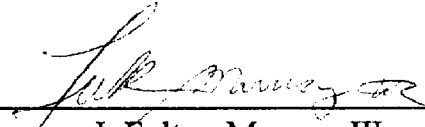
iSong.com, inc.
(a Texas corporation)

By: 
Guy Hoffman
Chairman & CEO

Acknowledged:

HVI-iSong.com, L.P.,

By: HVI-Songs, Inc.,
(its General Partner)


J. Fulton Murray, III,
Vice President

WAGNER & BROWN, LTD.,

By: _____
Gary D. Douglas,
Vice President

IN WITNESS WHEREOF, Grantor has caused this Intellectual Property Security Agreement to be duly executed by its officer thereunto duly authorized as of the 7th day of January, 2000.

iSong.com, inc.
(a Texas corporation)

By: _____
Guy Hoffman
Chairman & CEO

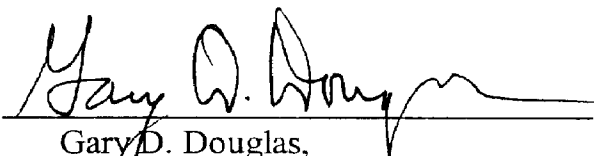
Acknowledged:

HVI-iSong.com, L.P.,

By: HVI-Songs, Inc.,
(its General Partner)

J. Fulton Murray, III,
Vice President

WAGNER & BROWN, LTD.,

By: 

Gary D. Douglas,
Vice President

STATE OF TEXAS

§
§
§

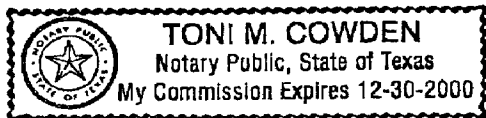
COUNTY OF DALLAS

On this day, before me, the undersigned, a Notary Public, duly commissioned, qualified and acting, the within named Guy Hoffman, who stated that he was the Chairman and CEO of iSong.com, inc. a Texas corporation, and was duly authorized in his or her capacity to execute the foregoing instrument for and in the name and behalf of said corporation, and further stated that and acknowledged that he or she had so signed, executed and delivered said foregoing instrument for consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this 7th day of January, 2000.

Toni M. Cowden
Notary Public, State of Texas

Seal:



STATE OF TEXAS

§
§
§

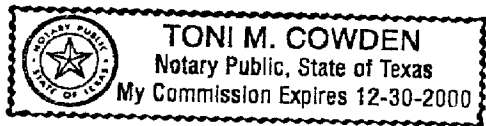
COUNTY OF DALLAS

On this day, before me, the undersigned, a Notary Public, duly commissioned, qualified and acting, the within named J. Fulton Murray, III, who stated that he was the Vice President of HVI-Songs, Inc., the general partner of HVI-iSong.com, L.P., a Delaware limited partnership, and was duly authorized in his capacity to execute the foregoing instrument for and in the name and behalf of said corporation as general partner of said limited partnership or behalf of said limited partnership. and further stated that and acknowledged that he or she had so signed, executed and delivered said foregoing instrument for consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this 7th day of January, 2000.

Toni M. Cowden
Notary Public, State of Texas

Seal:



STATE OF TEXAS

§

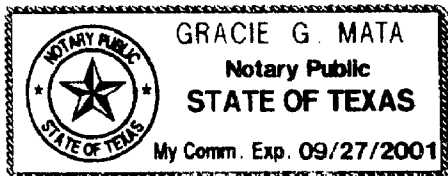
COUNTY OF MIDLAND

§

§

On this day, before me, the undersigned, a Notary Public, duly commissioned, qualified and acting, the within named Gary D. Douglas, who stated that he was the Vice President, Investments, of Wagner & Brown, Ltd., a Texas limited partnership, and was duly authorized in his or her capacity to execute the foregoing instrument for and in the name and behalf of said corporation, and further stated that and acknowledged that he or she had so signed, executed and delivered said foregoing instrument for consideration, uses and purposes therein mentioned and set forth.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal on this 7th day of January, 2000.



Gracie G. Mata

Notary Public, State of Texas

Seal:

Schedule 1
to Intellectual Property
Security Agreement

PATENTS

A. U.S. Patents and Design Patents

<u>I.D. No.</u>	<u>Patent No.</u>	<u>Issue Date</u>	<u>Title</u>
08/254,493	5,533,903	7/9/96	Method and System for Music Training
08/677,639	5,746,605	5/5/98	Method and System for Music Training
08/689,527	5,690,496	11/25/97	Multimedia Product for Use in Making Instruction

B. U.S. Patent Applications

<u>Serial No.</u>	<u>Date Filed</u>	<u>Title</u>
08/977,003	8/8/96	Multimedia Production for Use in a Computer for Music Instruction
08/689,527	5/4/98	

C. Foreign Patents

<u>I.D. No.</u>	<u>EPO Serial No.</u>	<u>Issue Date</u>	<u>Title</u>
08/689,527	97 936487.4	3/3/99	Multimedia Product for Use in Making Instruction

Schedule 1 also includes the appended "Status Report as of April 15, 1999" of Stephen E. Kennedy.

**STEPHEN E. KENNEDY
PATENTS AND PATENT APPLICATIONS**

Status Report as of APRIL 15, 1999

PATENT/APPLICATION Name (H&L Reference)	U.S. Serial Number (Filing Date/ Priority Date)	U.S. Patent Number (Issue Date)	PCT Serial Number (International Filing Date)	EUROPE (EPO) Serial Number (Filing Date)	AUSTRALIA Serial Number (Filing Date)	CANADA Serial Number (Filing Date)	OTHER Serial Number (Filing Date)
METHOD AND SYSTEM FOR MUSIC TRAINING 8835.10	08/254,403 F 6/6/94	5,533,903 7/9/96					
		3.5 YR 1/9/00					
		7.5 YR 1/9/04					
		11.5 YR 1/9/08					
METHOD AND SYSTEM FOR MUSIC TRAINING 8835.10	08/677,639; F 7/8/96	5,746,605 5/5/98					
		3.5 YR 11/5/01					
		08/254,403 6/6/94					
		PAT 5,533,903					
		11.5 11/5/09					
MULTIMEDIA PRODUCT FOR USE IN MAKING INSTRUCTION 8835.12	08/689,527 F 8/8/96	5,690,496 11/25/97	PCT US 97/14198	97 936487.4 REGIONAL PHASE ENTRY COMPLETED 3/3/99 (per 3/4/99 letter)			
		3.5 5/25/01					
		7.5 5/25/05					
		11.5 5/25/09					

PATENT/APPLICATION Name (H&I. Reference)	U.S. Serial Number (Filing Date/ Priority Date)	U.S. Patent Number (Issue Date)	PCT Serial Number (International Filing Date)	EUROPE (EPO) Serial Number (Filing Date)	AUSTRALIA Serial Number (Filing Date)	CANADA Serial Number (Filing Date)	OTHER Serial Number (Filing Date)
MULTIMEDIA PRODUCTION FOR USE IN A COMPUTER FOR MUSIC INSTRUCTION 8835.12	08/977,003 DIV OF 08/689,527 Response to Missing Parts filed 5/4/98	(pending) 8/8/96					

Schedule 2
to Intellectual Property
Security Agreement

TRADEMARKS

A. U.S. Trademark Applications

<u>Mark</u>	<u>Serial Number</u>	<u>Filing Date</u>
ILEVELS	75-684,792	April 14, 1999
ISONG & design	75-684,791	April 14, 1999
TAKE A LESSON FROM A MASTER	75-684,716	April 14, 1999
ISYNC	75-684,715	April 14, 1999
ILINK	75-684,714	April 14, 1999
CHANGING THE WAY THE WORLD LEARNS MUSIC	75-684,713	April 14, 1999
IF YOU WANT TO PLAY LIKE A MASTER, TAKE A LESSON FROM ONE	75-684,712	April 14, 1999
POWER TO PLAY	75-783,204	August 24, 1999
LEARN FROM A LEGEND	75-783,203	August 24, 1999
CHANGING THE WAY YOU LEARN MUSIC	75-783,202	August 24, 1999
ILESSON	75-783,201	August 24, 1999
IMETHOD	75-783,200	August 24, 1999

<u>Mark</u>	<u>Serial Number</u>	<u>Filing Date</u>
ITOUR	75-783,214	August 24, 1999
RED ANT	75-142,380	July 30, 1996
INSIDE MUSIC	75-533,696	August 10, 1998
ISONG	75-519,749	July 16, 1998
ISONG	75-978,579	July 16, 1998

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Agreement") is made as of the 7th day of January, 2000, by iSong.com, inc., a Texas corporation ("Debtor"), whose address is 2109 Commerce, Dallas, Texas 75201 in favor of each of HVI-iSong.com, L.P., a Delaware limited partnership, whose address is Fountain Place, 1445 Field at Ross, Dallas, Texas 75202, and Wagner & Brown, Ltd., a Texas limited partnership whose address is 300 North Marienfeld, Suite 1100, Midland, Texas 79702 (collectively with their respective successors and assigns, "Secured Party"). Debtor hereby agrees with Secured Party as follows:

1. Definitions. As used in this Agreement, the following terms shall have the meanings indicated below:

(a) The term "Code" shall mean the Texas Business and Commerce Code as in effect in the State of Texas on the date of this Agreement or as it may hereafter be amended from time to time.

(b) The term "Collateral" shall mean all of the property set forth below (as indicated):

(i) any right to payment for services rendered or for goods sold or leased which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance ("Accounts"), and all customer lists, subscription lists, invoices, agings, verification reports and other records relating in any way to such Accounts, and all of Debtor's rights in, to and under all purchase orders or contracts now owned or hereafter received or acquired by it for goods or services, and all of Debtor's rights to any goods represented by any of the foregoing (including returned or repossessed goods and unpaid seller's rights) and all moneys due or to become due to Debtor under all contracts for the sale or lease of goods and/or the performance of services by it (whether or not yet earned by performance) or in connection with any other transaction, now in existence or hereafter arising; all promissory notes, drafts, bills of exchange, instruments, documents and trade acceptances (collectively, "Instruments"); all deposit accounts, general intangibles, tax refunds and other obligations of any kind owing to Debtor (including under any trade names), now or hereafter existing, arising out of or in connection with the sale or lease of goods or the rendering of services or otherwise (including, without limitation, any such obligations that would be characterized as an account, general intangible or chattel paper under the Code); and all rights now or hereafter existing in and to all security agreements, leases, guarantees and other contracts securing or otherwise relating to any such Accounts, Instruments, deposit accounts, general intangibles or obligations;

(ii) all machinery, equipment, tools, apparatus, furniture and leasehold improvements, now owned or hereafter acquired by Debtor or in which Debtor now has or hereafter may acquire any right, title or interest, and any and all additions, substitutions and replacements thereof, wherever located, together with all attachments, components, parts, equipment and accessories installed therein or affixed thereto, including but not limited to all "equipment" as defined in Section 9.109(2) of the Code;

(iii) all writings which evidence both a monetary obligation and a security interest in or a lease of specific goods;

(iv) all contracts and agreements to which Debtor is a party or to which Debtor has any rights, together with all modifications, amendments or replacements of any of the foregoing, including, without limitation, (A) all rights of Debtor to receive moneys due and to become due to Debtor thereunder or in connection therewith, (B) all rights of Debtor to damages arising out of, or for, breach or default in respect thereof and (C) all rights of Debtor to perform and to exercise all remedies thereunder;

(v) all general intangibles (as defined in the Code); all inventions, processes, production methods, proprietary information, trade secrets and know-how; all patents and applications for patents, copyrights, trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise and all renewals thereof, and all licenses or other agreements granted to Debtor with respect to any of the foregoing; all information, customer lists, advertising lists, advertising contracts, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, telephone numbers and telephone listings, catalogs, books, records, computer and automatic machinery software and programs, and the like pertaining to operations by or the business of Debtor and all licenses with respect thereto; all field accounting information and all media in which or on which any of the information or knowledge or data or records, may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data; all licenses, consents, permits, variances, certifications and approvals of all Governmental Authorities now or hereafter held by Debtor pertaining to operations or business now or hereafter conducted; all rights to receive return of deposits and trust payments; all rights to payment under letters of credit and similar agreements; all tax refunds (including, without limitation, all federal and state income tax refunds and benefits of net operating loss carry forwards); and all causes

of action, rights, claims and warranties now or hereafter owned or acquired by Debtor;

(vi) all rights, claims and benefits of Debtor against any person arising out of, relating to or in connection with the Collateral;

(vii) the balance of every bank account and deposit account of Debtor and any other claim of Debtor against Secured Party, now or hereafter existing, liquidated or unliquidated, and all money, instruments, securities, documents, chattel paper, credits, claims, demands, income, and any other property, rights and interests of Debtor which at any time shall come into the possession or custody or under the control of Secured Party or any agent, affiliate or correspondent of Secured Party, for any purpose, and the proceeds thereof (Secured Party shall be deemed to have possession of any of the Collateral in transit to or set apart for Secured Party or any of its respective agents, affiliates or correspondents);

(viii) all equity interest in any entity, any debt instrument issued by any person or entity and any instrument convertible into any equity or debt interest (whether owned beneficially or of record), including but not limited to all shares of capital stock of whatever class, all partnership and joint venture interests, and all debentures and debt instruments (collectively "Securities"); all shares, securities, monies or properties representing a distribution on any Securities or representing a Distribution (defined below) or return of capital upon or in respect of any Securities or any part thereof, or resulting from a split-up, revision, reclassification or other like change of the Securities, or otherwise received in exchange therefor; all subscription rights, warrants or options issued to the holders of, or in respect of, the Securities; each certificate or other instrument evidencing any of the foregoing;

(ix) any declaration or payment of any distribution or dividend (including a stock dividend) on, or the making of any pro rata distribution, loan, advance, or investment to or in any holder (in its capacity as a partner, shareholder or other equity holder) of, any partnership interest or shares of capital stock or other equity interest of such entity; any purchase, redemption, or other acquisition or retirement for value of any shares of partnership interest or capital stock or other equity interest of such entity; and any payments of principal of, and interest on, and all other payments in respect of any debt issued by any person or entity (all of the foregoing being herein referred to as collectively "Distributions");

(x) all accounts of Debtor maintained with or through any other person or entity or persons or entities related to the acquisition, ownership, sale or other disposition of any interest in any security or interest in any security (including but not limited to all interest in any equity or debt security, option, warrant, put, call, futures agreements, commodity agreements, margin accounts, short positions and partnership interests), each deposit account (time, demand or other) in which any proceeds of or income from the foregoing may be on deposit, all general intangibles consisting of the foregoing and each agreement, document or instrument governing or evidencing

any of the foregoing and all amendments and restatements thereof, and all claims of Debtor against any person or entity with respect to any of the foregoing;

(xi) all insurance policies and bonds and claims relating to any of the Collateral and payments thereunder;

(xii) all other personal property now owned of hereafter acquired by Debtor, including, without limitation, any and all inventory, documents, goods and other property in which a security interest would be created under Chapter 9 of the Code; and

(xii) all accessions to, all substitutions for and replacements of, and all proceeds and products of any and all of the foregoing Collateral and, to the extent not otherwise included, all (A) payments under insurance (whether or not Secured Party is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral and (B) all cash.

(c) The term "Indebtedness" shall mean (i) all indebtedness, obligations and liabilities of Debtor to Secured Party now existing or hereafter arising pursuant to those two certain promissory notes dated January 7, 2000, in the original principal amount of \$750,000.00 executed by Debtor and payable to the order of each Secured Party (the "Bridge Note"), (ii) all accrued but unpaid interest on any of the indebtedness described in (i) above, (iii) all obligations of Debtor to Secured Party under any documents evidencing, securing, governing and/or pertaining to all or any part of the indebtedness described in (i) and (ii) above, (iv) all costs and expenses incurred by Secured Party in connection with the collection and administration of all or any part of the indebtedness and obligations described in (i), (ii) and (iii) above or the protection or preservation of, or realization upon, the collateral securing all or any part of such indebtedness and obligations, including without limitation all reasonable attorneys' fees, and (v) all renewals, extensions, modifications and rearrangements of the indebtedness and obligations described in (i), (ii), (iii) and (iv) above.

(d) The term "Loan Documents" shall mean the Note and Warrant Purchase Agreement dated even date herewith by and between Debtor and Secured Party, the Bridge Note and this Agreement.

(e) The term "Senior Debt" shall mean all indebtedness of Debtor to Senior Lender pursuant to that certain Credit Agreement dated as of August 24, 1999 by and between Debtor and Senior Lender and all the ancillary documents directly relating thereto (collectively, the "**Senior Debt Agreements**").

(f) The term "Senior Lender" means Imperial Bank.

All words and phrases used herein which are expressly defined in Section 1.201 or Chapter 9 of the Code shall have the meaning provided for therein. Other words and phrases defined elsewhere in

the Code shall have the meaning specified therein except to the extent such meaning is inconsistent with a definition in Section 1.201 or Chapter 9 of the Code.

2. Security Interest. As security for the Indebtedness, Debtor, for value received, hereby pledges and grants to Secured Party a continuing security interest in the Collateral.

3. Subordination to Senior Debt. The payment of all Indebtedness is and shall be expressly subordinate and junior in right of payment and collection to the prior payment in full of all Senior Debt. Any and all liens, charges, security interests, pledges, assignments or other encumbrances securing or benefitting the Indebtedness are hereby expressly subordinated and made secondary and inferior to the liens, right or interests now or hereafter securing or benefitting the Senior Debt.

4. Maintenance of Collateral. Other than the exercise of reasonable care to assure the safe custody of any Collateral in Secured Party's possession from time to time, Secured Party does not have any obligation, duty or responsibility with respect to the Collateral. Without limiting the generality of the foregoing, Secured Party shall not have any obligation, duty or responsibility to do any of the following: (a) ascertain any maturities, calls, conversions, exchanges, offers, tenders or similar matters relating to the Collateral or informing Debtor with respect to any such matters; (b) fix, preserve or exercise any right, privilege or option (whether conversion, redemption or otherwise) with respect to the Collateral unless (i) Debtor makes written demand to Secured Party to do so, (ii) such written demand is received by Secured Party in sufficient time to permit Secured Party to take the action demanded in the ordinary course of its business, and (iii) Debtor provides additional collateral, acceptable to Secured Party in its sole discretion; (c) collect any amounts payable in respect of the Collateral (Secured Party being liable to account to Debtor only for what Secured Party may actually receive or collect thereon); (d) sell all or any portion of the Collateral to avoid market loss; (e) sell all or any portion of the Collateral unless and until (i) Debtor makes written demand upon Secured Party to sell the Collateral, and (ii) Debtor provides additional collateral, acceptable to Secured Party in its sole discretion; or (f) hold the Collateral for or on behalf of any party other than Debtor.

5. Representations and Warranties. Debtor hereby represents and warrants the following to Secured Party:

(a) Authority. The execution, delivery and performance of the Loan Documents by Debtor have been duly authorized by all necessary corporate action of Debtor.

(b) Accuracy of Information. All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Debtor with respect to the Collateral is true and correct.

(c) Enforceability. The Loan Documents constitute legal, valid and binding obligations of Debtor, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights and except to the extent specific remedies may generally be limited by equitable principles.

(d) Ownership and Liens. Debtor has good and marketable title to the Collateral free and clear of all liens, security interests, encumbrances or adverse claims, except for the security interest created by this Agreement and those securing the Senior Debt. No dispute, right of setoff, counterclaim or defense exists with respect to all or any part of the Collateral. Debtor has not executed any other security agreement currently affecting the Collateral and no effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office except as may have been executed or filed in favor of Secured Party and those executed and filed in favor of Senior Lender.

(e) No Conflicts or Consents. Neither the ownership, the intended use of the Collateral by Debtor, the grant of the security interest by Debtor to Secured Party herein nor the exercise by Secured Party of its rights or remedies hereunder, will (i) conflict with any provision of (A) any domestic or, to Debtor's knowledge, foreign law, statute, rule or regulation, (B) the articles of incorporation or bylaws of Debtor, or (C) any agreement, judgment, license, order or permit applicable to or binding upon Debtor, or (ii) result in or require the creation of any lien, charge or encumbrance upon any assets or properties of Debtor or of any person except as may be expressly contemplated in the Loan Documents. Except as expressly contemplated in the Loan Documents, no consent, approval, authorization or order of, and no notice to or filing with, any court, governmental authority or third party is required in connection with the grant by Debtor of the security interest herein or the exercise by Secured Party of its rights and remedies hereunder.

(f) Security Interest. Debtor has and will have at all times full right, power and authority to grant a security interest in the Collateral to Secured Party in the manner provided herein, free and clear of any lien, security interest or other charge or encumbrance other than those liens and security interests securing the Senior Debt. This Agreement creates a legal, valid and binding security interest in favor of Secured Party in the Collateral securing the Indebtedness. Possession by Secured Party of all certificates, instruments and cash constituting Collateral from time to time and/or the filing of the financing statements delivered prior hereto and/or concurrently herewith by Debtor to Secured Party will perfect and establish Secured Party's security interest hereunder in the Collateral.

(g) Location. Debtor's residence or chief executive office, as the case may be, and the office where the records concerning the Collateral are kept is located at its address set forth on the first page hereof. Except as specified elsewhere herein, all Collateral shall be kept at such address.

(h) Solvency of Debtor. As of the date hereof, and after giving effect to this Agreement and the completion of all other transactions contemplated by Debtor at the time of the execution of this Agreement, (i) Debtor is and will be solvent on a consolidated basis, (ii) the fair saleable value of Debtor's assets exceeds and will continue to exceed Debtor's liabilities (both fixed and contingent; assets and liabilities being calculated on a consolidated basis), (iii) Debtor is paying and will continue to be able to pay its debts as they mature, and (iv) Debtor has and will have sufficient capital to carry on Debtor's businesses and all businesses in which Debtor is about to engage.

(i) Exclusion of Certain Collateral. Unless otherwise agreed by Secured Party, the Collateral does not include any aircraft, watercraft or vessels, railroad cars, railroad equipment, locomotives or other rolling stock intended for a use related to interstate commerce.

(j) Inventory. The security interest in the inventory shall continue through all stages of manufacture and shall, without further action, attach to the accounts or other proceeds resulting from the sale or other disposition thereof and to all such inventory as may be returned to Debtor by its account debtors.

(k) Accounts. Each account represents the valid and legally binding indebtedness of a bona fide account debtor arising from the sale or lease by Debtor of goods or the rendition by Debtor of services. The amount shown as to each account on Debtor's books is the true and undisputed amount owing and unpaid thereon, subject only to discounts, allowances, rebates, credits and adjustments to which the account debtor has a right.

(l) Chattel Paper, Documents and Instruments. The chattel paper, documents and instruments of Debtor pledged hereunder have only one original counterpart and no party other than Debtor or Senior Lender is in actual or constructive possession of any such chattel paper, documents or instruments.

(m) Securities. Any certificates evidencing Securities are valid and genuine and have not been altered. All Securities have been duly authorized and validly issued, are fully paid and non-assessable, and were not issued in violation of the preemptive rights of any party or of any agreement by which Debtor or the issuer thereof is bound. No restrictions or conditions exist with respect to the transfer or voting of any Securities, except as has been disclosed to Secured Party in writing. To the best of Debtor's knowledge, no issuer of any of the Securities (other than those that are publicly traded) has any outstanding stock rights, rights to subscribe, options, warrants or convertible securities outstanding or any other rights outstanding entitling any party to have issued to such party capital stock of such issuer, except as has been disclosed to Secured Party in writing.

6. Affirmative Covenants. Debtor will comply with the covenants contained in this Section 6 at all times during the period of time this Agreement is effective unless Secured Party shall otherwise consent in writing.

(a) Ownership and Liens. Debtor will maintain good and marketable title to all Collateral free and clear of all liens, security interests, encumbrances or adverse claims, except for the security interest created by this Agreement and the security interests and other encumbrances securing the Senior Debt. Debtor will not permit any dispute, right of setoff, counterclaim or defense to exist with respect to all or any part of the Collateral. Debtor will cause any financing statement or other security instrument with respect to the Collateral to be terminated, except as may exist or as may have been filed in favor of Secured Party or the Senior Lender.

(b) Further Assurances. Debtor will from time to time at its expense promptly execute and deliver all further instruments and documents and take all further action necessary or appropriate or that Secured Party may request in order (i) to perfect and protect the security interest created or purported to be created hereby, (ii) to enable Secured Party to exercise and enforce its rights and remedies hereunder in respect of the Collateral, and (iii) to otherwise effect the purposes of this Agreement, including without limitation: (A) executing and filing such financing or continuation statements, or amendments thereto; and (B) furnishing to Secured Party from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral, all in reasonable detail satisfactory to Secured Party.

(c) Inspection of Collateral. Debtor will keep adequate records concerning the Collateral and will permit Secured Party and all representatives and agents appointed by Secured Party to inspect any of the Collateral and the books and records of or relating to the Collateral at any time during normal business hours, to make and take away photocopies, photographs and printouts thereof and to write down and record any such information.

(d) Payment of Taxes. Debtor (i) will timely pay all property and other taxes, assessments and governmental charges or levies imposed upon the Collateral or any part thereof, (ii) will timely pay all lawful claims which, if unpaid, might become a lien or charge upon the Collateral or any part thereof, and (iii) will maintain appropriate accruals and reserves for all such liabilities in a timely fashion in accordance with generally accepted accounting principles. Debtor may, however, delay paying or discharging any such taxes, assessments, charges, claims or liabilities so long as the validity thereof is contested in good faith by proper proceedings and provided Debtor has set aside on Debtor's books adequate reserves therefor.

(e) Condition of Goods. Debtor will maintain, preserve, protect and keep all Collateral which constitutes goods in good condition, repair and working order and will cause such Collateral to be used and operated in good and workmanlike manner, in accordance with applicable laws and in a manner which will not make void or cancelable any insurance with respect to such Collateral.

(f) Insurance. Debtor will, at its own expense, maintain insurance with respect to all Collateral which constitutes goods in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to Senior Lender from time to time.

(g) Accounts and General Intangibles. Debtor will, except as otherwise provided in Subsection 8(e), collect, at Debtor's own expense, all amounts due or to become due under each of the accounts and general intangibles. Debtor will also duly perform and cause to be performed all of its obligations with respect to the goods or services, the sale or lease or rendition of which gave rise or will give rise to each account and all of its obligations to be performed under or with respect to the general intangibles.

7. Negative Covenants. Debtor will comply with the covenants contained in this Section 7 at all times during the period of time this Agreement is effective, unless Secured Party shall otherwise consent in writing.

(a) Transfer or Encumbrance. Debtor will not (i) sell, assign (by operation of law or otherwise), transfer, exchange, lease or otherwise dispose of any of the Collateral, (ii) grant a lien or security interest in or execute, file or record any financing statement or other security instrument with respect to the Collateral to any party other than Secured Party or Senior Lender, or (iii) deliver actual or constructive possession of any of the Collateral to any party other than Secured Party or Senior Lender, except for (A) sales and leases of inventory in the ordinary course of business, and (B) the sale or other disposal of any item of equipment which is worn out or obsolete and which has been replaced by an item of equal suitability and value, owned by Debtor and made subject to the security interest under this Agreement, but which is otherwise free and clear of any lien, security interest, encumbrance or adverse claim; provided, however, the exceptions permitted in clauses (A) and (B) above shall automatically terminate upon the occurrence of an Event of Default.

(b) Impairment of Security Interest. Debtor will not take or fail to take any action which would in any manner impair the value or enforceability of Secured Party's security interest in any Collateral.

(c) Possession of Collateral. Debtor will not cause or permit the removal of any Collateral from its possession, control and risk of loss, nor will Debtor cause or permit the removal of any Collateral from the address on the first page hereof other than (i) as permitted by Subsection 7(a), or (ii) in connection with the possession of any Collateral by Secured Party, Senior Lender or by their bailee.

(d) Goods. Debtor will not permit any Collateral which constitutes goods to at any time (i) be covered by any document except documents in the possession of the Senior Lender, (ii) become so related to, attached to or used in connection with any particular real property so as to become a fixture upon such real property, or (iii) be installed in or affixed to other goods so as to become an accession to such other goods unless such other goods are subject to a security interest under this Agreement.

(e) Compromise of Collateral. Debtor will not adjust, settle, compromise, amend or modify any Collateral, except an adjustment, settlement, compromise, amendment or modification in good faith and in the ordinary course of business.

(f) Financing Statement Filings. Debtor recognizes that financing statements pertaining to the Collateral have been or may be filed where Debtor maintains any Collateral, has its records concerning any Collateral or has its residence or chief executive office, as the case may be. Without limitation of any other covenant herein, Debtor will not cause or permit any change in the location of (i) any Collateral, (ii) any records concerning any Collateral, or (iii) Debtor's chief executive office to a jurisdiction other than as represented in Subsection 5(g) unless Debtor shall have notified Secured Party in writing of such change at least thirty (30) days prior to the effective date of such change, and shall have first taken

all action required by Secured Party for the purpose of further perfecting or protecting the security interest in favor of Secured Party in the Collateral. In any written notice furnished pursuant to this Subsection, Debtor will expressly state that the notice is required by this Agreement and contains facts that may require additional filings of financing statements or other notices for the purpose of continuing perfection of Secured Party's security interest in the Collateral.

8. Rights of Secured Party. Secured Party shall have the rights contained in this Section 8 at all times during the period of time this Agreement is effective.

(a) Additional Financing Statements Filings. Debtor hereby authorizes Secured Party to file, without the signature of Debtor, one or more financing or continuation statements, and amendments thereto, relating to the Collateral. Debtor further agrees that a carbon, photographic or other reproduction of this Security Agreement or any financing statement describing any Collateral is sufficient as a financing statement and may be filed in any jurisdiction Secured Party may deem appropriate.

(b) Power of Attorney. Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-fact, such power of attorney being coupled with an interest, with full authority in the place and stead of Debtor and in the name of Debtor or otherwise, after the occurrence of an Event of Default and subject to the provisions of the Debtor's obligations to Senior Lender, to take any action and to execute any instrument which Secured Party may deem necessary or appropriate to accomplish the purposes of this Agreement, including without limitation: (i) to obtain and adjust insurance required by Secured Party hereunder; (ii) to demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of the Collateral; (iii) to receive, endorse and collect any drafts or other instruments, documents and chattel paper in connection with clause (i) or (ii) above; and (iv) to file any claims or take any action or institute any proceedings which Secured Party may deem necessary or appropriate for the collection and/or preservation of the Collateral or otherwise to enforce the rights of Secured Party with respect to the Collateral.

9. Events of Default. Each of the following constitutes an "Event of Default" under this Agreement:

(a) Default in Payment. The failure, refusal or neglect of Debtor to make any payment of principal of, or interest on, the Indebtedness, or any portion thereof, as the same shall become due and payable, and with respect to any payment of principal such failure continues for five (5) days and as to any other payment of Indebtedness such failure continues for ten (10) days; or

(b) Non-Performance of Covenants. The failure (other than as referred to in subsection (a) above) of Debtor to timely and properly observe, keep or perform any covenant, agreement, warranty or condition required herein and such failure remains unremedied for a period of thirty (30) days after notice of such failure is given by Secured Party to Debtor; or

(c) Default to Third Party. The occurrence of any event which permits the acceleration of the maturity of any Indebtedness owing by Debtor to any third party under any agreement or undertaking, including, without limitation, under the Senior Debt Agreements; provided, however, that for purposes of this Section 9(c), no Default to Third Party shall be deemed to have occurred as a result of Debtor's default under the terms of the Senior Debt Agreements existing as of the date hereof and as described in that certain letter dated January 3, 2000 from Senior Lender to Debtor describing Debtor's current default under the Senior Debt Agreements; or

(d) Debtor's Bankruptcy or Insolvency. If Debtor (i) becomes insolvent, or makes a transfer in fraud of creditors, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts as they become due; (ii) generally is not paying its debts as such debts become due; (iii) has a receiver, trustee or custodian appointed for, or take possession of, all or substantially all of the assets of such party or any of the Collateral, either in a proceeding brought by such party or in a proceeding brought against such party and such appointment is not discharged or such possession is not terminated within sixty (60) days after the effective date thereof or such party consents to or acquiesces in such appointment or possession; (iv) files a petition for relief under the United States Bankruptcy Code or any other present or future federal or state insolvency, bankruptcy or similar laws (all of the foregoing hereinafter collectively called "Applicable Bankruptcy Law") or an involuntary petition for relief is filed against such party under any Applicable Bankruptcy Law and such involuntary petition is not dismissed within sixty (60) days after the filing thereof, or an order for relief naming such party is entered under any Applicable Bankruptcy Law, or any composition, rearrangement, extension, reorganization or other relief of debtors now or hereafter existing is requested or consented to by such party; (v) fails to have discharged within a period of sixty (60) days any attachment, sequestration or similar writ levied upon any property of such party; or (vi) fails to pay within thirty (30) days any final money judgment against such party.

10. Remedies and Related Rights. If an Event of Default shall have occurred, and without limiting any other rights and remedies provided herein, or otherwise available to Secured Party, but subject to the provisions of the rights of Senior Lender under the Senior Debt, Secured Party may exercise one or more of the rights and remedies provided in this Section.

(a) Remedies. Secured Party may from time to time at its discretion, without limitation and without notice except as expressly provided herein:

(i) exercise in respect of the Collateral all the rights and remedies of a secured party under the Code (whether or not the Code applies to the affected Collateral);

(ii) require Debtor to, and Debtor hereby agrees that it will at its expense and upon request of Secured Party, assemble the Collateral as directed by Secured Party and make it available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties;

(iii) reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest granted hereunder by any available judicial procedure;

(iv) sell or otherwise dispose of, at its office, on the premises of Debtor or elsewhere, the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale or other disposition of any part of the Collateral shall not exhaust Secured Party's power of sale, but sales or other dispositions may be made from time to time until all of the Collateral has been sold or disposed of or until the Indebtedness has been paid and performed in full), and at any such sale or other disposition it shall not be necessary to exhibit any of the Collateral;

(v) buy the Collateral, or any portion thereof, at any public sale;

(vi) buy the Collateral, or any portion thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations;

(vii) apply for the appointment of a receiver for the Collateral, and Debtor hereby consents to any such appointment; and

(viii) at its option, retain the Collateral in satisfaction of the Indebtedness whenever the circumstances are such that Secured Party is entitled to do so under the Code or otherwise.

Debtor agrees that in the event Debtor is entitled to receive any notice under the Uniform Commercial Code, as it exists in the state governing any such notice, of the sale or other disposition of any Collateral, reasonable notice shall be deemed given when such notice is deposited in a depository receptacle under the care and custody of the United States Postal Service, postage prepaid, at Debtor's address set forth on the first page hereof, ten (10) days prior to the date of any public sale, or after which a private sale, of any of such Collateral is to be held. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) Private Sale of Securities. Debtor recognizes that Secured Party may be unable to effect a public sale of all or any part of the Securities because of restrictions in applicable federal and state securities laws and that Secured Party may, therefore, determine to make one or more private sales of any of the Securities to a restricted group of purchasers who will be obligated to agree, among other things, to acquire any of the Securities for their own account, for investment and not with a view to the distribution or resale thereof. Debtor acknowledges that each any such private sale may be at prices and other terms less favorable than what might have been obtained at a public sale and, notwithstanding the foregoing, agrees that each such private sale shall be deemed to have been made in a commercially

reasonable manner and that Secured Party shall have no obligation to delay the sale of any of the Securities for the period of time necessary to permit the issuer to register such Securities for public sale under any federal or state securities laws. Debtor further acknowledges and agrees that any offer to sell such Securities which has been made privately in the manner described above to not less than five (5) bona fide offerees shall be deemed to involve a "public sale" for the purposes of Section 9.504(c) of the Code, notwithstanding that such sale may not constitute a "public offering" under any federal or state securities laws and that Secured Party may, in such event, bid for the purchase of such Securities.

(c) Application of Proceeds. If any Event of Default shall have occurred, Secured Party may at its discretion apply or use any cash held by Secured Party as Collateral, and any cash proceeds received by Secured Party in respect of any sale or other disposition of, collection from, or other realization upon, all or any part of the Collateral as follows in such order and manner as Secured Party may elect:

(i) to the repayment or reimbursement of the reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by Secured Party in connection with (A) the administration of the Loan Documents, (B) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, the Collateral, and (C) the exercise or enforcement of any of the rights and remedies of Secured Party hereunder;

(ii) to the payment or other satisfaction of any liens and other encumbrances upon the Collateral;

(iii) to the satisfaction of the Indebtedness;

(iv) to the payment of any other amounts required by applicable law (including without limitation, Section 9.504(a)(3) of the Code or any other applicable statutory provision); and

(v) by delivery to Debtor or any other party lawfully entitled to receive such cash or proceeds whether by direction of a court of competent jurisdiction or otherwise.

(d) Deficiency. In the event that the proceeds of any sale of, collection from, or other realization upon, all or any part of the Collateral by Secured Party are insufficient to pay all amounts to which Secured Party is legally entitled, Debtor and any party who guaranteed or is otherwise obligated to pay all or any portion of the Indebtedness shall be liable for the deficiency, together with interest thereon as provided in the Loan Documents.

(e) Non-Judicial Remedies. In granting to Secured Party the power to enforce its rights hereunder without prior judicial process or judicial hearing, Debtor expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Secured Party to enforce its rights by judicial process. Debtor recognizes and concedes that non-judicial remedies are consistent with the usage of trade, are responsive to commercial

necessity and are the result of a bargain at arm's length. Nothing herein is intended to prevent Secured Party or Debtor from resorting to judicial process at either party's option.

(f) Other Recourse. Debtor waives any right to require Secured Party to proceed against any third party, exhaust any Collateral or other security for the Indebtedness, or to have any third party joined with Debtor in any suit arising out of the Indebtedness or any of the Loan Documents, or pursue any other remedy available to Secured Party. Debtor further waives any and all notice of acceptance of this Agreement and of the creation, modification, rearrangement, renewal or extension of the Indebtedness. Debtor further waives any defense arising by reason of any disability or other defense of any third party or by reason of the cessation from any cause whatsoever of the liability of any third party. Until all of the Indebtedness shall have been paid in full, Debtor shall have no right of subrogation and Debtor waives the right to enforce any remedy which Secured Party has or may hereafter have against any third party, and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Secured Party. Debtor authorizes Secured Party, and without notice or demand and without any reservation of rights against Debtor and without affecting Debtor's liability hereunder or on the Indebtedness to (i) take or hold any other property of any type from any third party as security for the Indebtedness, and exchange, enforce, waive and release any or all of such other property, (ii) apply such other property and direct the order or manner of sale thereof as Secured Party may in its discretion determine, (iii) renew, extend, accelerate, modify, compromise, settle or release any of the Indebtedness or other security for the Indebtedness, (iv) waive, enforce or modify any of the provisions of any of the Loan Documents executed by any third party, and (v) release or substitute any third party.

12. INDEMNITY. DEBTOR HEREBY INDEMNIFIES AND AGREES TO HOLD HARMLESS SECURED PARTY, AND ITS REPRESENTATIVES (EACH AN "INDEMNIFIED PERSON") FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, CLAIMS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS OF ANY KIND OR NATURE (COLLECTIVELY, THE "CLAIMS") WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST, ANY INDEMNIFIED PERSON ARISING IN CONNECTION WITH THE LOAN DOCUMENTS, THE INDEBTEDNESS OR THE COLLATERAL (INCLUDING WITHOUT LIMITATION, THE ENFORCEMENT OF THE LOAN DOCUMENTS AND THE DEFENSE OF ANY INDEMNIFIED PERSON'S ACTIONS AND/OR INACTIONS IN CONNECTION WITH THE LOAN DOCUMENTS) PROVIDED THAT NO INDEMNIFIED PERSON SHALL BE INDEMNIFIED HEREUNDER FOR ITS OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE PARTIES ACKNOWLEDGE THAT THE INDEMNIFICATION PROVIDED FOR IN THIS SECTION SHALL BE PERMITTED IN THE EVENT OF THE NEGLIGENCE (BUT NOT GROSS NEGLIGENCE) OF AN INDEMNIFIED PERSON. THE INDEMNIFICATION PROVIDED FOR IN THIS SECTION SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT AND SHALL EXTEND AND CONTINUE TO BENEFIT EACH INDIVIDUAL OR ENTITY WHO IS OR HAS AT ANY TIME BEEN AN INDEMNIFIED PERSON HEREUNDER.

13. Miscellaneous.

(a) Entire Agreement. This Agreement and the other Loan Documents contain the entire agreement of Secured Party and Debtor with respect to the Collateral. If the parties hereto are parties to any prior agreement, either written or oral, relating to the Collateral, the terms of this Agreement shall amend and supersede the terms of such prior agreements as to transactions on or after the effective date of this Agreement, but all security agreements, financing statements, guaranties, other contracts and notices for the benefit of Secured Party shall continue in full force and effect to secure the Indebtedness unless Secured Party specifically releases its rights thereunder by separate release.

(b) Amendment. No modification, consent or amendment of any provision of this Agreement or any of the other Loan Documents shall be valid or effective unless the same is in writing and signed by the party against whom it is sought to be enforced.

(c) Actions by Secured Party. The lien, security interest and other security rights of Secured Party hereunder shall not be impaired by (i) any renewal, extension, increase or modification with respect to the Indebtedness, (ii) any surrender, compromise, release, renewal, extension, exchange or substitution which Secured Party may grant with respect to the Collateral, or (iii) any release or indulgence granted to any endorser, guarantor or surety of the Indebtedness. The taking of additional security by Secured Party shall not release or impair the lien, security interest or other security rights of Secured Party hereunder or affect the obligations of Debtor hereunder.

(d) Waiver by Secured Party. Secured Party may waive any Event of Default without waiving any other prior or subsequent Event of Default. Secured Party may remedy any default without waiving the Event of Default remedied. Neither the failure by Secured Party to exercise, nor the delay by Secured Party in exercising, any right or remedy upon any Event of Default shall be construed as a waiver of such Event of Default or as a waiver of the right to exercise any such right or remedy at a later date. No single or partial exercise by Secured Party of any right or remedy hereunder shall exhaust the same or shall preclude any other or further exercise thereof, and every such right or remedy hereunder may be exercised at any time. No waiver of any provision hereof or consent to any departure by Debtor therefrom shall be effective unless the same shall be in writing and signed by Secured Party and then such waiver or consent shall be effective only in the specific instances, for the purpose for which given and to the extent therein specified. No notice to or demand on Debtor in any case shall of itself entitle Debtor to any other or further notice or demand in similar or other circumstances.

(e) **GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS AND APPLICABLE FEDERAL LAWS, EXCEPT TO THE EXTENT PERFECTION AND THE EFFECT OF PERFECTION OR NON-PERFECTION OF THE SECURITY INTEREST GRANTED HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF TEXAS.**

(f) Venue. This Agreement has been entered into in the county in Texas where Secured Party's address for notice purposes is located, and it shall be performable for all purposes in such county. Courts within the State of Texas shall have jurisdiction over any and all disputes arising under or pertaining to this Agreement and venue for any such disputes shall be in the county or judicial district where this Agreement has been executed and delivered.

(g) Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be illegal, invalid or unenforceable under present or future laws, such provision shall be fully severable, shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confined to the provision held to be illegal, invalid or unenforceable.

(h) No Obligation. Nothing contained herein shall be construed as an obligation on the part of Secured Party to extend or continue to extend credit to Debtor.

(i) Notices. All notices, requests, demands or other communications required or permitted to be given pursuant to this Agreement shall be in writing and given by (i) personal delivery, (ii) expedited delivery service with proof of delivery, or (iii) United States mail, postage prepaid, registered or certified mail, return receipt requested, sent to the intended addressee at the address set forth on the first page hereof or to such different address as the addressee shall have designated by written notice sent pursuant to the terms hereof and shall be deemed to have been received either, in the case of personal delivery, at the time of personal delivery, in the case of expedited delivery service, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of mail, upon deposit in a depository receptacle under the care and custody of the United States Postal Service. Either party shall have the right to change its address for notice hereunder to any other location within the continental United States by notice to the other party of such new address at least thirty (30) days prior to the effective date of such new address.

(j) Binding Effect and Assignment. This Agreement (i) creates a continuing security interest in the Collateral, (ii) shall be binding on Debtor and the successors and assigns of Debtor, and (iii) shall inure to the benefit of Secured Party and its successors and assigns. Debtor's rights and obligations hereunder may not be assigned or otherwise transferred without the prior written consent of Secured Party.

(k) Cumulative Rights. All rights and remedies of Secured Party hereunder are cumulative of each other and of every other right or remedy which Secured Party may otherwise have at law or in equity or under any of the other Loan Documents, and the exercise of one or more of such rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of any other rights or remedies.

(l) Gender and Number. Within this Agreement, words of any gender shall be held and construed to include the other gender, and words in the singular number shall be held and construed to include the plural and words in the plural number shall be held and construed to include the singular, unless in each instance the context requires otherwise.


(m) Descriptive Headings. The headings in this Agreement are for convenience only and shall in no way enlarge, limit or define the scope or meaning of the various and several provisions hereof.

[REMAINDER OF PAGE LEFT BLANK INTENTIONALLY.]

EXECUTED as of the date first written above.

DEBTOR:

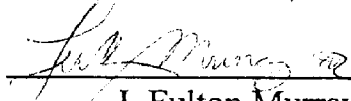
iSong.com, inc.,
a Texas corporation

By: 
Guy Hoffman,
Chairman & CEO

SECURED PARTY:

HVI-iSong.com, L.P.,
a Texas limited partnership

By: HVI-Songs, Inc.
(its General Partner)


J. Fulton Murray, III,
Vice President

WAGNER & BROWN, LTD.,
a Texas limited partnership

By: _____
Gary D. Douglas,
Vice President

EXECUTED as of the date first written above.

DEBTOR:

iSong.com, inc.,
a Texas corporation

By: _____
Guy Hoffman,
Chairman & CEO

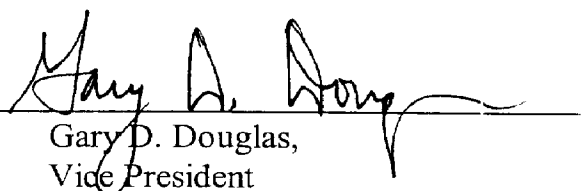
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