

05-16-2003



Form PTO-1594 (Rev. 10/02) OMB No. 0651-0027 (exp. 6/30/2005) Tab settings

U.S. DEPARTMENT OF COMMERCE U.S. Patent and Trademark Office

102450262

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies): 5-14-03  
 Sundance Catalog Co., LLC

Individual(s)       Association  
 General Partnership       Limited Partnership  
 Corporation-State  
 Other Limited Liability Company

Additional name(s) of conveying party(ies) attached?  Yes  No

3. Nature of conveyance:  
 Assignment       Merger  
 Security Agreement       Change of Name  
 Other \_\_\_\_\_

Execution Date: 4/16/03

2. Name and address of receiving party(ies)  
 Name: Zions First National Bank  
 Internal Address: \_\_\_\_\_  
 Street Address: 10 East South Temple, #200  
 City: Salt Lake City State: UT Zip: 84133

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

If assignee is not domiciled in the United States, a domestic representative designation is attached:  Yes  No  
 (Designations must be a separate document from assignment)  
 Additional name(s) & address(es) attached?  Yes  No

4. Application number(s) or registration number(s):  
 A. Trademark Application No.(s) 75692444

B. Trademark Registration No.(s) 2458180

Additional number(s) attached  Yes  No

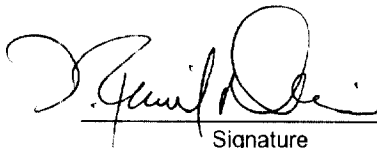
5. Name and address of party to whom correspondence concerning document should be mailed:  
 Name: T. Richard Davis, Esq.  
 Internal Address: trdavis@cnmlaw.com  
 Street Address: 900 Gateway Tower East  
 City: Salt Lake City State: UT Zip: 84133

6. Total number of applications and registrations involved: 1

7. Total fee (37 CFR 3.41).....\$ 65.00  
 Enclosed  
 Authorized to be charged to deposit account

8. Deposit account number: \_\_\_\_\_

DO NOT USE THIS SPACE

9. Signature.  
T. Richard Davis            May 9, 2003  
 Name of Person Signing      Signature      Date  
 00000009 75692444

05/15/2003 DBYRME 01 FC:8521 02 FC:8522

40.00 OP 25.00 OP

Total number of pages including cover sheet, attachments, and document: 1  
All documents to be recorded with required cover sheet information to: Commissioner of Patent & Trademarks, Box Assignments Washington, D.C. 20231

TRADEMARK REEL: 002733 FRAME: 0736

**Additional Names of Conveying Parties**

**Item 1:**

**Sundance Catalog Company, Ltd., a Texas Limited Partnership**

# SECURITY AGREEMENT

This Security Agreement (the "Security Agreement") is made between Sundance Catalog Company, LLC, a Delaware limited liability company ("Borrower"), and Zions First National Bank, a national association ("Lender"), pursuant to a Loan Agreement, dated April 16, 2003, between Borrower and Lender (the "Loan Agreement").

For good and valuable consideration, receipt of which is hereby acknowledged, Borrower and Lender hereby agree as follows:

1. **Definitions.** Except as otherwise provided herein, terms defined in the Loan Agreement shall have the same meanings when used herein. Terms defined in the singular shall have the same meaning when used in the plural and vice versa. Terms defined in the Uniform Commercial Code as adopted now or in the future in the State of Utah which are used herein shall have the meanings set forth in the Utah Uniform Commercial Code, except as expressly defined otherwise. However, if a term is defined in Article 9 of the Uniform Commercial Code of the State of Utah differently than in another Article of the Uniform Commercial Code of the State of Utah, the term has the meaning specified in Article 9. As used herein, the term:

"Collateral" means the collateral described in Section 2, Grant of Security Interest, below.

"Default Rate" means the default interest rate provided in the Revolving Note, Term Note A and Term Note B.

"Liquidation Costs" means the reasonable costs and out of pocket expenses incurred by Lender in obtaining possession of any Collateral, in storage and preparation for sale, lease or other disposition of any Collateral, in the sale, lease, or other disposition of any or all of the Collateral, and/or otherwise incurred in foreclosing on any of the Collateral, including, without limitation, (a) reasonable attorneys fees and legal expenses, (b) transportation and storage costs, (c) advertising costs, (d) sale commissions, (e) sales tax and license fees, (f) costs for improving or repairing any of the Collateral, and (g) costs for preservation and protection of any of the Collateral.

"Permitted Encumbrances" means liens for taxes and assessments not yet due and payable or, if due and payable, those being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained, security interests and liens created by the Loan Documents, and security interests and liens authorized in writing by Lender.

2. **Grant of Security Interest.** Borrower hereby grants to Lender a security interest in all personal property of Borrower, wherever located, now owned or hereafter acquired or created, including, without limitation, the following (the "Collateral"):

a. All inventory as defined in the Uniform Commercial Code, wherever located, all goods, merchandise or other personal property held for sale or lease, names or marks affixed thereto for purposes of selling or identifying the same or the seller or manufacturer thereof and all

related rights, title and interest, all raw materials, work or goods in process or materials or supplies of every nature used, consumed or to be used in Borrower's business, all packaging and shipping materials, and all other goods customarily or for accounting purposes classified as inventory, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the "Inventory").

b. All accounts as defined in the Uniform Commercial Code (including health-care-insurance receivables), accounts receivable, amounts owing to Borrower under any rental agreement or lease, payments on construction contracts, promissory notes or on any other indebtedness, any rights to payment customarily or for accounting purposes classified as accounts receivable, and all rights to payment, proceeds or distributions under any contract, of Borrower, presently existing or hereafter created, and all proceeds thereof (collectively, the "Accounts").

c. All equipment and goods as defined in the Uniform Commercial Code, all motor vehicles, including all tires, accessories, spare and repair parts, and tools, wherever located, and all related right, title and interest, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the "Equipment").

d. All general intangibles as defined in the Uniform Commercial Code, choses in action, proceeds, contracts, customer lists, distributions, dividends, refunds, security deposits, judgments, insurance claims, any right to payment of any nature, intellectual property rights or licenses, payment intangibles, licenses, tax refunds, any other rights or assets of Borrower customarily or for accounting purposes classified as general intangibles, and all documentation and supporting information related to any of the foregoing, all rents, profits and issues thereof, and all proceeds thereof.

e. All of the following (collectively, "Financial Obligations Collateral"):

i. Any and all promissory notes and instruments payable to or owing to Borrower or held by Borrower, whether now existing or hereafter created (collectively, the "Promissory Notes");

ii. Any and all leases under which Borrower is the lessor, whether now existing or hereafter created (collectively, the "Leases");

iii. Any and all chattel paper (as defined in the Uniform Commercial Code) (whether tangible or electronic) in favor of, owing to, or held by Borrower, including, without limitation, any and all conditional sale contracts or other sales agreements, whether Borrower is the original party or the assignee, whether now existing or hereafter created (collectively, the "Chattel Paper");

iv. Any and all security agreements, collateral and titles to motor vehicles which secure any of the foregoing obligations, whether now existing or hereafter created (collectively, the "Security Agreements Collateral"); and

v. All amendments, modifications, renewals, extensions, replacements, additions, and accessions to the foregoing and all proceeds thereof.

f. All deposit accounts (as defined in the Uniform Commercial Code), including without limitation, all deposit accounts, checking accounts, savings accounts, money market accounts, certificates of deposit, depository accounts, balances, reserves, deposits, debts or any other amounts or obligations of Lender owing to Borrower, including, without limitation, all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

g. All investment property (as defined in the Uniform Commercial Code), all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

h. All documents (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

i. All letter of credit rights (as defined in the Uniform Commercial Code) (whether or not the letter of credit is evidenced by a writing), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

j. All supporting obligations (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

k. All of the following (collectively, "Intellectual Property"):

i. All right, title and interest of Borrower in and to patent applications and patents, including, without limitation, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, all rights corresponding thereto throughout the world, and all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof (collectively, the "Patents");

ii. All right, title and interest of Borrower in and to trademark applications and trademarks, including, without limitation, all renewals thereof, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, and all rights corresponding thereto throughout the world (collectively, the "Trademarks"), and the good will of the business to which each of the Trademarks relates;

iii. All copyrights of Borrower and all rights and interests of every kind of Borrower in copyrights and works protectible by copyright, whether now owned or hereafter acquired or created, and all renewals and extensions thereof, and in and to the copyrights and rights and interests of every kind or nature in and to all works based upon, incorporated in, derived from, incorporating or relating to any of the foregoing or from which any of the foregoing is derived, and all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, and all rights corresponding thereto throughout the world (collectively, the "Copyrights");

iv. All of Borrower's trade secrets and other proprietary information, now existing or created in the future, and all proceeds thereof (collectively, the "Trade Secrets");

v. All right, title, and interest of Borrower in, to and under license agreements and contracts concerning Patents, Trademarks, Copyrights, and Trade Secrets now existing or created in the future, all amendments, modifications, and replacements thereof, all royalties and other amounts owing thereunder, and all proceeds thereof (collectively, the "Licenses"); and

vi. All internet domain names and addresses of Borrower now existing or created in the future, and all proceeds thereof.

Borrower and Lender acknowledge their mutual intent that all security interests contemplated herein are given as a contemporaneous exchange for new value to Borrower, regardless of when advances to Borrower are actually made or when the Collateral is acquired.

3. Debts Secured. The security interest granted by this Security Agreement shall secure all of Borrower's present and future debts, obligations, and liabilities of whatever nature to Lender, including, without limitation (a) the Revolving Note of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of seven million dollars (\$7,000,000.00), and all renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (b) the Term Note A of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of four million three hundred thousand dollars (\$4,300,000.00), and all renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (c) the Term Note B of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of seven hundred thousand dollars (\$700,000.00), and all

renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (d) all obligations of Borrower arising from or relating to the Loan Documents, including, without limitation, this Security Agreement, (e) advances of the same kind and quality or relating to this transaction, (f) transactions in which the documents evidencing the indebtedness refer to this grant of security interest as providing security therefor, and (g) all overdrafts on any account of Borrower maintained with Lender, now existing or hereafter arising.

Borrower and Lender expressly acknowledge their mutual intent that the security interest created by this Security Agreement secure any and all present and future debts, obligations, and liabilities of Borrower to Lender without any limitation whatsoever.

4. Authorization to File Financing Statements. Borrower hereby irrevocably authorizes Lender at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) provide any other information required by part 5 of Article 9 of the Uniform Commercial Code of the State of Utah, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether Borrower is an organization, the type of organization and any organizational identification number issued to Borrower and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. Borrower agrees to furnish any such information to Lender promptly upon Lender's request.

5. Location of Borrower and Collateral. Borrower represents and warrants that:

a. Borrower's chief executive office is located at 3865 West 2400 South, Salt Lake City, Utah 84120.

b. Borrower's places of business are located at:

Sundance Catalog Company  
3865 West 2400 South  
Salt Lake City, Utah 84120

Sundance Catalog Outlet Store  
2201 S. Highland Dr.  
Salt Lake City, UT 84106

Sundance Catalog Company  
2060 Alameda Padre Serra, 1<sup>st</sup> Floor, Ste. 1  
Santa Barbara, CA 93103

c. Borrower is a limited liability company organized and existing under the laws of the State of Delaware.

Borrower agrees that it will not change its state of organization or any of the above locations or create any new locations for such matters without giving Lender at least thirty (30) days prior written notice thereof.

6. Representations and Warranties Concerning Collateral. Borrower represents and warrants that:

a. Borrower is the sole owner of the Collateral.

b. The Collateral is not subject to any security interest, lien, prior assignment, or other encumbrance of any nature whatsoever except Permitted Encumbrances.

c. The Accounts are each a bona fide obligation of the obligor identified therein for the amount identified in the records of Borrower, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

d. To the best knowledge of Borrower, there are no defenses or setoffs to payment of the Accounts which can be asserted by way of defense or counterclaim against Borrower or Lender, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

e. There is presently no default or delinquency in any payment of the Accounts except for any default or delinquency which has been reserved against by Borrower in accordance with generally accepted accounting principles and, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

f. Borrower has no knowledge of any fact or circumstance which would materially impair the ability of any obligor on the Accounts to timely perform its obligations thereunder, except those which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

g. Any services performed or goods sold giving rise to the Accounts have been rendered or sold in compliance with applicable laws, ordinances, rules, and regulations and in the ordinary course of Borrower's business.



h. There have been no extensions, modifications, or other agreements relating to payment of the Accounts, except those granted in the ordinary course of business and which do not affect a material portion of the Accounts.

i. The Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral are bona fide obligations of the obligors identified therein for the amount identified therein or as otherwise disclosed in writing to Lender by Borrower, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

j. To the best knowledge of Borrower, there are no defenses or setoffs to payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral which can be asserted by way of defense or counterclaim against Borrower or Lender, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

k. There is presently no default or delinquency in any payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

l. Borrower has no knowledge of any fact or circumstance which would materially impair the ability of any obligor on the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral to timely perform its obligations thereunder, except those which arise in the ordinary course of business and which do not affect a material portion of such obligations.

m. Any services performed or goods sold giving rise to the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral have been rendered or sold in compliance with applicable laws, ordinances, rules, and regulations.

n. There have been no extensions, modifications, or other agreements relating to payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral except as shown upon the face thereof or as otherwise disclosed in writing to Lender by Borrower, except those granted in the ordinary course of business and which do not affect a material portion of such obligations.

7. Covenants Concerning Collateral. Borrower covenants that:

a. Borrower will keep the Collateral free and clear of any and all security interests, liens, assignments or other encumbrances, except Permitted Encumbrances.

b. Borrower agrees to execute and deliver any applications for certificates of title, certificates of title, and other documents (properly endorsed, if necessary) reasonably requested

by Lender for perfection or enforcement of any security interest or lien, and to give good faith, diligent cooperation to Lender, and to perform such other acts reasonably requested by Lender for perfection and enforcement of any security interest or lien created hereunder, including, without limitation, obtaining control for purposes of perfection with respect to Collateral consisting of deposit accounts, investment property, letter-of-credit rights, and electronic chattel paper. Lender is authorized to file, record, or otherwise utilize such documents as it deems necessary to perfect and/or enforce any security interest or lien granted hereunder.

c. Borrower shall keep the Equipment in good repair, ordinary wear and tear and obsolescence excepted. Borrower shall pay when due all taxes, license fees and other charges on the Equipment. Borrower shall not sell, misuse, conceal, or in any way dispose of the Equipment or permit it to be used unlawfully or for hire or contrary to the provisions of any insurance coverage. Risk of loss of the Equipment shall be on Borrower at all times unless Lender takes possession of the Equipment. Loss of or damage to the Equipment or any part thereof shall not release Borrower from any of the obligations secured by the Equipment. Lender or its representatives may, at any time and from time to time upon reasonable notice to Borrower, enter any premises owned or leased by Borrower where the Equipment is located and inspect, audit and check the Equipment.

d. Borrower agrees to insure the Equipment, at Borrower's expense, against loss, damage, theft, and such other risks as Lender may reasonably request to the full insurable value thereof with insurance companies and policies reasonably satisfactory to Lender. Proceeds from such insurance shall be payable to Lender as its interest may appear and such policies shall provide for a minimum ten days written cancellation notice to Lender. Upon request, policies or certificates attesting to such coverage shall be delivered to Lender. Insurance proceeds may be applied by Lender toward payment of any obligation secured by this Security Agreement, whether or not due, in such order of application as Lender may elect.

e. Borrower agrees to insure the Inventory, at Borrower's expense, against loss, damage, theft, and such other risks as Lender may request to the full insurable value thereof with insurance companies and policies reasonably satisfactory to Lender. Proceeds from such insurance shall be payable to Lender as its interest may appear and such policies shall provide for a minimum ten days written cancellation notice to Lender. Upon request, policies or certificates attesting to such coverage shall be delivered to Lender. Insurance proceeds may be applied by Lender toward payment of any obligation secured by this Security Agreement, whether or not due, in such order of application as Lender may elect.

f. Borrower shall submit to Lender reports as to the Inventory and the Accounts at such times and in such form as Lender may reasonably request. Borrower will at all times keep accurate and complete records of the Inventory and the Accounts. Lender or its representatives may, at any time and from time to time, enter any premises where the Inventory and the records pertaining to the Accounts are located and inspect, audit, check, copy, and otherwise review the Inventory and the Accounts.

g. So long as Borrower is not in default hereunder or under any obligation secured hereby, Borrower shall have the right to sell or otherwise dispose of the Inventory in the ordinary course of business. No other disposition of the Inventory may be made without the prior written consent of Lender.

h. All proceeds from the sale or other disposition of the Inventory and Accounts and all collections and other proceeds therefrom shall, at Lender's request, be deposited into an account designated by Lender (the "Cash Collateral Account"), which account shall be under the sole and exclusive control of Lender. Such proceeds and collections shall not be commingled with any other funds and shall be promptly and directly deposited into such account in the form in which received by Borrower. Such proceeds and collections shall not be deposited in any other account and such Cash Collateral Account shall contain no funds other than such proceeds and collections. All or any portion of the funds on deposit in such Cash Collateral Account may, in the sole discretion of Lender, be applied from time to time as Lender elects to payment of obligations secured by this Security Agreement or Lender may elect to turn over to Borrower, from time to time, all or any portion of said funds.

i. Borrower agrees to use diligent and good faith efforts to collect the Accounts. Borrower is authorized to collect the Accounts in a commercially reasonable manner. Lender, in its sole discretion, may terminate such authority whereupon Lender is authorized by Borrower, without further act, to notify any and all account debtors to make payment thereon directly to Lender, and to take possession of all proceeds from the Accounts, and to take any action which Borrower might or could take to collect the Accounts, including the right to make any compromise, discharge, or extension of the Accounts. Upon request of Lender, Borrower agrees to execute and deliver to Lender a notice to Borrower's account debtors instructing said account debtors to pay Lender. Borrower further agrees to execute and deliver to Lender all other notices and similar documents reasonably requested by Lender to facilitate collection of the Accounts.

j. All costs of collection of the Accounts, including attorneys fees and legal expenses, shall be borne solely by Borrower, whether such costs are incurred by or for Borrower or Lender. In the event Lender elects to undertake direct collection of the Accounts, Borrower agrees to deliver to Lender, if so requested, all books, records, and documents in Borrower's possession or under its control as may relate to the Accounts or as may be helpful to facilitate such collection. Lender shall have no obligation to cause an attorneys demand letter to be sent, to file any lawsuit, or to take any other legal action in collection of the Accounts. It is agreed that collection of the Accounts in a commercially reasonable manner does not require that any such legal action be taken.

k. Borrower does hereby make, constitute, and appoint Lender and its designees as Borrower's true and lawful attorney in fact, with full power of substitution, such power to be exercised in the following manner: (1) Lender may receive and open all mail addressed to Borrower and remove therefrom any cash, notes, checks, acceptances, drafts, money orders or other instruments in payment of the Accounts; (2) Lender may cause mail relating to the Inventory and Accounts to be delivered to a designated address of Lender where Lender may open all such mail

and remove therefrom any cash, notes, checks, acceptances, drafts, money orders, or other instruments in payment of the Accounts; (3) Lender may endorse Borrower's name upon such notes, checks, acceptances, drafts, money orders, or other forms of payment; (4) Lender may settle or adjust disputes or claims in respect to the Accounts for amounts and upon such terms as Lender, in its sole discretion and in good faith, deems to be advisable, in such case crediting Borrower with only the proceeds received and collected by Lender after deduction of Lender's costs, including reasonable attorneys fees and legal expenses; and (5) Lender may do any and all other things necessary or proper to carry out the intent of this Security Agreement and to perfect and protect the liens and rights of Lender created under this Security Agreement.

l. Borrower agrees to use diligent and good faith efforts to collect the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral. Borrower is authorized to collect that Collateral in a commercially reasonable manner. Upon written notice by Lender to Borrower, Lender may at any time terminate such authority. Upon such termination, Lender is authorized by Borrower, without further act, to notify any and all obligors on that Collateral to make payment thereon directly to Lender, to take possession of all proceeds from any such payments, and to take any action which Borrower might or could take to collect that Collateral, including the right to make any compromise, discharge or extension of that Collateral. Lender may exercise such collection rights at any time, whether or not Borrower is in default under this Security Agreement. Upon request of Lender, Borrower agrees to execute and deliver to Lender a notice to the obligors on that Collateral instructing said obligors to pay Lender. Borrower further agrees to execute and deliver to Lender all other notices and similar documents reasonably requested by Lender to facilitate collection of that Collateral.

Borrower hereby irrevocably makes, constitutes, and appoints Lender and its designees as Borrower's true and lawful attorney in fact, with full power of substitution, to endorse Borrower's name upon checks, drafts, money orders, or other forms of payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral or on any other documents relating to collection of that Collateral.

All costs of collection of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, including attorneys fees and legal expenses, shall be borne solely by Borrower, whether such costs are incurred by or for Borrower or Lender. In the event Lender elects to undertake direct collection of that Collateral pursuant to the terms of this Security Agreement, Borrower agrees to deliver to Lender, upon request, all books, records, and documents in Borrower's possession or under its control as may relate to that Collateral or as may be helpful to facilitate such collection.

m. Immediately upon execution of this Security Agreement, Borrower shall deliver to Lender all Promissory Notes and Chattel Paper. Upon creation of any Promissory Notes or Chattel Paper in the future, immediately upon creation Borrower shall deliver the Promissory Notes and Chattel Paper to Lender.

n. Borrower shall, immediately upon obtaining knowledge thereof, report to Lender in writing any default on any item of Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, any material claim or dispute asserted by any obligor on any item of that Collateral, and any other material matters that may affect the value, enforceability or collectability of any of that Collateral.

o. Borrower shall not, without Lender's written consent, make any material settlement, compromise or adjustment of any item of Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral or grant any material discounts, extensions, allowances or credits thereon.

p. Borrower will at all times keep accurate and complete records as to the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral and payments thereon and will allow Lender or its representatives, at any time and from time to time upon reasonable notice to Borrower, to inspect, audit, check, copy and otherwise review those records.

8. Right to Perform for Borrower. Lender may, in its sole discretion and without any duty to do so, elect to discharge taxes, tax liens, security interests, or any other encumbrance upon the Collateral, perform any duty or obligation of Borrower, pay filing, recording, insurance and other charges payable by Borrower, or provide insurance as provided herein if Borrower fails to do so. Any such payments advanced by Lender shall be repaid by Borrower upon demand, together with interest thereon from the date of the advance until repaid, both before and after judgment, at the Default Rate.

9. Default. Time is of the essence of this Security Agreement. The occurrence of any of the following events shall constitute a default under this Security Agreement:

a. Any representation or warranty made by Borrower in this Security Agreement is materially false or materially misleading when made;

b. Borrower fails in the payment or performance of any obligation, covenant, agreement or liability created by or arising from or related to this Security Agreement and the same is not cured within the cure periods set forth in the Loan Documents;

c. A significant number of the Accounts or a significant amount owing on the Accounts becomes delinquent or uncollectible; or

d. An Event of Default occurs under the Loan Agreement.

No course of dealing or any delay or failure to assert any default shall constitute a waiver of that default or of any prior or subsequent default.

10. Remedies. Upon the occurrence of any default under this Security Agreement, Lender shall have the following rights and remedies, in addition to all other rights and remedies existing at law, in equity, or by statute or provided in the Loan Documents:

a. Lender shall have all the rights and remedies available under the Uniform Commercial Code;

b. Lender shall have the right to enter upon any premises leased or owned by Borrower where the Collateral or records relating thereto may be and take possession of the Collateral and such records;

c. Upon request of Lender, Borrower shall, at the expense of Borrower, assemble the Collateral and records relating thereto at a place designated by Lender and tender the Collateral and such records to Lender;

d. Without notice to Borrower, Lender may obtain the appointment of a receiver of the business, property and assets of Borrower and Borrower hereby consents to the appointment of Lender or such person as Lender may designate as such receiver; and

e. Lender may sell, lease or otherwise dispose of any or all of the Collateral and, after deducting the Liquidation Costs, apply the remainder to pay, or to hold as a reserve against, the obligations secured by this Security Agreement.

Borrower shall be liable for all deficiencies owing on any obligations secured by this Security Agreement after liquidation of the Collateral. Lender shall not have any obligation to clean-up or otherwise prepare any Collateral for sale, lease, or other disposition.

The rights and remedies herein conferred are cumulative and not exclusive of any other rights and remedies and shall be in addition to every other right, power and remedy herein specifically granted or hereafter existing at law, in equity, or by statute which Lender might otherwise have, and any and all such rights and remedies may be exercised from time to time and as often and in such order as Lender may deem expedient. No delay or omission in the exercise of any such right, power or remedy or in the pursuance of any remedy shall impair any such right, power or remedy or be construed to be a waiver thereof or of any default or to be an acquiescence therein.

In the event of breach or default under the terms of this Security Agreement, Borrower agrees to pay all costs and expenses, including reasonable attorneys fees and legal expenses, incurred by or on behalf of Lender in enforcing, or exercising any remedies under, this Security Agreement, and any other rights and remedies. Additionally, Borrower agrees to pay all Liquidation Costs. Any and all such costs, expenses, and Liquidation Costs shall be payable by Borrower upon demand, together with interest thereon from the date of the advance until repaid, both before and after judgment, at the Default Rate.

Regardless of any breach or default, Borrower agrees to pay all expenses, including reasonable attorneys fees and legal expenses, incurred by Lender in any bankruptcy proceedings of any type involving Borrower, the Collateral, or this Security Agreement, including, without limitation, expenses incurred in modifying or lifting the automatic stay, determining adequate protection, use of cash collateral, or relating to any plan of reorganization.

11. Notices. All notices or demands by any party hereto shall be in writing and shall be sent as provided in the Loan Agreement.

12. Indemnification. Borrower shall indemnify Lender for any and all claims and liabilities, and for damages which may be awarded or incurred by Lender, and for all reasonable attorney fees, legal expenses, and other out-of-pocket expenses incurred in defending such claims, arising from or related in any manner to the negotiation, execution, or performance by Lender of this Security Agreement, but excluding any such claims based upon breach or default by Lender or gross negligence or willful misconduct of Lender.

Lender shall have the sole and complete control of the defense of any such claims. Lender is hereby authorized to settle or otherwise compromise any such claims as Lender in good faith determines shall be in its best interests.

13. General. This Security Agreement is made for the sole and exclusive benefit of Borrower and Lender and is not intended to benefit any third party. No such third party may claim any right or benefit or seek to enforce any term or provision of this Security Agreement.

In recognition of Lender's right to have all its attorneys fees and expenses incurred in connection with this Security Agreement secured by the Collateral, notwithstanding payment in full of the obligations secured by the Collateral, Lender shall not be required to release, reconvey, or terminate any security interest in the Collateral unless and until Borrower and all Guarantors have executed and delivered to Lender general releases in form and substance satisfactory to Lender.

Lender and its officers, directors, employees, representatives, agents, and attorneys, shall not be liable to Borrower or any Guarantor for consequential damages arising from or relating to any breach of contract, tort, or other wrong in connection with or relating to this Security Agreement or the Collateral.

If the incurring of any debt by Borrower or the payment of any money or transfer of property to Lender by or on behalf of Borrower or any Guarantor should for any reason subsequently be determined to be "voidable" or "avoidable" in whole or in part within the meaning of any state or federal law (collectively "voidable transfers"), including, without limitation, fraudulent conveyances or preferential transfers under the United States Bankruptcy Code or any other federal or state law, and Lender is required to repay or restore any voidable transfers or the amount or any portion thereof, or upon the advice of Lender's counsel is advised to do so, then, as to any such amount or property repaid or restored, including all reasonable costs, expenses, and attorneys fees of Lender related

thereto, the liability of Borrower and Guarantors, and each of them, and this Security Agreement, shall automatically be revived, reinstated and restored and shall exist as though the voidable transfers had never been made.

This Security Agreement shall be governed by and construed in accordance with the laws of the State of Utah.

Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction only, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

All references in this Security Agreement to the singular shall be deemed to include the plural if the context so requires and vice versa. References in the collective or conjunctive shall also include the disjunctive unless the context otherwise clearly requires a different interpretation.

All agreements, representations, warranties and covenants made by Borrower shall survive the execution and delivery of this Security Agreement, the filing and consummation of any bankruptcy proceedings, and shall continue in effect so long as any obligation to Lender contemplated by this Security Agreement is outstanding and unpaid, notwithstanding any termination of this Security Agreement. All agreements, representations, warranties and covenants in this Security Agreement shall bind the party making the same and its heirs and successors, and shall be to the benefit of and be enforceable by each party for whom made and their respective heirs, successors and assigns.

This Security Agreement, together with the Loan Documents, constitute the entire agreement between Borrower and Lender as to the subject matter hereof and may not be altered or amended except by written agreement signed by Borrower and Lender. All other prior and contemporaneous agreements, arrangements, and understandings between the parties hereto as to the subject matter hereof are, except as otherwise expressly provided herein, rescinded.

Dated: April 16, 2003.

Lender:

ZIONS FIRST NATIONAL BANK

By: David S. Mathis

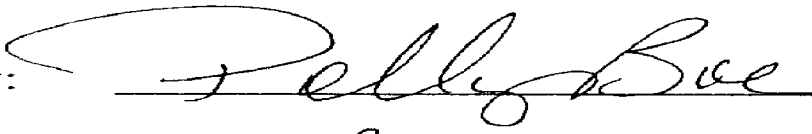
David S. Mathis

Its: Senior Vice President



Borrower:

SUNDANCE CATALOG COMPANY, LLC

By: 

Its: CFO

# SECURITY AGREEMENT

This Security Agreement (the "Security Agreement") is made between Sundance Catalog Company, LLC, a Delaware limited liability company ("Borrower"), and Zions First National Bank, a national association ("Lender"), pursuant to a Loan Agreement, dated April 16, 2003, between Borrower and Lender (the "Loan Agreement").

For good and valuable consideration, receipt of which is hereby acknowledged, Borrower and Lender hereby agree as follows:

1. Definitions. Except as otherwise provided herein, terms defined in the Loan Agreement shall have the same meanings when used herein. Terms defined in the singular shall have the same meaning when used in the plural and vice versa. Terms defined in the Uniform Commercial Code as adopted now or in the future in the State of Utah which are used herein shall have the meanings set forth in the Utah Uniform Commercial Code, except as expressly defined otherwise. However, if a term is defined in Article 9 of the Uniform Commercial Code of the State of Utah differently than in another Article of the Uniform Commercial Code of the State of Utah, the term has the meaning specified in Article 9. As used herein, the term:

"Collateral" means the collateral described in Section 2, Grant of Security Interest, below.

"Default Rate" means the default interest rate provided in the Revolving Note, Term Note A and Term Note B.

"Liquidation Costs" means the reasonable costs and out of pocket expenses incurred by Lender in obtaining possession of any Collateral, in storage and preparation for sale, lease or other disposition of any Collateral, in the sale, lease, or other disposition of any or all of the Collateral, and/or otherwise incurred in foreclosing on any of the Collateral, including, without limitation, (a) reasonable attorneys fees and legal expenses, (b) transportation and storage costs, (c) advertising costs, (d) sale commissions, (e) sales tax and license fees, (f) costs for improving or repairing any of the Collateral, and (g) costs for preservation and protection of any of the Collateral.

"Permitted Encumbrances" means liens for taxes and assessments not yet due and payable or, if due and payable, those being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained, security interests and liens created by the Loan Documents, and security interests and liens authorized in writing by Lender.

2. Grant of Security Interest. Borrower hereby grants to Lender a security interest in all personal property of Borrower, wherever located, now owned or hereafter acquired or created, including, without limitation, the following (the "Collateral"):

a. All inventory as defined in the Uniform Commercial Code, wherever located, all goods, merchandise or other personal property held for sale or lease, names or marks affixed thereto for purposes of selling or identifying the same or the seller or manufacturer thereof and all

related rights, title and interest, all raw materials, work or goods in process or materials or supplies of every nature used, consumed or to be used in Borrower's business, all packaging and shipping materials, and all other goods customarily or for accounting purposes classified as inventory, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the "Inventory").

b. All accounts as defined in the Uniform Commercial Code (including health-care-insurance receivables), accounts receivable, amounts owing to Borrower under any rental agreement or lease, payments on construction contracts, promissory notes or on any other indebtedness, any rights to payment customarily or for accounting purposes classified as accounts receivable, and all rights to payment, proceeds or distributions under any contract, of Borrower, presently existing or hereafter created, and all proceeds thereof (collectively, the "Accounts").

c. All equipment and goods as defined in the Uniform Commercial Code, all motor vehicles, including all tires, accessories, spare and repair parts, and tools, wherever located, and all related right, title and interest, of Borrower, now owned or hereafter acquired or created, all proceeds and products of the foregoing and all additions and accessions to, replacements of, insurance or condemnation proceeds of, and documents covering any of the foregoing, all leases of any of the foregoing, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition of any of the foregoing or any interest therein (collectively, the "Equipment").

d. All general intangibles as defined in the Uniform Commercial Code, choses in action, proceeds, contracts, customer lists, distributions, dividends, refunds, security deposits, judgments, insurance claims, any right to payment of any nature, intellectual property rights or licenses, payment intangibles, licenses, tax refunds, any other rights or assets of Borrower customarily or for accounting purposes classified as general intangibles, and all documentation and supporting information related to any of the foregoing, all rents, profits and issues thereof, and all proceeds thereof.

e. All of the following (collectively, "Financial Obligations Collateral"):

i. Any and all promissory notes and instruments payable to or owing to Borrower or held by Borrower, whether now existing or hereafter created (collectively, the "Promissory Notes");

ii. Any and all leases under which Borrower is the lessor, whether now existing or hereafter created (collectively, the "Leases");

iii. Any and all chattel paper (as defined in the Uniform Commercial Code) (whether tangible or electronic) in favor of, owing to, or held by Borrower, including, without limitation, any and all conditional sale contracts or other sales agreements, whether Borrower is the original party or the assignee, whether now existing or hereafter created (collectively, the "Chattel Paper");

iv. Any and all security agreements, collateral and titles to motor vehicles which secure any of the foregoing obligations, whether now existing or hereafter created (collectively, the "Security Agreements Collateral"); and

v. All amendments, modifications, renewals, extensions, replacements, additions, and accessions to the foregoing and all proceeds thereof.

f. All deposit accounts (as defined in the Uniform Commercial Code), including without limitation, all deposit accounts, checking accounts, savings accounts, money market accounts, certificates of deposit, depository accounts, balances, reserves, deposits, debts or any other amounts or obligations of Lender owing to Borrower, including, without limitation, all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

g. All investment property (as defined in the Uniform Commercial Code), all interest, dividends or distributions accrued or to accrue thereon, whether or not due, now existing or hereafter arising or created, and all proceeds thereof.

h. All documents (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

i. All letter of credit rights (as defined in the Uniform Commercial Code) (whether or not the letter of credit is evidenced by a writing), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

j. All supporting obligations (as defined in the Uniform Commercial Code), all amendments, modifications, renewals, extensions, replacements, additions, and accessions thereto, and all proceeds thereof.

k. All of the following (collectively, "Intellectual Property"):

i. All right, title and interest of Borrower in and to patent applications and patents, including, without limitation, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, all rights corresponding thereto throughout the world, and all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof (collectively, the "Patents");

ii. All right, title and interest of Borrower in and to trademark applications and trademarks, including, without limitation, all renewals thereof, all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, and all rights corresponding thereto throughout the world (collectively, the "Trademarks"), and the good will of the business to which each of the Trademarks relates;

iii. All copyrights of Borrower and all rights and interests of every kind of Borrower in copyrights and works protectible by copyright, whether now owned or hereafter acquired or created, and all renewals and extensions thereof, and in and to the copyrights and rights and interests of every kind or nature in and to all works based upon, incorporated in, derived from, incorporating or relating to any of the foregoing or from which any of the foregoing is derived, and all proceeds thereof (such as, by way of example, license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements, and all rights corresponding thereto throughout the world (collectively, the "Copyrights");

iv. All of Borrower's trade secrets and other proprietary information, now existing or created in the future, and all proceeds thereof (collectively, the "Trade Secrets");

v. All right, title, and interest of Borrower in, to and under license agreements and contracts concerning Patents, Trademarks, Copyrights, and Trade Secrets now existing or created in the future, all amendments, modifications, and replacements thereof, all royalties and other amounts owing thereunder, and all proceeds thereof (collectively, the "Licenses"); and

vi. All internet domain names and addresses of Borrower now existing or created in the future, and all proceeds thereof.

Borrower and Lender acknowledge their mutual intent that all security interests contemplated herein are given as a contemporaneous exchange for new value to Borrower, regardless of when advances to Borrower are actually made or when the Collateral is acquired.

3. Debts Secured. The security interest granted by this Security Agreement shall secure all of Borrower's present and future debts, obligations, and liabilities of whatever nature to Lender, including, without limitation (a) the Revolving Note of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of seven million dollars (\$7,000,000.00), and all renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (b) the Term Note A of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of four million three hundred thousand dollars (\$4,300,000.00), and all renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (c) the Term Note B of Borrower in favor of Lender, dated April 16, 2003, in the original principal amount of seven hundred thousand dollars (\$700,000.00), and all

renewals, extensions, modifications and replacements thereof (including any which increase the original principal amount), (d) all obligations of Borrower arising from or relating to the Loan Documents, including, without limitation, this Security Agreement, (e) advances of the same kind and quality or relating to this transaction, (f) transactions in which the documents evidencing the indebtedness refer to this grant of security interest as providing security therefor, and (g) all overdrafts on any account of Borrower maintained with Lender, now existing or hereafter arising.

Borrower and Lender expressly acknowledge their mutual intent that the security interest created by this Security Agreement secure any and all present and future debts, obligations, and liabilities of Borrower to Lender without any limitation whatsoever.

4. Authorization to File Financing Statements. Borrower hereby irrevocably authorizes Lender at any time and from time to time to file in any filing office in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of Borrower or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) provide any other information required by part 5 of Article 9 of the Uniform Commercial Code of the State of Utah, or such other jurisdiction, for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether Borrower is an organization, the type of organization and any organizational identification number issued to Borrower and, (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real property to which the Collateral relates. Borrower agrees to furnish any such information to Lender promptly upon Lender's request.

5. Location of Borrower and Collateral. Borrower represents and warrants that:

a. Borrower's chief executive office is located at 3865 West 2400 South, Salt Lake City, Utah 84120.

b. Borrower's places of business are located at:

Sundance Catalog Company  
3865 West 2400 South  
Salt Lake City, Utah 84120

Sundance Catalog Outlet Store  
2201 S. Highland Dr.  
Salt Lake City, UT 84106

Sundance Catalog Company  
2060 Alameda Padre Serra, 1<sup>st</sup> Floor, Ste. 1  
Santa Barbara, CA 93103

c. Borrower is a limited liability company organized and existing under the laws of the State of Delaware.

Borrower agrees that it will not change its state of organization or any of the above locations or create any new locations for such matters without giving Lender at least thirty (30) days prior written notice thereof.

6. Representations and Warranties Concerning Collateral. Borrower represents and warrants that:

a. Borrower is the sole owner of the Collateral.

b. The Collateral is not subject to any security interest, lien, prior assignment, or other encumbrance of any nature whatsoever except Permitted Encumbrances.

c. The Accounts are each a bona fide obligation of the obligor identified therein for the amount identified in the records of Borrower, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

d. To the best knowledge of Borrower, there are no defenses or setoffs to payment of the Accounts which can be asserted by way of defense or counterclaim against Borrower or Lender, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

e. There is presently no default or delinquency in any payment of the Accounts except for any default or delinquency which has been reserved against by Borrower in accordance with generally accepted accounting principles and, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

f. Borrower has no knowledge of any fact or circumstance which would materially impair the ability of any obligor on the Accounts to timely perform its obligations thereunder, except those which arise in the ordinary course of business and which do not affect a material portion of the Accounts.

g. Any services performed or goods sold giving rise to the Accounts have been rendered or sold in compliance with applicable laws, ordinances, rules, and regulations and in the ordinary course of Borrower's business.

h. There have been no extensions, modifications, or other agreements relating to payment of the Accounts, except those granted in the ordinary course of business and which do not affect a material portion of the Accounts.

i. The Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral are bona fide obligations of the obligors identified therein for the amount identified therein or as otherwise disclosed in writing to Lender by Borrower, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

j. To the best knowledge of Borrower, there are no defenses or setoffs to payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral which can be asserted by way of defense or counterclaim against Borrower or Lender, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

k. There is presently no default or delinquency in any payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, except for normal and customary disputes which arise in the ordinary course of business and which do not affect a material portion of such obligations.

l. Borrower has no knowledge of any fact or circumstance which would materially impair the ability of any obligor on the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral to timely perform its obligations thereunder, except those which arise in the ordinary course of business and which do not affect a material portion of such obligations.

m. Any services performed or goods sold giving rise to the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral have been rendered or sold in compliance with applicable laws, ordinances, rules, and regulations.

n. There have been no extensions, modifications, or other agreements relating to payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral except as shown upon the face thereof or as otherwise disclosed in writing to Lender by Borrower, except those granted in the ordinary course of business and which do not affect a material portion of such obligations.

7. Covenants Concerning Collateral. Borrower covenants that:

a. Borrower will keep the Collateral free and clear of any and all security interests, liens, assignments or other encumbrances, except Permitted Encumbrances.

b. Borrower agrees to execute and deliver any applications for certificates of title, certificates of title, and other documents (properly endorsed, if necessary) reasonably requested



by Lender for perfection or enforcement of any security interest or lien, and to give good faith, diligent cooperation to Lender, and to perform such other acts reasonably requested by Lender for perfection and enforcement of any security interest or lien created hereunder, including, without limitation, obtaining control for purposes of perfection with respect to Collateral consisting of deposit accounts, investment property, letter-of-credit rights, and electronic chattel paper. Lender is authorized to file, record, or otherwise utilize such documents as it deems necessary to perfect and/or enforce any security interest or lien granted hereunder.

c. Borrower shall keep the Equipment in good repair, ordinary wear and tear and obsolescence excepted. Borrower shall pay when due all taxes, license fees and other charges on the Equipment. Borrower shall not sell, misuse, conceal, or in any way dispose of the Equipment or permit it to be used unlawfully or for hire or contrary to the provisions of any insurance coverage. Risk of loss of the Equipment shall be on Borrower at all times unless Lender takes possession of the Equipment. Loss of or damage to the Equipment or any part thereof shall not release Borrower from any of the obligations secured by the Equipment. Lender or its representatives may, at any time and from time to time upon reasonable notice to Borrower, enter any premises owned or leased by Borrower where the Equipment is located and inspect, audit and check the Equipment.

d. Borrower agrees to insure the Equipment, at Borrower's expense, against loss, damage, theft, and such other risks as Lender may reasonably request to the full insurable value thereof with insurance companies and policies reasonably satisfactory to Lender. Proceeds from such insurance shall be payable to Lender as its interest may appear and such policies shall provide for a minimum ten days written cancellation notice to Lender. Upon request, policies or certificates attesting to such coverage shall be delivered to Lender. Insurance proceeds may be applied by Lender toward payment of any obligation secured by this Security Agreement, whether or not due, in such order of application as Lender may elect.

e. Borrower agrees to insure the Inventory, at Borrower's expense, against loss, damage, theft, and such other risks as Lender may request to the full insurable value thereof with insurance companies and policies reasonably satisfactory to Lender. Proceeds from such insurance shall be payable to Lender as its interest may appear and such policies shall provide for a minimum ten days written cancellation notice to Lender. Upon request, policies or certificates attesting to such coverage shall be delivered to Lender. Insurance proceeds may be applied by Lender toward payment of any obligation secured by this Security Agreement, whether or not due, in such order of application as Lender may elect.

f. Borrower shall submit to Lender reports as to the Inventory and the Accounts at such times and in such form as Lender may reasonably request. Borrower will at all times keep accurate and complete records of the Inventory and the Accounts. Lender or its representatives may, at any time and from time to time, enter any premises where the Inventory and the records pertaining to the Accounts are located and inspect, audit, check, copy, and otherwise review the Inventory and the Accounts.

g. So long as Borrower is not in default hereunder or under any obligation secured hereby, Borrower shall have the right to sell or otherwise dispose of the Inventory in the ordinary course of business. No other disposition of the Inventory may be made without the prior written consent of Lender.

h. All proceeds from the sale or other disposition of the Inventory and Accounts and all collections and other proceeds therefrom shall, at Lender's request, be deposited into an account designated by Lender (the "Cash Collateral Account"), which account shall be under the sole and exclusive control of Lender. Such proceeds and collections shall not be commingled with any other funds and shall be promptly and directly deposited into such account in the form in which received by Borrower. Such proceeds and collections shall not be deposited in any other account and such Cash Collateral Account shall contain no funds other than such proceeds and collections. All or any portion of the funds on deposit in such Cash Collateral Account may, in the sole discretion of Lender, be applied from time to time as Lender elects to payment of obligations secured by this Security Agreement or Lender may elect to turn over to Borrower, from time to time, all or any portion of said funds.

i. Borrower agrees to use diligent and good faith efforts to collect the Accounts. Borrower is authorized to collect the Accounts in a commercially reasonable manner. Lender, in its sole discretion, may terminate such authority whereupon Lender is authorized by Borrower, without further act, to notify any and all account debtors to make payment thereon directly to Lender, and to take possession of all proceeds from the Accounts, and to take any action which Borrower might or could take to collect the Accounts, including the right to make any compromise, discharge, or extension of the Accounts. Upon request of Lender, Borrower agrees to execute and deliver to Lender a notice to Borrower's account debtors instructing said account debtors to pay Lender. Borrower further agrees to execute and deliver to Lender all other notices and similar documents reasonably requested by Lender to facilitate collection of the Accounts.

j. All costs of collection of the Accounts, including attorneys fees and legal expenses, shall be borne solely by Borrower, whether such costs are incurred by or for Borrower or Lender. In the event Lender elects to undertake direct collection of the Accounts, Borrower agrees to deliver to Lender, if so requested, all books, records, and documents in Borrower's possession or under its control as may relate to the Accounts or as may be helpful to facilitate such collection. Lender shall have no obligation to cause an attorneys demand letter to be sent, to file any lawsuit, or to take any other legal action in collection of the Accounts. It is agreed that collection of the Accounts in a commercially reasonable manner does not require that any such legal action be taken.

k. Borrower does hereby make, constitute, and appoint Lender and its designees as Borrower's true and lawful attorney in fact, with full power of substitution, such power to be exercised in the following manner: (1) Lender may receive and open all mail addressed to Borrower and remove therefrom any cash, notes, checks, acceptances, drafts, money orders or other instruments in payment of the Accounts; (2) Lender may cause mail relating to the Inventory and Accounts to be delivered to a designated address of Lender where Lender may open all such mail

and remove therefrom any cash, notes, checks, acceptances, drafts, money orders, or other instruments in payment of the Accounts; (3) Lender may endorse Borrower's name upon such notes, checks, acceptances, drafts, money orders, or other forms of payment; (4) Lender may settle or adjust disputes or claims in respect to the Accounts for amounts and upon such terms as Lender, in its sole discretion and in good faith, deems to be advisable, in such case crediting Borrower with only the proceeds received and collected by Lender after deduction of Lender's costs, including reasonable attorneys fees and legal expenses; and (5) Lender may do any and all other things necessary or proper to carry out the intent of this Security Agreement and to perfect and protect the liens and rights of Lender created under this Security Agreement.

l. Borrower agrees to use diligent and good faith efforts to collect the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral. Borrower is authorized to collect that Collateral in a commercially reasonable manner. Upon written notice by Lender to Borrower, Lender may at any time terminate such authority. Upon such termination, Lender is authorized by Borrower, without further act, to notify any and all obligors on that Collateral to make payment thereon directly to Lender, to take possession of all proceeds from any such payments, and to take any action which Borrower might or could take to collect that Collateral, including the right to make any compromise, discharge or extension of that Collateral. Lender may exercise such collection rights at any time, whether or not Borrower is in default under this Security Agreement. Upon request of Lender, Borrower agrees to execute and deliver to Lender a notice to the obligors on that Collateral instructing said obligors to pay Lender. Borrower further agrees to execute and deliver to Lender all other notices and similar documents reasonably requested by Lender to facilitate collection of that Collateral.

Borrower hereby irrevocably makes, constitutes, and appoints Lender and its designees as Borrower's true and lawful attorney in fact, with full power of substitution, to endorse Borrower's name upon checks, drafts, money orders, or other forms of payment of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral or on any other documents relating to collection of that Collateral.

All costs of collection of the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, including attorneys fees and legal expenses, shall be borne solely by Borrower, whether such costs are incurred by or for Borrower or Lender. In the event Lender elects to undertake direct collection of that Collateral pursuant to the terms of this Security Agreement, Borrower agrees to deliver to Lender, upon request, all books, records, and documents in Borrower's possession or under its control as may relate to that Collateral or as may be helpful to facilitate such collection.

m. Immediately upon execution of this Security Agreement, Borrower shall deliver to Lender all Promissory Notes and Chattel Paper. Upon creation of any Promissory Notes or Chattel Paper in the future, immediately upon creation Borrower shall deliver the Promissory Notes and Chattel Paper to Lender.

n. Borrower shall, immediately upon obtaining knowledge thereof, report to Lender in writing any default on any item of Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral, any material claim or dispute asserted by any obligor on any item of that Collateral, and any other material matters that may affect the value, enforceability or collectability of any of that Collateral.

o. Borrower shall not, without Lender's written consent, make any material settlement, compromise or adjustment of any item of Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral or grant any material discounts, extensions, allowances or credits thereon.

p. Borrower will at all times keep accurate and complete records as to the Promissory Notes, Leases, Chattel Paper, and Security Agreements Collateral and payments thereon and will allow Lender or its representatives, at any time and from time to time upon reasonable notice to Borrower, to inspect, audit, check, copy and otherwise review those records.

8. Right to Perform for Borrower. Lender may, in its sole discretion and without any duty to do so, elect to discharge taxes, tax liens, security interests, or any other encumbrance upon the Collateral, perform any duty or obligation of Borrower, pay filing, recording, insurance and other charges payable by Borrower, or provide insurance as provided herein if Borrower fails to do so. Any such payments advanced by Lender shall be repaid by Borrower upon demand, together with interest thereon from the date of the advance until repaid, both before and after judgment, at the Default Rate.

9. Default. Time is of the essence of this Security Agreement. The occurrence of any of the following events shall constitute a default under this Security Agreement:

a. Any representation or warranty made by Borrower in this Security Agreement is materially false or materially misleading when made;

b. Borrower fails in the payment or performance of any obligation, covenant, agreement or liability created by or arising from or related to this Security Agreement and the same is not cured within the cure periods set forth in the Loan Documents;

c. A significant number of the Accounts or a significant amount owing on the Accounts becomes delinquent or uncollectible; or

d. An Event of Default occurs under the Loan Agreement.

No course of dealing or any delay or failure to assert any default shall constitute a waiver of that default or of any prior or subsequent default.

10. Remedies. Upon the occurrence of any default under this Security Agreement, Lender shall have the following rights and remedies, in addition to all other rights and remedies existing at law, in equity, or by statute or provided in the Loan Documents:

- a. Lender shall have all the rights and remedies available under the Uniform Commercial Code;
- b. Lender shall have the right to enter upon any premises leased or owned by Borrower where the Collateral or records relating thereto may be and take possession of the Collateral and such records;
- c. Upon request of Lender, Borrower shall, at the expense of Borrower, assemble the Collateral and records relating thereto at a place designated by Lender and tender the Collateral and such records to Lender;
- d. Without notice to Borrower, Lender may obtain the appointment of a receiver of the business, property and assets of Borrower and Borrower hereby consents to the appointment of Lender or such person as Lender may designate as such receiver; and
- e. Lender may sell, lease or otherwise dispose of any or all of the Collateral and, after deducting the Liquidation Costs, apply the remainder to pay, or to hold as a reserve against, the obligations secured by this Security Agreement.

Borrower shall be liable for all deficiencies owing on any obligations secured by this Security Agreement after liquidation of the Collateral. Lender shall not have any obligation to clean-up or otherwise prepare any Collateral for sale, lease, or other disposition.

The rights and remedies herein conferred are cumulative and not exclusive of any other rights and remedies and shall be in addition to every other right, power and remedy herein specifically granted or hereafter existing at law, in equity, or by statute which Lender might otherwise have, and any and all such rights and remedies may be exercised from time to time and as often and in such order as Lender may deem expedient. No delay or omission in the exercise of any such right, power or remedy or in the pursuance of any remedy shall impair any such right, power or remedy or be construed to be a waiver thereof or of any default or to be an acquiescence therein.

In the event of breach or default under the terms of this Security Agreement, Borrower agrees to pay all costs and expenses, including reasonable attorneys fees and legal expenses, incurred by or on behalf of Lender in enforcing, or exercising any remedies under, this Security Agreement, and any other rights and remedies. Additionally, Borrower agrees to pay all Liquidation Costs. Any and all such costs, expenses, and Liquidation Costs shall be payable by Borrower upon demand, together with interest thereon from the date of the advance until repaid, both before and after judgment, at the Default Rate.

Regardless of any breach or default, Borrower agrees to pay all expenses, including reasonable attorneys fees and legal expenses, incurred by Lender in any bankruptcy proceedings of any type involving Borrower, the Collateral, or this Security Agreement, including, without limitation, expenses incurred in modifying or lifting the automatic stay, determining adequate protection, use of cash collateral, or relating to any plan of reorganization.

11. Notices. All notices or demands by any party hereto shall be in writing and shall be sent as provided in the Loan Agreement.

12. Indemnification. Borrower shall indemnify Lender for any and all claims and liabilities, and for damages which may be awarded or incurred by Lender, and for all reasonable attorney fees, legal expenses, and other out-of-pocket expenses incurred in defending such claims, arising from or related in any manner to the negotiation, execution, or performance by Lender of this Security Agreement, but excluding any such claims based upon breach or default by Lender or gross negligence or willful misconduct of Lender.

Lender shall have the sole and complete control of the defense of any such claims. Lender is hereby authorized to settle or otherwise compromise any such claims as Lender in good faith determines shall be in its best interests.

13. General. This Security Agreement is made for the sole and exclusive benefit of Borrower and Lender and is not intended to benefit any third party. No such third party may claim any right or benefit or seek to enforce any term or provision of this Security Agreement.

In recognition of Lender's right to have all its attorneys fees and expenses incurred in connection with this Security Agreement secured by the Collateral, notwithstanding payment in full of the obligations secured by the Collateral, Lender shall not be required to release, reconvey, or terminate any security interest in the Collateral unless and until Borrower and all Guarantors have executed and delivered to Lender general releases in form and substance satisfactory to Lender.

Lender and its officers, directors, employees, representatives, agents, and attorneys, shall not be liable to Borrower or any Guarantor for consequential damages arising from or relating to any breach of contract, tort, or other wrong in connection with or relating to this Security Agreement or the Collateral.

If the incurring of any debt by Borrower or the payment of any money or transfer of property to Lender by or on behalf of Borrower or any Guarantor should for any reason subsequently be determined to be "voidable" or "avoidable" in whole or in part within the meaning of any state or federal law (collectively "voidable transfers"), including, without limitation, fraudulent conveyances or preferential transfers under the United States Bankruptcy Code or any other federal or state law, and Lender is required to repay or restore any voidable transfers or the amount or any portion thereof, or upon the advice of Lender's counsel is advised to do so, then, as to any such amount or property repaid or restored, including all reasonable costs, expenses, and attorneys fees of Lender related

thereto, the liability of Borrower and Guarantors, and each of them, and this Security Agreement, shall automatically be revived, reinstated and restored and shall exist as though the voidable transfers had never been made.

This Security Agreement shall be governed by and construed in accordance with the laws of the State of Utah.

Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction only, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

All references in this Security Agreement to the singular shall be deemed to include the plural if the context so requires and vice versa. References in the collective or conjunctive shall also include the disjunctive unless the context otherwise clearly requires a different interpretation.

All agreements, representations, warranties and covenants made by Borrower shall survive the execution and delivery of this Security Agreement, the filing and consummation of any bankruptcy proceedings, and shall continue in effect so long as any obligation to Lender contemplated by this Security Agreement is outstanding and unpaid, notwithstanding any termination of this Security Agreement. All agreements, representations, warranties and covenants in this Security Agreement shall bind the party making the same and its heirs and successors, and shall be to the benefit of and be enforceable by each party for whom made and their respective heirs, successors and assigns.

This Security Agreement, together with the Loan Documents, constitute the entire agreement between Borrower and Lender as to the subject matter hereof and may not be altered or amended except by written agreement signed by Borrower and Lender. All other prior and contemporaneous agreements, arrangements, and understandings between the parties hereto as to the subject matter hereof are, except as otherwise expressly provided herein, rescinded.

Dated: April 16, 2003.

Lender:

ZIONS FIRST NATIONAL BANK


By: David S. Mathis

David S. Mathis

Its: Senior Vice President

Borrower:

SUNDANCE CATALOG COMPANY, LLC

By: 

Its: CFO