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Form PTO-1594 (Rev. 07/05)  
OMB Collection 0651-0027 (exp. 6/30/2008)

103158495

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

### RECORDATION FORM COVER SHEET TRADEMARKS ONLY

To the Director of the U. S. Patent and Trademark Office: Please record the attached documents or the new address(es) below.

**1. Name of conveying party(ies):**

**Kionix, Inc.**

- Individual(s)
- General Partnership
- Corporation- State: Delaware
- Other \_\_\_\_\_
- Association
- Limited Partnership

Citizenship (see guidelines) \_\_\_\_\_  
Additional names of conveying parties attached?  Yes  No

**3. Nature of conveyance /Execution Date(s) :**

Execution Date(s) March 1, 2006  
 Assignment  Merger  
 Security Agreement  Change of Name  
 Other \_\_\_\_\_

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

Additional names, addresses, or citizenship attached?  Yes  No

Name: Enhanced Capital New York Fund II, LLC

Internal Address: Enhanced Capital Partners, LLC

Street Address: 350 Park Ave., 24th Floor

City: New York

State: New York

Country: USA Zip: 10022

- Association Citizenship \_\_\_\_\_
- General Partnership Citizenship \_\_\_\_\_
- Limited Partnership Citizenship \_\_\_\_\_
- Corporation Citizenship \_\_\_\_\_
- Other LLC Citizenship Delaware

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)

**4. Application number(s) or registration number(s) and identification or description of the Trademark.**

A. Trademark Application No.(s)

B. Trademark Registration No.(s)

**SEE ANNEX B ATTACHED HERETO AND MADE A PART HEREOF**

Additional sheet(s) attached?  Yes  No

**C. Identification or Description of Trademark(s) (and Filing Date if Application or Registration Number is unknown):**

40.00 DP  
50.00 DP  
120.00 DP

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

Name: \_\_\_\_\_  
Internal Address: Lawrence Haut  
Golenbock Eiseman Assor Bell & Peskoe LLP

Street Address: 437 Madison Avenue  
35th Floor

City: New York  
State: NY Zip: 10022

Phone Number: 212-907-7367

Fax Number: 212-754-0330

Email Address: lhaut@golenbock.com

**6. Total number of applications and registrations involved:**

3

**7. Total fee (37 CFR 2.6(b)(6) & 3.41) \$**

75.00

- Authorized to be charged by credit card
- Authorized to be charged to deposit account
- Enclosed

**8. Payment Information:**

a. Credit Card Last 4 Numbers \_\_\_\_\_  
Expiration Date \_\_\_\_\_

b. Deposit Account Number \_\_\_\_\_  
Authorized User Name \_\_\_\_\_

9. Signature: Lawrence Haut  
Signature

3/9/06  
Date

Lawrence Haut  
Name of Person Signing

Total number of pages including cover sheet, attachments, and document: 23

Documents to be recorded (including cover sheet) should be faxed to (571) 273-0140, or mailed to: Mail Stop Assignment Recordation Services, Director of the USPTO, P.O. Box 1450, Alexandria, VA 22313-1450

**ADDITIONAL RECEIVING PARTY**

Name: Enhanced Capital New York Fund III, LLC

Type: Limited Liability Company

Citizenship: Delaware

Address:

c/o Enhanced Capital Partners, LLC  
350 Park Avenue, 24<sup>th</sup> Floor  
New York, NY 10022 USA

ANNEX B  
TRADEMARKS AND TRADEMARK APPLICATIONS OWNED BY KONIX, INC.

<u>Title</u>	<u>Application Number</u>	<u>Application Filing Date</u>	<u>Number</u>
Kionix Trademark	75/392,230	11/18/1997	2,449,479
Kionix Trademark (Custom Fabrication) Classes 040 and 042	78/332,705	11/25/2003	2,963,205
Kionix Trademark (Microfluidics) Class 009	78/332,696	11/25/2003	

## SECURITY AGREEMENT

SECURITY AGREEMENT, dated as of March 9, 2006, among KIONIX, INC., a Delaware corporation (the "Borrower"), ENHANCED CAPITAL NEW YORK FUND II, LLC, a Delaware limited liability company ("Enhanced II") and ENHANCED CAPITAL NEW YORK FUND III, LLC, a Delaware limited liability company ("Enhanced III" and collectively with Enhanced II hereinafter referred to as the "Lender").

Pursuant to the Loan Agreement, dated as of March 9, 2006, by and between the Borrower and the Lender (as amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), the Lender has agreed to make the Term Loan to the Borrower pursuant to, and upon the terms and subject to the conditions specified in, the Loan Agreement. The obligations of the Lender to make the Term Loan are conditioned upon, among other things, the execution and delivery by the Borrower of an agreement in the form hereof to secure the Obligations and the Lender would not have entered into the Loan Agreement if the Borrower had not executed and delivered this Security Agreement.

Accordingly, the Borrower and the Lender hereby agree as follows:

### ARTICLE 1.

#### DEFINITIONS; GRANT OF SECURITY; CONTINUING PERFECTION AND PRIORITY

##### Section 1.1     General Definitions

(a)     When used in this Security Agreement, each of the following terms shall have the respective meaning ascribed thereto by the UCC as in effect from time to time in the State of New York: "Account", "Account Debtor", "Certificated Securities", "Chattel Paper", "Commercial Tort Claim", "Document", "Equipment", "Fixtures", "General Intangibles", "Goods", "Instrument", "Inventory", "Letter of Credit Right", "Proceeds", "Record", "Secured Party" and "Supporting Obligation".

(b)     As used in this Security Agreement, the following terms shall have the meanings specified below:

"Collateral" has the meaning assigned to such term in Section 1.3.

"Collateral Records" means all books, instruments, certificates, Records, ledger cards, files, correspondence, customer lists, blueprints, technical specifications, manuals and other documents, and all computer software, computer printouts, tapes, disks and related data processing software and similar items, in each case that at any time represent, cover or otherwise evidence, or contain information relating to, any of the Collateral or are otherwise necessary or helpful in the collection thereof or realization thereupon.

"Copyrights" means all of the following: (i) all copyright rights in any work subject to the copyright laws of the United States of America or any other country, whether as author, assignee, transferee or otherwise, and (ii) all registrations and applications for registration of any such copyright in the United States of America or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office or any similar offices in the United States of America or any other country.

**“Intellectual Property”** means all intellectual and similar property of Borrower of every kind and nature, including inventions, designs, Patents, Copyrights, Trademarks, licenses in respect thereof, domain names, trade secrets, confidential or proprietary technical and business information, know-how, show-how or other data or information, software and databases and all embodiments or fixations thereof and related documentation, registrations and franchises, and all additions, improvements and accessions to, and books and records describing or used in connection with, any of the foregoing.

**“Lender’s Questionnaire”** means the questionnaire attached as Exhibit A hereto and made a part hereof.

**“Obligations”** means (i) the due and punctual payment of (a) principal of and premium, if any, and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Term Loan or any other loans or other financial accommodations made to Borrower by the Lender or any of its Affiliates, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (b) all other monetary obligations, including reimbursement fees, commissions, costs, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of Borrower to the Lender, or that are otherwise payable to the Lender, and (ii) the due and punctual performance of all covenants, agreements, obligations and liabilities of the Borrower or any other party (other than the Lender) whether under or pursuant to the Loan Documents or otherwise.

**“Patents”** means all of the following: (i) all letters patent of the United States of America or any other country, all registrations and recordings thereof and all applications for letters patent of the United States of America or any other country, including registrations, recordings and pending applications in the United States Patent and Trademark Office or any similar offices in the United States of America or any other country, and (ii) all reissues, continuations, divisions, continuations in part, renewals or extensions thereof, and the inventions disclosed or claimed therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

**“Security Interest”** means, collectively, the Liens created or purported to be created hereby.

**“Trademarks”** means all of the following: (i) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and registration applications in the United States Patent and Trademark Office or any similar offices in the United States of America or any other country, and all extensions or renewals thereof, (ii) all goodwill associated therewith or symbolized by any of the foregoing and (iii) all other assets, rights and interests that uniquely reflect or embody such goodwill.

**“UCC”** means the Uniform Commercial Code as in effect from time to time in the State of New York or, when the context implies, the Uniform Commercial Code as in effect from time to time in any other applicable jurisdiction.

Section 1.2 Other Definitions; Interpretation

(a) Other Definitions. Capitalized terms used herein and not otherwise defined herein, and the term "subsidiary" shall have the meanings assigned to such terms in the Loan Agreement.

(b) Rules of Construction. The rules of construction specified in Section 1.02 of the Loan Agreement shall be applicable to this Security Agreement. All references herein to provisions of the UCC shall include all successor provisions under any subsequent version or amendment to any Article of the UCC. To the extent the UCC is revised after the date hereof such that the definition of any of the foregoing terms included in the description or definition of the Collateral is changed, the parties hereto desire that any property which is included in such changed definitions, but which would not otherwise be included in the Security Interest on the date hereof, nevertheless be included in the Security Interest upon the effective date of such revision.

Section 1.3 Grant of Security

As security for the payment and performance of the Obligations, the Borrower hereby bargains, sells, conveys, assigns, sets over, mortgages, pledges, hypothecates and transfers to the Lender (and its successors and assigns), and hereby grants to the Lender (and its successors and assigns), a security interest in, all of the Borrower's right, title and interest in, to and under the following, in each case (except as set forth in Section 1.3(a)(v)) whether now owned or existing or hereafter acquired or arising and wherever located (all of which being hereinafter collectively referred to as the "Collateral"):

(a) (i) all Accounts, (ii) all Chattel Paper, (iii) all Commercial Tort Claims, (iv) all Documents, (v) all Equipment other than any Equipment acquired by the Borrower after the date hereof unless the Borrower elects to grant a first Priority Lien on such Equipment to Lender pursuant to Section 6.14 of the Loan Agreement, (vi) all Fixtures other than any Fixtures acquired by the Borrower after the date hereof unless the Borrower elects to grant a first Priority Lien on such Fixtures to Lender pursuant to Section 6.14 of the Loan Agreement, (vii) all General Intangibles, (viii) all Instruments, (ix) all insurance policies covering any or all of the Collateral (regardless of whether the Lender is the loss payee thereof) and all business interruption insurance policies, (x) all Intellectual Property, (xi) all Inventory, (xii) all Letter of Credit Rights, (xiii) to the extent not otherwise included in clauses (i) through (xi) of this subsection, all Collateral Records and Supporting Obligations in respect of the foregoing, (xiv) to the extent not otherwise included in clauses (i) through (xii) of this Section, all other property in which a security interest may be granted under the UCC or which may be delivered to and held by the Lender pursuant to the terms hereof, and (xiv) to the extent not otherwise included in clauses (i) through (xiii) of this Section, all Proceeds, products, substitutions, accessions, rents and profits of or in respect of any of the foregoing.

(b) Certain Limited Exclusions. Notwithstanding anything in this Section 1.3 to the contrary, in no event shall the Collateral include, and Borrower shall not be deemed to have granted the Security Interest in, (i) any right under any lease, license or other contract or agreement constituting a General Intangible, but only to the extent that the granting of a security interest therein or an assignment thereof would violate any applicable law or any enforceable provision of such lease, license or other contract or agreement, as applicable, provided that to the extent the Security Interest at any time hereafter shall no longer be prohibited by law, and/or

immediately upon such provision no longer being enforceable, as the case may be, the Collateral shall automatically and without any further action include, and the Borrower shall be deemed to have granted automatically and without any further action a Security Interest in, such right as if such law had never existed or such provision had never been enforceable, as the case may be, and (ii) any Margin Stock.

## ARTICLE 2.

### SECURITY FOR OBLIGATIONS; NO ASSUMPTION OF LIABILITY

This Security Agreement secures, and the Collateral is collateral security for, the prompt and complete payment or performance in full when due, whether at stated maturity, by required prepayment, declaration, acceleration, demand or otherwise (including the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of Title 11 of the United States Code, or any similar provision of any other bankruptcy, insolvency, receivership or other similar law), of all Obligations. Notwithstanding anything to the contrary herein, the Security Interest is granted as security only and shall not subject the Lender to, or in any way alter or modify, any obligation or liability of the Borrower with respect to or arising out of the Collateral.

## ARTICLE 3.

### REPRESENTATIONS AND WARRANTIES AND COVENANTS

#### Section 3.1 Generally

(a) Representations and Warranties. The Borrower represents and warrants to the Lender that:

(i) The information in the Lender's Questionnaire is true and correct, in all material respects, on the date hereof.

(ii) Borrower has good and valid rights in or title to, the Collateral with respect to which it has purported to grant the Security Interest, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such Collateral for its intended purposes, and except for Liens expressly permitted pursuant to the Loan Documents.

(iii) This Security Agreement creates a valid and continuing Security Interest in the Collateral in favor of the Lender. Upon (i) the presentation for filing of the UCC financing statements naming Borrower as "debtor" and the Lender as "secured party", or the making of other appropriate filings, registrations or recordings, containing a description of such Collateral in the office of the Secretary of State (or other analogous office) of the jurisdiction of its incorporation as set forth in the Lender's Questionnaire, and (ii) the filing, registration or recordation of fully executed security agreements in the form hereof in the United States Patent and Trademark Office of United States Copyright Office, as applicable, such Security Interest shall be a perfected first priority Security Interest.

(iv) All leases, licenses and other contracts and agreements as to which no security interest is granted by virtue Section 1.3(b) are not material to the business of the Borrower taken as a whole.

(b) Covenants and Agreements. Borrower hereby covenants and agrees as follows:

(i) It shall maintain, at its own cost and expense, such complete and accurate Records with respect to the Collateral as is consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which it is engaged, but in any event to include complete accounting Records indicating all payments and proceeds received with respect to any part of the Collateral, and, at such time or times as the Lender may reasonably request, promptly to prepare and deliver to the Lender a duly certified schedule or schedules in form and detail reasonably satisfactory to the Lender showing the identity and amount of any and all such Collateral.

(ii) It shall, at its own cost and expense, take any and all actions necessary to defend title to the Collateral owned or rights in Collateral held by it or on its behalf against all Persons and to defend the Security Interest in the Collateral and the priority thereof against any Lien or other interest not expressly permitted by the Loan Documents, and in furtherance thereof, it shall not take, or permit to be taken, any action not otherwise expressly permitted by the Loan Documents that could impair the Security Interest or the priority thereof or the Lender's rights in or to such Collateral.

(iii) At its option, the Lender may discharge past due taxes, assessments, charges, fees, Liens, security interests or other encumbrances at any time levied or placed on the Collateral owned or held by or on behalf of Borrower, and not permitted by the Loan Documents, and may pay for the maintenance and preservation of such Collateral to the extent the Borrower fails to do so as required by the Loan Documents, and the Borrower agrees to reimburse the Lender on demand for any payment made or any expense incurred by the Lender pursuant to the foregoing authorization; provided, however, that nothing in this paragraph shall be interpreted as excusing the Borrower from the performance of, or imposing any obligation on the Lender to cure or perform, any covenants or other promises of the Borrower with respect to taxes, assessments, charges, fees, Liens, security interests or other encumbrances and maintenance as set forth herein or in the other Loan Documents.

(iv) It shall remain liable for the failure to observe and perform all the conditions and obligations to be observed and performed by it under each contract, agreement or instrument relating to the Collateral owned or held by it or on its behalf, all in accordance with the terms and conditions thereof, and it agrees to indemnify and hold harmless the Lender from and against any and all liability for such performance.

(v) It shall not make, or permit to be made, an assignment, pledge or hypothecation of the Collateral owned or held by it or on its behalf, or grant any other Lien in respect of such Collateral, except as expressly permitted by the Loan Documents.

(vi) It shall, at its own cost and expense, maintain or cause to be maintained insurance covering physical loss or damage to the Collateral owned or held by it or on its behalf against all risks and liability arising from the use or intended use, or otherwise attributable or relating to, the Collateral, in each case in accordance with Section 5.02 of the Loan



Agreement. With respect to each insurance policy (other than any policy related to workers' compensation), it shall deliver to the Lender a lender's endorsement in form and substance satisfactory to the Lender. The Borrower irrevocably makes, constitutes and appoints the Lender (and all officers, employees or agents designated by the Lender) as the Borrower's true and lawful agent (and attorney-in-fact) for the purpose, during the continuance of an Event of Default, of making, settling and adjusting claims in respect of such Collateral under policies of insurance, endorsing the name of the Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and for making all determinations and decisions with respect thereto. In the event that the Borrower at any time or times shall fail to obtain or maintain any of the policies of insurance required hereby or to pay any premium in whole or part relating thereto, the Lender may, without waiving or releasing any obligation or liability of the Borrower hereunder or any Event of Default, in its sole discretion, obtain and maintain such policies of insurance and pay such premium and take any other actions with respect thereto as the Lender deems advisable. All sums disbursed by the Lender in connection with this subsection, including reasonable attorneys' fees and expenses, court costs, expenses and other charges relating thereto, shall be payable, upon demand, by the Borrower to the Lender and shall be additional Obligations secured hereby.

(vii) It shall provide the Lender with prompt written notice of (a) each Commercial Tort Claim in respect of which the Borrower has any right, title or interest (and will promptly take all steps as the Lender may request to grant to the Lender a first prior Lien therein), and (b) any judgment, settlement or other disposition of any new or existing Commercial Tort Claim.

### Section 3.2 Equipment and Inventory

The Borrower represents and warrants to the Lender that all of its Equipment and Inventory (other than mobile goods, Inventory and Equipment in transit and other Collateral in which possession is not maintained in the ordinary course of its business) is kept only at the locations specified in the Lender's Questionnaire. In addition, the Borrower covenants and agrees that it shall not permit any Equipment (included in the Collateral) or Inventory with a value in excess of \$300,000 owned or held by it or on its behalf, other than goods in transit, to be in the possession or control of any other Person, other than a warehouseman, bailee, agent or processor reasonably acceptable to the Lender that shall have been notified of the Security Interest and shall have agreed in writing with the Lender to hold such Equipment or Inventory subject to the Security Interest and the instructions of the Lender and to waive and release any Lien held by it with respect to such Equipment or Inventory, whether arising by operation of law or otherwise.

### Section 3.3 Accounts

(a) Representations and Warranties. The Borrower represents and warrants to the Lender that no Account is evidenced by an Instrument or Chattel Paper that has not been delivered to the Lender.

(b) Covenants and Agreements. The Borrower hereby covenants and agrees that:

(i) It shall mark conspicuously, in form and manner reasonably satisfactory to the Lender, all Chattel Paper, Instruments and other evidence of any Accounts

(other than any delivered to the Lender as provided herein), as well as the related Records, with an appropriate reference to the fact that the Lender has a security interest therein.

(ii) It will not, without the Lender's prior written consent (which consent shall not be unreasonably withheld), grant any extension of the time of payment of any Account, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any Supporting Obligation, or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, releases, compromises or settlements granted or made in the ordinary course of business and consistent with its current practices or in accordance with such practices reasonably believed by the Borrower to be prudent.

(iii) Except as otherwise provided in this Section, it shall continue to collect all amounts due or to become due to it under all Accounts and any Supporting Obligations relating thereto, and diligently exercise each material right it may have thereunder, in each case at its own cost and expense, and in connection with such collections and exercise, it shall, upon the occurrence and during the continuance of an Event of Default, take such action as it or the Lender may reasonably deem necessary. All amounts received by the Borrower in respect of any Account shall be applied as directed by the account party making such payment. Notwithstanding the foregoing and in addition to all other rights and remedies, the Lender shall have the right at any time after the occurrence and during the continuance of an Event of Default to notify, or require the Borrower to notify, any Account Debtor with respect to any such Account or Supporting Obligation of the Lender's security interest therein, and in addition, at any time during the continuation of an Event of Default, the Lender may: (A) direct such Account Debtor to make payment of all amounts due or to become due to the Borrower thereunder directly to the Lender and (B) enforce, at the cost and expense of the Borrower, collection thereof and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as the Borrower would be able to have done. If the Lender notifies the Borrower that it has elected to collect any such Account or Supporting Obligation in accordance with the preceding sentence, any payments thereof received by the Borrower shall not be commingled with any of its other funds or property but shall be held separate and apart therefrom, shall be held in trust for the benefit of the Lender hereunder and shall be forthwith delivered to the Lender in the same form as so received (with any necessary endorsement), and the Borrower shall not grant any extension of the time of payment thereof, compromise, compound or settle the same for less than the full amount thereof, release the same, wholly or partly, or allow any credit or discount whatsoever thereon. The Borrower shall use its best efforts to keep in full force and effect any Supporting Obligation relating to any Account.

#### Section 3.4 Intellectual Property Collateral

The Borrower hereby covenants and agrees as follows:

(i) It will not, nor will it permit any of its licensees (or sublicensees) to, do any act, or omit to do any act, whereby any material Patent that is related to the conduct of its business may become invalidated or dedicated to the public, and it shall take such commercially reasonable actions as necessary to establish and preserve its maximum rights under applicable patent laws.

(ii) It will (either directly or through its licensees or its sublicensees), for each Trademark included in the Collateral that is material to the conduct of its business, (A) maintain such Trademark in full force free from any claim of abandonment or

invalidity for non-use, (B) maintain the quality of products and services offered under any such Trademark, (C) display such Trademark with notice of Federal or other analogous registration to the extent necessary to establish and preserve its rights under applicable law, and (D) not knowingly use or knowingly permit any of its licensees or sublicensees to use such Trademark in violation of any third party's valid and legal rights.

(iii) It will (either directly or through its licensees or its sublicensees), for each work covered by a Copyright included in the Collateral that is material to the conduct of its business, continue to publish, reproduce, display, adopt and distribute the material work with appropriate copyright notice as necessary to establish and preserve its maximum rights under applicable copyright laws.

(iv) It will promptly notify the Lender in writing if it knows that any Intellectual Property material to the conduct of its business and included in the Collateral may become abandoned, lost or dedicated to the public, or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office or the United States Copyright Office, or any similar offices or tribunals in the United States of America or any other country) regarding the Borrower's ownership of any such Intellectual Property, its right to register the same, or to keep and maintain the same.

(v) In the event Borrower shall, either directly or through any agent, employee, licensee or designee, file an application for any Intellectual Property with the United States Patent and Trademark Office, the United States Copyright Office or any similar offices in the United States of America or any other country, Borrower shall notify the Lender in writing thereof, as required by Section 5.01(f) of the Loan Agreement, and, upon request of the Lender, execute and deliver any and all agreements, instruments, documents and papers as the Lender may reasonably request to evidence the Lender's security interest in such Intellectual Property, and the Borrower hereby appoints the Lender as its attorney-in-fact to execute and file such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power, being coupled with an interest, is irrevocable.

(vi) It will take all necessary steps that are consistent with the practice in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office or any similar offices or tribunals in the United States of America or any other country, to maintain and pursue each application relating to the Intellectual Property included in the Collateral owned or held by it or on its behalf that is material to the conduct of its business (and to obtain the relevant grant or registration) and to maintain each issued Patent and each registered Trademark and Copyright included in the Collateral that is material to the conduct of its business, including timely filings of applications for renewal, affidavits of use, affidavits of incontestability and payment of maintenance fees, and, if consistent, in good faith, with reasonable business judgment, to initiate opposition, interference and cancellation proceedings against third parties. In the event that it has reason to believe that any Intellectual Property included in the Collateral material to the conduct of its business has been or is about to be infringed, misappropriated or diluted by a third party, it promptly shall notify the Lender in writing and shall, if consistent, in good faith, with reasonable business judgment, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and take such other actions consistent with reasonable business practices under the circumstances to protect such Intellectual Property.

(vii) During the continuance of an Event of Default, it shall use its best efforts to obtain all requisite consents or approvals by the licensor of each license included in the Collateral owned or held by it or on its behalf to effect the assignment (as collateral security) of all of its right, title and interest thereunder to the Lender or its designee.

(viii) It shall continue to collect all amounts due or to become due to it under all material Intellectual Property included in the Collateral owned or held by it or on its behalf, and diligently exercise each material right it may have thereunder, in each case at its own cost and expense, and in connection with such collections and exercise, it shall, upon the occurrence and during the continuance of an Event of Default, take such action as it or the Lender may reasonably deem necessary. Notwithstanding the foregoing, the Lender shall have the right at any time after the occurrence and during the continuance of an Event of Default to notify, or require the Borrower to notify, any relevant obligors with respect to such amounts of the Lender's security interest therein.

#### ARTICLE 4.

##### FURTHER ASSURANCES

The Borrower hereby covenants and agrees, at its own cost and expense, to promptly execute and deliver all further certificates, documents, instruments, financing and continuation statements and amendments thereto, notices and other agreements, and to take all further action, that the Lender may reasonably request from time to time, in order to perfect and protect the Security Interest granted hereby or to enable the Lender to exercise and enforce its rights and remedies hereunder with respect to the Collateral.

#### ARTICLE 5.

##### LENDER APPOINTED ATTORNEY-IN-FACT

The Borrower hereby appoints the Lender and any officer or agent thereof, as its true and lawful agent and attorney-in-fact for the purpose of carrying out the provisions of this Security Agreement, taking any action the Borrower is obligated to take under any Loan Document, and taking any action and executing any instrument that the Lender may deem necessary or advisable to accomplish the purposes hereof, which appointment is irrevocable and coupled with an interest. The provisions of this Article shall in no event relieve the Borrower of any of its obligations hereunder or under the other Loan Documents with respect to any of the Collateral or impose any obligation on the Lender to proceed in any particular manner with respect to any of the Collateral, or in any way limit the exercise by the Lender of any other or further right that it may have on the date of this Security Agreement or hereafter, whether hereunder, under any other Loan Document, by law or otherwise.

## ARTICLE 6.

### REMEDIES UPON DEFAULT

#### Section 6.1 Remedies Generally

Upon the occurrence and during the continuance of an Event of Default, the Lender may exercise any and all rights and remedies granted to a Secured Party by the UCC or otherwise allowed at law, and provided by this Security Agreement. Without limiting the foregoing, with respect to any Collateral consisting of Intellectual Property the Borrower agrees, on demand, to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Lender shall determine, unless any of the Borrower's obligations would violate any then-existing licensing arrangements to the extent that waivers cannot be obtained without unreasonable expense. The Lender may sell all or a portion of the Collateral in any manner permitted by applicable law, provided, that the Borrower agrees that ten days' written notice of any such sale shall be deemed reasonable notice within the meaning of Section 9-611 of the UCC as in effect in the State of New York or its equivalent in other jurisdictions (or any successor provisions)).

#### Section 6.2 Application of Proceeds of Sale

The Lender shall apply the proceeds of any collection or sale of the Collateral, as well as any Collateral consisting of cash, as follows: (i) first, to the payment of all reasonable costs and expenses incurred by the Lender in connection with such collection or sale or otherwise in connection with this Security Agreement, any other Loan Document or any of the Obligations, including all out of pocket court costs and the reasonable fees and expenses of its agents and legal counsel, the repayment of all advances made by the Lender hereunder or under any other Loan Document on behalf of the Borrower and any other reasonable out-of-pocket costs or expenses incurred in connection with the exercise of any right or remedy hereunder or under any other Loan Document, (ii) second, to the payment in full of the Obligations in such order as the Lender may choose; and (iii) third, to the Borrower, its successors or assigns, or as a court of competent jurisdiction may otherwise direct.

#### Section 6.3 Grant of license to Use Intellectual Property

For the purpose of enabling the Lender to exercise rights and remedies under this Article, at such time as the Lender shall be lawfully entitled to exercise such rights and remedies, the Borrower hereby grants, to the extent it has the right to grant, to the Lender an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to the Borrower) to use, license or sublicense any of the Collateral consisting of Intellectual Property now owned or held or hereafter acquired or held by or on behalf of the Borrower, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof. The use of such license by the Lender shall be exercised, at the option of the Lender, upon the occurrence and during the continuation of an Event of Default; provided that any license, sublicense or other transaction entered into by the Lender in accordance herewith shall be binding upon the Borrower notwithstanding any subsequent cure of an Event of Default. Any royalties and other payments received by the Lender shall be applied in accordance with Section 6.2.

ARTICLE 7.

REIMBURSEMENT OF LENDER

The Borrower agrees to pay to or reimburse the Lender for all of its fees, costs and expenses incurred in connection herewith, provided that the Borrower's obligations in respect of the negotiation, preparation, execution and delivery of this Security Agreement and the Loan Agreement shall not exceed \$25,000.

ARTICLE 8.

SECURITY INTEREST ABSOLUTE

All rights of the Lender hereunder, the Security Interest and all obligations of the Borrower hereunder shall be absolute and unconditional irrespective of (i) any lack of validity or enforceability of the Loan Agreement, any other Loan Document, any agreement with respect to any of the Obligations, or any other agreement or instrument relating to any of the foregoing, (ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other waiver, amendment, supplement or other modification of, or any consent to any departure from, the Loan Agreement, any other Loan Document or any other agreement or instrument relating to any of the foregoing, (iii) except as otherwise expressly permitted under the Loan Documents or effected pursuant thereto, any exchange, release or non-perfection of any Lien on any other collateral, or any release or waiver, amendment, supplement or other modification of, or consent under, or departure from, any guaranty, securing or guaranteeing all or any of the Obligations, or (iv) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of the Obligations or in respect of this Security Agreement or any other Loan Document.

ARTICLE 9.

TERMINATION; RELEASE

This Security Agreement and the Security Interest shall terminate when Borrower's Obligations under the Loan Documents have expired or otherwise terminated and all Obligations have been finally and indefeasibly paid in full. Upon the effectiveness of any written consent to the release of the Security Interest in any Collateral pursuant to Section 8.03 of the Loan Agreement, the Security Interest in such Collateral shall be automatically released. Upon any sale, transfer or other disposition of Collateral permitted by the Loan Documents (other than to a Loan Party), the Security Interest in such Collateral shall be automatically released (other than to the extent any such sale, transfer or other disposition of such Collateral would, immediately after giving effect thereto, result in the receipt by the Borrower of any other property (whether in the form of Proceeds or otherwise) that would, but for the release of the Security Interest therein pursuant to this clause, constitute Collateral, in which event the Lien created hereunder shall continue in such property). In connection with any termination or release pursuant to this Section, the Lender shall execute and deliver to the Borrower, at the Borrower's own cost and expense, all Uniform Commercial Code termination statements and similar documents that the Borrower may reasonably request to evidence such termination or release. Any execution and delivery of documents pursuant to this Article shall be without recourse to or warranty by the Lender.

## ARTICLE 10.

### BINDING EFFECT; SEVERAL AGREEMENT; ASSIGNMENTS

Whenever in this Security Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. This Security Agreement shall become effective as to the Borrower when a counterpart hereof executed on behalf of the Borrower shall have been delivered to the Lender and a counterpart hereof shall have been executed on behalf of the Lender, and thereafter, all covenants, promises and agreements contained in this Security Agreement shall be binding upon the Borrower and the Lender, as applicable, and their respective successors and assigns, and shall inure to the benefit of the Borrower, the Lender, and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or obligations hereunder or any interest herein or in any of the Collateral (and any such attempted assignment shall be void), except as expressly contemplated by this Security Agreement or the other Loan Documents.

## ARTICLE 11.

### SURVIVAL OF AGREEMENT; SEVERABILITY

All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Security Agreement or any other Loan Document shall be considered to have been relied upon by the Lender and shall survive the execution and delivery of any Loan Document and the making of any Loan, regardless of any investigation made by the Lender or on its behalf, and shall continue in full force and effect until this Security Agreement shall terminate. In the event any one or more of the provisions contained in this Security Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby (it being understood that the invalidity of a particular provision in a particular jurisdiction shall not in and of itself affect the validity of such provision in any other jurisdiction). The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of such invalid, illegal or unenforceable provisions.

## ARTICLE 12.

### OTHER PROVISIONS

#### Section 12.1 Notices.

All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by facsimile, as provided in the Loan Agreement. All notices and other communications given to any party hereto in accordance with the provisions hereof shall be deemed to have been given on the date of receipt.

Section 12.2 Waivers; Amendments

Neither this Security Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Lender and the Borrower.

Section 12.3 Damage Waiver

To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct and actual damages) arising out of, in connection with, or as a result of, any Loan Document or any agreement, instrument or other document contemplated thereby, the Transactions or any Loan or the use of the proceeds thereof.

Section 12.4 Counterparts; Integration; Effectiveness

This Security Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which, when taken together, shall constitute but one contract. This Security Agreement constitutes the entire contract among the parties relating to the subject matter hereof and supersedes any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Delivery of an executed counterpart of this Security Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Security Agreement.

Section 12.5 Right of Setoff

If an Event of Default shall have occurred and be continuing, the Lender and its respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to setoff and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by it to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Security Agreement and the other Loan Documents, irrespective of whether or not it shall have made any demand therefor and although such obligations may be unmatured. The rights of the Lender and its respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that it may have.

Section 12.6 Governing Law; Jurisdiction; Consent to Service of Process

(a) This Security Agreement and any other agreement or documents relating thereto and the rights and obligations of the parties hereunder and thereunder shall be construed and interpreted in accordance with the law of the State of New York. The Borrower and the Lender hereby acknowledge that the underlying transactions to which the Loan Documents relate concern the making, now or in the future of loans and advances to the Borrower and that said obligations of the Borrower are primarily to be performed in the State of New York. The Borrower and the Lender agree that the execution of this Security Agreement and the other Loan Documents and the rights and obligations of the parties hereunder and thereunder shall be deemed to have a New York situs and the Borrower and the Lender shall be subject to the personal jurisdiction of the courts of the State of New York with respect to any action hereunder or thereunder. Accordingly, the Borrower and the Lender hereby specifically and irrevocably



consent to the jurisdiction of the courts of the State of New York with respect to all matters concerning this Security Agreement and the other Loan Documents, the Term Loan and/or any agreement, instrument or document executed or delivered in connection with this Security Agreement and the other Loan Documents or the enforcement of any of the foregoing.

(b) The Borrower and the Lender hereby irrevocably and unconditionally waive, to the fullest extent they may legally and effectively do so, any objection that either of them may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Security Agreement or the other Loan Documents in any court referred to in paragraph (a) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) The Borrower and the Lender irrevocably consent to service of process in the manner provided for notices herein. Nothing in this Security Agreement will affect the right of any party to this Loan Agreement to serve process in any other manner permitted by law.

**Section 12.7 WAIVER OF JURY TRIAL; OTHER WAIVER**

**EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS. EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS SECURITY AGREEMENT AND THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.**

**Section 12.8 Headings**

Article and Section headings used herein are for convenience of reference only, are not part of this Security Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Security Agreement.

SECURITY AGREEMENT

IN WITNESS WHEREOF, the parties hereto have duly executed this Security Agreement as of the day and year first above written.

KIONIX, INC.

By:   
Name: James C. Kirkwood  
Title: VP of Operations & CEO

ENHANCED CAPITAL NEW YORK FUND II, LLC

By: \_\_\_\_\_  
Name: Ranjit Bhonsle  
Title: Managing Director

ENHANCED CAPITAL NEW YORK FUND III, LLC

By: \_\_\_\_\_  
Name: Ranjit Bhonsle  
Title: Managing Director

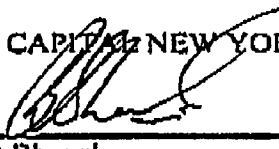
**SECURITY AGREEMENT**

IN WITNESS WHEREOF, the parties hereto have duly executed this Security Agreement as of the day and year first above written.

KIONIX, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ENHANCED CAPITAL NEW YORK FUND II, LLC

By:  \_\_\_\_\_  
Name: Ranjit Bhonsle  
Title: Managing Director

ENHANCED CAPITAL NEW YORK FUND III, LLC

By:  \_\_\_\_\_  
Name: Ranjit Bhonsle  
Title: Managing Director