

INTELLECTUAL PROPERTY SECURITY AGREEMENT

THIS INTELLECTUAL PROPERTY SECURITY AGREEMENT, dated as of February 26, 1998, is made by JEROME RUSSELL COSMETICS USA, INC., a California corporation (the "Grantor"), in favor of SIRROM INVESTMENTS, INC., a Tennessee corporation (the "Lender").

RECITALS

WHEREAS, pursuant to that certain Loan Agreement of even date herewith, (as amended, extended, modified, restructured or renewed from time to time, the "Loan Agreement") by and among Grantor, certain other parties, and Lender, Lender has agreed to make a loan in the aggregate principal amount of \$6,000,000 (the "Loan") to Grantor evidenced by a Secured Promissory Note of even date herewith in the original principal amount of \$6,000,000 made and executed by Grantor payable to the order of Lender (together with any amendments, extensions, modifications and/or renewals thereof and/or any promissory notes given in payment thereof, the "Note").

WHEREAS, Grantor owns certain Intellectual Property listed on Schedule A hereto;

WHEREAS, Grantor desires to mortgage, pledge and grant to Lender, for the benefit of Lender, a security interest in all of its right, title and interest in, to and under the Collateral, including the property listed on the attached Schedule A, together with any renewal or extension thereof, and all Proceeds thereof, to secure the payment of the Obligations; and

WHEREAS, it is a condition precedent to the obligation of the Lender to make the Loan to Grantor under the Loan Agreement, that Grantor execute this Agreement;

AGREEMENT:

NOW, THEREFORE, in consideration of the premises and to induce Lender to enter into the Loan Agreement and to induce Lender to make the Loan to Grantor under the Loan Agreement, Grantor hereby agrees with Lender, as follows:

“Other Proprietary Property” means all types of protectable intangible property rights other than Patents, Trademarks and Copyrights, including without limitation, Trade Secrets, Know-how, computer software and the like, including, without limitation, all such rights referred to in Schedule B hereto.

“Patents” means all types of exclusionary or protective rights granted (or applications therefor) for inventions in any country of the world (including, without limitation, letters patent, plant patents, utility models, breeders' right certificates, inventor's certificates and the like), and all reissues and extensions thereof and all provisionals, divisions, continuations and continuations-in-part thereof, including, without limitation, all such rights referred to in Schedule A hereto.

“Patent License” means any agreement material to the operation of Grantor's businesses, whether written or oral, providing for the grant by or to Grantor of any right to manufacture, use or sell any invention covered by a Patent, including, without limitation, any thereof referred to in Schedule A hereto.

“Proceeds” means “proceeds,” as such term is defined in Section 9-306(1) of the UCC and, to the extent not included in such definition, shall include, without limitation, (a) any and all proceeds of any insurance, indemnity, warranty, guaranty or letter of credit payable to Grantor, from time to time with respect to any of the Collateral, (b) all payments (in any form whatsoever) paid or payable to Grantor from time to time in connection with any taking of all or any part of the Collateral by any governmental authority or any Person acting under color of governmental authority), (c) all judgments in favor of Grantor in respect of the Collateral and (d) all other amounts from time to time paid or payable or received or receivable under or in connection with any of the Collateral.

“Security Agreement” means this Intellectual Property Security Agreement, as amended, supplemented or otherwise modified from time to time.

“Trade Secret” means any scientific or technical information, design, process, pattern, procedure, formula or improvement which is secret and of value including, without limitation, any such information referred to in Schedule B hereto.

“Trademarks” means (a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source of business identifiers used in any country in the world, whether registered or unregistered, and the goodwill associated therewith, now existing or hereafter acquired, and (b) all registrations, recordings and renewals thereof, and all applications in connection therewith, issued by or filed in a national, state or local governmental authority of any country, including, without limitation, all such rights referred to in Schedule A hereto.

(g) No Assignment. Grantor has not, within the three months prior to the date of execution of this Agreement, executed and/or delivered any assignment, transfer or conveyance of any of the Intellectual Property, recorded or unrecorded.

(h) No Proceedings. No proceedings have been instituted or are pending or, to Grantor's knowledge, threatened that challenge Grantor's rights to use the Intellectual Property, or to register or maintain the registration of the Intellectual Property. No holding, decision or judgment has been rendered by any governmental authority which would limit, cancel or question the validity of any of the Intellectual Property. No action or proceeding is pending (i) seeking to limit, cancel or question the validity of any of the Intellectual Property or Grantor's ownership thereof or (ii) which, if adversely determined, would reasonably be likely to have a material adverse effect on the value of any of the Intellectual Property.

(i) No Infringement. To the best of Grantor's knowledge, the current conduct of Grantor's business and Grantor's rights in and to all of the Intellectual Property do not conflict with or infringe any proprietary right of any third party in any way which adversely affects the business, financial condition or business prospects of Grantor. Further, except as set forth in Schedules A and B, Grantor is not aware of any claim by any third party that such conduct or such rights conflict with or infringe any valid proprietary right of any third party in any way which affects the business, financial condition or business prospects of Grantor. Grantor is not making and has not made use of any confidential information of any third party except pursuant to the express agreement of such third party.

(j) Prevention of Infringement. Grantor is unaware of any infringement by any other party upon its Intellectual Property rights. Grantor has heretofore exerted, continues and affirmatively covenants that it will hereafter continue to exert commercially reasonable efforts to prevent any infringement by third parties of Grantor's Intellectual Property rights or any theft of Grantor's Intellectual Property at Grantor's sole cost.

(k) Inventions. All past and present employees of Grantor and/or parties with whom Grantor (including any predecessor-in-interest of Grantor) had any contractual relationship ("contractors"), whose employment (or contractual) functions included or affected research and development or other material aspects of Intellectual Property have executed agreements requiring them to disclose to Grantor any and all inventions created or developed during and within the scope of their employment by or contractual relationship with Grantor and obligating them to assign all of their respective right, title and interest in and to all such inventions to Grantor.

4. Covenants. Grantor covenants and agrees with Lender that, from and after the date of this Security Agreement until the Obligations are paid in full:

(a) Further Documentation. From time to time, upon the written request of Lender, and at the sole expense of Grantor, Grantor will promptly and duly execute and

deliver such further instruments and documents and take such further action as Lender may reasonably request for the purpose of obtaining or preserving the full benefits of this Security Agreement and of the rights and powers herein granted, including, without limitation, the filing of any financing or continuation statements under the UCC in effect in any jurisdiction with respect to the liens created hereby. Grantor also hereby authorizes Lender to file any such financing or continuation statement without the signature of Grantor to the extent permitted by applicable law. A carbon, photographic or other reproduction of this Security Agreement shall be sufficient as a financing statement for filing in any jurisdiction.

(b) Limitation on Lien on Collateral. Grantor will not create, incur or permit to exist, will take all commercially reasonable actions to defend the Collateral against, and will take such other commercially reasonable action as is necessary to remove, any lien or claim on or to the Collateral, other than the liens created hereby, and other than as permitted pursuant to the Loan Agreement, and will take all commercially reasonable actions to defend the right, title and interest of Lender in and to any of the Collateral against the claims and demands of all persons whomsoever.

(c) Limitations on Dispositions of Collateral. Grantor will not sell, transfer, license or otherwise dispose of any of the Collateral, or attempt, offer or contract to do so except as permitted in the Loan Agreement.

(d) Notices. Grantor will advise Lender promptly, in reasonable detail, at its address set forth in the Loan Agreement, (i) of any lien (other than liens created hereby or permitted under the Loan Agreement) on, or claim asserted against, the Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the liens created hereunder.

(e) Intellectual Property.

(i) Grantor (either itself or through licensees) will, except with respect to any Trademark that Grantor shall reasonably determine is of immaterial economic value to it or otherwise reasonably determines not to do so, (A) continue to use each Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (B) maintain as in the past the quality of products and services offered under such Trademark, (C) use reasonable efforts to employ such Trademark with the appropriate notice of registration, (D) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless within 30 days after such use or adoption Lender, for its benefit, shall obtain a perfected security interest in such mark pursuant to this Security Agreement, and (E) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark may become invalidated.

(ii) Grantor will not, except with respect to any Patent that Grantor shall reasonably determine is of immaterial economic value to it or otherwise reasonably determine so to do, do any act, or omit to do any act, whereby any Patent may become abandoned or dedicated. Without the prior written consent of Lender, Grantor shall not abandon any right to file a patent application, or abandon any pending patent application or patent.

(iii) Grantor will promptly notify Lender if it knows, or has reason to know, that any application relating to any Patent, Trademark or Copyright may become abandoned or dedicated, or of any adverse determination or material development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark office or any court or tribunal in any country) regarding Grantor's ownership of any Patent, Trademark or Copyright, or its right to register the same or to keep and maintain the same.

(iv) Whenever Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for any Patent or for the registration of any Trademark or Copyright with the United States Patent and Trademark Office or any similar office or agency in any other country or any political subdivision thereof, Grantor shall report such filing to Lender within five business days after the filing. Upon request of Lender, Grantor shall execute and deliver any and all reasonably necessary agreements, instruments, documents, and papers as Lender may request to evidence Lender's security interest in any newly filed Patent, Copyright or Trademark and the goodwill and general intangibles of Grantor relating thereto or represented thereby, and each Grantor hereby constitutes Lender its attorney-in-fact to execute and file all 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 until the Obligations are paid in full.

(v) Grantor, except with respect to any Patent, Trademark or Copyright Grantor shall reasonably determine is of immaterial economic value to it or it otherwise reasonably determines not to so do, will take all reasonable and necessary steps, including, without limitation, in any proceedings before any tribunal, office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration or Patent) and to maintain each Patent and each registration of Trademarks and Copyrights, including, without limitation, filing of applications, applications for reissue, renewal or extensions, the payment of maintenance fees, participation in reexamination, opposition and infringement proceedings, and the filing of renewal applications, affidavits of use and affidavits of incontestability, when appropriate. Any expenses incurred in connection with such activities shall be paid by Grantor.

(vi) In the event Grantor knows or has reason to know that any Patent, Trademark or Copyright included in the Collateral is infringed, misappropriated or diluted by a third party, Grantor shall promptly notify Lender after it learns thereof and shall, unless Grantor shall reasonably determine that such Patent or Trademark is of immaterial economic value to Grantor which determination Grantor shall promptly report to Lender, promptly sue for infringement, misappropriation or dilution, or take such other actions as Grantor shall reasonably deem appropriate under the circumstances to protect such Patent, Trademark or Copyright.

(vii) Grantor will furnish to Lender each year in connection and at the time of delivery of Grantor's annual financial statements in accordance with the Loan Agreement, statements, schedules and an inventory identifying and describing the Collateral, including without limitation, all Intellectual Property acquired subsequent to the date of this agreement and not identified on Schedule A, all transfers, assignments, licenses or sub-licenses of the Collateral by Grantor, and such other information in connection with the Collateral as Lender may reasonably request, all in reasonable detail. Any such Intellectual Property shall automatically become part of the Collateral upon acquisition or creation thereof by Grantor.

5. Lender's Appointment as Attorney-in-Fact.

(a) Powers. Grantor hereby irrevocably constitutes and appoints Lender and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of Grantor and in the name of Grantor or in its own name, from time to time after the occurrence, and during the continuation of, an Event of Default in Lender's discretion, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Security Agreement, and, without limiting the generality of the foregoing, Grantor hereby gives Lender the power and right, on behalf of Grantor without notice to or assent by Grantor, to do the following:

(i) at any time when any Event of Default shall have occurred and is continuing in the name of Grantor or its own name, or otherwise, to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due under, or with respect to, any Collateral and to file any claim or to take any other action or proceeding in any court of law or equity or otherwise deemed appropriate by Lender for the purpose of collecting any and all such moneys due with respect to such Collateral whenever payable;

(ii) to pay or discharge taxes and liens levied or placed on or threatened against the Collateral, to effect any repairs or any insurance called for by the terms of this Security Agreement and to pay all or part of the premiums therefor and the costs thereof; and

(iii) (a) to direct any party liable for any payment under any of the Collateral to make payment of any and all moneys due or to become due thereunder directly to Lender or as Lender shall direct, (b) to ask or demand for, collect, receive payment of and receipt for, any and all moneys, claims and other amounts due or to become due at any time in respect of or arising out of any Collateral, (c) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against debtors, assignments, verifications, notices and other documents in connection with any of the Collateral, (d) to commence and prosecute any suits, actions or proceedings at law or in equity in any court of competent jurisdiction to collect the Collateral or any portion thereof and to enforce any other right in respect of any Collateral, (e) to defend any suit, action or proceeding brought against Grantor with respect to any Collateral, (f) to settle, compromise or adjust any suit, action or proceeding described in the preceding clause and, in connection therewith, to give such discharges or releases as Lender may deem appropriate, (g) to assign any Trademark (along with goodwill of the business to which such Trademark pertains), throughout the world for such term or terms, on such conditions, and in such manner, as Lender shall in its sole discretion determine, and (h) generally, to sell, transfer, pledge and make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Lender were the absolute owner thereof for all purposes, and to do, at Lender's option and Grantor's expense, at any time, or from time to time, all acts and things which Lender deems necessary to protect, preserve or realize upon the Collateral and the liens of Lender thereon and to effect the intent of this Security Agreement, all as fully and effectively as Grantor might do. Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

(b) Other Powers. Grantor also authorizes Lender, at any time and from time to time, to execute, in connection with the sale provided for in Section 8 hereof, any endorsements, assignments or other instruments of conveyance or transfer with respect to the Collateral.

(c) No Duty on the Part of Lender. The powers conferred on Lender hereunder are solely to protect the interests of Lender in the Collateral and shall not impose any duty upon Lender to exercise any such powers. Lender shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its partners, officers, directors, employees or agents shall be responsible to Grantor for any act or failure to act hereunder, except for their own gross negligence or willful misconduct or failure to comply with mandatory provisions of applicable law.

6. Performance by Lender of Grantor's Obligations. If Grantor fails to perform or comply with any of its agreements contained herein and Lender, as provided for by the terms of this Security Agreement, shall itself perform or comply, or otherwise cause performance or compliance, with such agreement, the expenses of Lender incurred in connection with such performance or

compliance, together with interest thereon at the highest default rate provided in the Note, shall be payable by Grantor to Lender on demand and shall constitute Obligations secured hereby.

7. **Proceeds.** It is agreed that if an Event of Default shall occur and be continuing (a) all Proceeds received by Grantor consisting of cash, checks and other cash equivalents shall be held by Grantor in trust for Lender, segregated from other funds of Grantor, and shall, forthwith upon receipt by Grantor, be turned over to Lender in the exact form received by Grantor (duly endorsed by Grantor to Lender, if required), and (b) any and all such Proceeds received by Lender (whether from Grantor or otherwise) shall promptly be applied by Lender against, the Obligations (whether matured or unmatured), such application to be in such order as set forth in the Loan Agreement. Any balance of such Proceeds remaining after the Obligations shall have been paid in full shall be paid over to Grantor or to whomsoever may be lawfully entitled to receive the same.

8. **Remedies.** If an Event of Default shall occur and be continuing, Lender, may exercise, in addition to all other rights and remedies granted to it in this Security Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the UCC. Without limiting the generality of the foregoing, Lender without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon Grantor or any other person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, lease, assign, give option or options to purchase, or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any office of Lender or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or on future delivery without assumption of any credit risk. Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in Grantor, which right or equity is hereby waived or released. Grantor further agrees, at Lender's request, to assemble the Collateral and make it available to Lender at places which Lender shall reasonably select, whether at Grantor's premises or elsewhere. Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Collateral or in any way relating to the Collateral or the rights of Lender hereunder, including, without limitation, reasonable attorneys' fees and disbursements, to the payment in whole or in part of the Obligations, in such order as Lender may elect, and only after such application and after the payment by Lender of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the UCC, need Lender account for the surplus, if any, to Grantor. To the extent permitted by applicable law, Grantor waives all claims, damages and demands it may acquire against Lender arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given at least 10 days before such sale or other disposition. Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Obligations and the fees and disbursements of any attorneys employed by Lender to collect such deficiency.

9. Limitation on Duties Regarding Preservation of Collateral. Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the UCC or otherwise, shall be to deal with it in the same manner as Lender would deal with similar property for its own account. Neither Lender nor any of its partners, directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Grantor or otherwise.

10. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

11. Severability. Any provision of this Security Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, 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.

12. Section Headings. The section headings used in this Security Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

13. No Waiver: Cumulative Remedies. Lender shall not by any act (except by a written instrument pursuant to Section 14 hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by Lender of any right or remedy hereunder on any occasion shall not be construed as a bar to any right or remedy which Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any rights or remedies provided by law.

14. Waivers and Amendments: Successors and Assigns. None of the terms or provisions of this Security Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by Grantor and Lender, provided that any provision of this Security Agreement may be waived by Lender in a written letter or agreement executed by Lender or by facsimile transmission from Lender. This Security Agreement shall be binding upon the successors and assigns of Grantor and shall inure to the benefit of Lender and its successors and assigns.

15. Notices. All notices, requests and demands to or upon Grantor or Lender to be effective shall be in writing or by telecopy and unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or, in the case of mail, two (2) business days after deposit in the postal system, first class postage prepaid, or, in the case of telecopy

notice, confirmation of receipt received, addressed to a party at the address provided for such party in the Loan Agreement.

16. Governing Law. This Security Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Tennessee applicable to contracts to be wholly performed in such State, or to the extent required, by federal law.

17. Counterparts. This Agreement may be executed in any number of counterparts and by different parties to this Agreement in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be duly executed and delivered as of the date first above written.

GRANTOR:

JEROME RUSSELL COSMETICS USA, INC.,
a California corporation

By: 

Title: PRESIDENT

LENDER:

SIRROM INVESTMENTS, INC.,
a Tennessee corporation

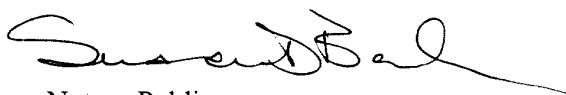
By: 

Title: VP

ipa.2

STATE OF Colorado)
COUNTY OF Denver)

Before me, Susan D. Barber of the state and county aforesaid, personally appeared Kenneth S. Bernstein with whom I am personally acquainted, or proved to me on the basis of satisfactory evidence and who, upon oath, acknowledged himself to be president (or other officer authorized to execute the instrument) of Jerome Russell Cosmetics USA Inc the within named bargainer, a corporation, and that he as such President executed the foregoing instrument for the purpose therein contained, by signing the name of the corporation by himself as President.




Notary Public

My Commission Expires: June 16, 2001

STATE OF Tennessee)
COUNTY OF Davidson)

Before me, Leahon Sexton of the state and county aforesaid, personally appeared Jeff Armstrong, with whom I am personally acquainted, or proved to me on the basis of satisfactory evidence and who, upon oath, acknowledged himself to be president (or other officer authorized to execute the instrument) of Siron Investments Inc. the within named bargainor, a corporation, and that he as such Vice President executed the foregoing instrument for the purpose therein contained, by signing the name of the corporation by himself as Vice President.


Notary Public

My Commission Expires:
5/25/2006

SCHEDULE A

Intellectual Property.

Patents, Trademarks, Trade Names and Copyrights.

Trademarks applied for:

1. Jerome Russell Granted # 2125418
2. Punky Granted # 2125417
3. David Jerome

Trade Names and Copyrights:

Temp`ry Color
Lite n` Up
Eazy Color
Ultra Hair Glo
Colour Mousse
Hairlites
Glitter Gloss Hair and Body Glitter
Star Glitter Hair and Body Glitter
Sweethearts Hair and Body Glitter
Super Glitz Hair and Body Glitter
Glo Gliter Body Glitter
Candy Glitter
Tri-Glitter
Rainbow Glitter
Dazzling Duo Hair and Body Glitter
Pixie Sparkle
Punky Colour and Punky (various products)
Sundaze
Partytime String
Eazy Powder
Hair Color Thickener
Winks
Aloof
Monet Brushes
Gleamers
Malibu Body Suguar
Body Health
Temp`ry Tattoos
JR Inkjet
Copyrights are claimed in certain other materials such as Product
Brochures not listed here.

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SCHEDULE B

NONE