

09-09-1998



100824493

OVER SHEET

S ONLY

SEP

Docket No.:

05550-0000023

Tab settings

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

1. Name of conveying party(ies):

COLOR PRELUDE, INC.

MRD
9/8/98

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

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

3. Nature of conveyance:

- Assignment
- Security Agreement
- Other SUBSIDIARY SECURITY AGREEMENT
- Merger
- Change of Name

Execution Date: September 3, 1998

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

Name: UNION BANK OF CALIFORNIA, N.A.

Internal Address: 8th Floor

Street Address: 400 California Street

City: San Francisco State: CA ZIP: 94104

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

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 numbers(s):

A. Trademark Application No.(s)

B. Trademark Registration No.(s)

1,649,216

Additional numbers attached? Yes No

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

Name: Richard H. Zaitlen

Internal Address: Suite 1200

c/o Pillsbury Madison & Sutro LLP

Street Address: 725 South Figueroa Street

City: Los Angeles State: CA ZIP: 90017

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

01

7. Total fee (37 CFR 3.41):.....\$ 40.00

- Enclosed
- Authorized to be charged to deposit account

8. Deposit account number:

16-1805

DO NOT USE THIS SPACE

09/09/1998 SSMITH 00000127 161805 1649216

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9. Statement and signature.

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.

Richard H. Zaitlen

Name of Person Signing

Signature

September 4, 1998

Date

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

027

SUBSIDIARY SECURITY AGREEMENT

This Agreement, dated as of September 3, 1998, is made by COLOR PRELUDE, INC., a Delaware corporation (formerly known as Color Acquisition, Inc.) (the "Grantor") in favor of UNION BANK OF CALIFORNIA, N.A. (the "Bank").

Recitals

A. Heritage Marketing Corporation (the "Borrower") and the Bank have entered into a Credit Agreement dated as of September 3, 1998 (said Agreement, as it may hereafter be amended or otherwise modified from time to time, herein called the "Credit Agreement"). Terms defined in the Credit Agreement and not otherwise defined herein are used herein as therein defined, and the rules of interpretation set forth in Sections 1.2 and 1.3 of the Credit Agreement are incorporated herein by reference. Terms defined in the California Uniform Commercial Code (the "Code") and not otherwise defined herein or in the Credit Agreement are used herein as defined in the Code.

B. In connection with the Credit Agreement, the Grantor has entered into that certain Subsidiary Guarantee dated as of even date hereof (as it may hereafter be amended or otherwise modified from time to time, the "Subsidiary Guarantee"), pursuant to which the Grantor has guaranteed the Borrower's obligations under the Credit Agreement.

C. The Credit Agreement requires, and the Grantor desires, that the Grantor's obligations under the Subsidiary Guarantee be secured by this Agreement. In addition, the Grantor anticipates receiving the proceeds from extensions of credit under the Credit Agreement and desires that repayment of such amounts be secured by this Agreement.

Section 1. Grant of Security. The Grantor hereby assigns and pledges to the Bank, and hereby grants the Bank a security interest in, all of the Grantor's right, title and interest in and to the following, whether now owned or hereafter acquired, whether now or hereafter existing and wherever located (the "Collateral"):

(a) all equipment in all of its forms (including (i) all machinery, furniture, furnishings, trade fixtures, tools, appliances and motor vehicles; (ii) all production, distribution, selling, data-processing, computer and office equipment; (iii) all tools, tooling, molds and dies; (iv) all sales literature, promotional literature, processes, practices,

techniques, procedures, trade secrets, know-how and other information and data, including designs, drawings, compilations of data, specifications, assembly procedures, software and firmware (all of the Collateral described above in this clause (iv) collectively herein called "Proprietary Works"), in the form of equipment; and (v) all physical representations of or media containing Proprietary Works or other information, including notebooks, drawings, diagrams, plans, manuals, computer peripherals, hardware, firmware, software, data-storage tapes, disks, diskettes and other computerized information, to the extent that such representations or media relate to equipment), and all accessions and additions to the foregoing, parts and appurtenances thereof, substitutions therefor and replacements thereof (all such equipment, accessions, additions, parts, appurtenances, substitutions and replacements herein called the "Equipment");

(b) all inventory in all of its forms (including (i) all raw materials and work in process therefor, finished goods thereof and materials used or consumed in the manufacture or production thereof, including cosmetic samples, and related packaging and display units; (ii) all goods in which the Grantor has an interest in mass or a joint or other interest or right of any kind (including goods in which the Grantor has an interest or right as consignee) and (iii) all goods that are returned to or repossessed by the Grantor), and all accessions to, products of and documents for any or all of the foregoing (any and all such inventory, accessions, products and documents herein called the "Inventory");

(c) all accounts, contract rights, chattel paper, instruments and other payment obligations to the Grantor of any kind, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights in and to all security agreements, leases and other contracts securing or otherwise relating to any such accounts, contract rights, chattel paper, instruments or obligations (any and all such accounts, contract rights, chattel paper, instruments and obligations, to the extent not referred to in Section 1(d), (e) or (f), herein called the "Receivables," and any and all such security agreements, leases, licenses and other contracts herein called the "Related Contracts");

(d) all of the following (the "Security Collateral"):

(i) all equity interests of any type, including shares of capital stock, partnership interests and limited liability company interests, all certificates representing such equity interests and all dividends, distributions, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or exchange for any or all of the foregoing (the "Pledged Equity");

(ii) all indebtedness of any type, all instruments evidencing such indebtedness, including promissory notes, bonds, debentures and other debt securities, and all interest, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the foregoing (the "Pledged Debt"); and

(iii) all other investment property of any type, including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts);

(e) all of the following (the "Account Collateral"):

(i) all bank accounts and other deposit accounts (all such accounts herein called the "Bank Accounts"), all funds held in the Bank Accounts and all certificates and instruments, if any, from time to time representing or evidencing the Bank Accounts;

(ii) all notes, certificates of deposit, deposit accounts, checks and other instruments from time to time hereafter delivered to or otherwise possessed by the Bank for or on behalf of the Grantor in substitution for or in addition to any or all of the then existing Account Collateral; and

(iii) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing Account Collateral;

(f) all general intangibles, to the extent not described above in this Section 1, including the following: (i) all contract rights, tax refunds, know-how, trade secrets, engineering plans, computer software, drawings and other proprietary information; (ii) all rights to receive any assets distributed upon or in connection with the termination of any employee-benefit plan or to receive any proceeds from the sale or other divestment of any assets; (iii) all leases, licenses and other rights in or to real or personal property, whether or not embodied in a written agreement; (iv) all patents, patent applications, unpatented inventions (whether or not patentable) and license agreements concerning patents, whether the Grantor is a licensor or licensee under any such license agreement (all of the foregoing herein called "Patents"); (v) all copyrights (whether or not published or registered under the Copyright Act of 1976), all applications for registration of copyrights, all works of authorship and other intellectual property rights therein, all license agreements concerning copyrights, whether the Grantor is a licensor or licensee under any such license agreement, all copyrightable materials now or hereafter owned by the Grantor (whether or not copyrighted), and all tangible property embodying copyrights (all of the foregoing herein called

"Copyrights"); (vi) all trade names, trademarks, trade dress, service marks, trademark and service mark registrations and applications for trademark or service mark registration (all of the foregoing herein called "Marks"), all goodwill of the business connected with the use of and symbolized by each Mark, all license agreements concerning Marks, whether the Grantor is a licensor or licensee under any such license agreement (all of the foregoing herein called "Trademarks"); and (vii) all renewals, revisions, modifications, reissues, divisions, continuations and extensions of any Patent, Copyright or Trademark, all income, royalties, damages and payments now or hereafter due or payable with respect to any Patent, Copyright or Trademark (including damages for past or future infringements thereof), all rights to sue or otherwise recover for all past, present and future infringements of any Patent, Copyright or Trademark (including all rights corresponding thereto throughout the world), and all other rights of any kind whatsoever accruing under or pertaining to any Patent, Copyright or Trademark; and

(g) all proceeds of any and all of the foregoing Collateral (including proceeds that constitute property of any type described above in this Section 1) and, to the extent not otherwise included, all (i) payments under insurance (whether or not the Bank is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral, (ii) books, records and data with respect to the foregoing Collateral and (iii) cash.

Section 2. Security for Obligations. The security interest granted under this Agreement secures the payment of (a) all obligations of the Borrower now or hereafter existing under, in respect of or in connection with the Credit Agreement or any other Credit Document to which the Borrower is or becomes a party and (b) all obligations of the Grantor under this Agreement and the Subsidiary Guarantee (all such obligations herein called the "Secured Obligations").

Section 3. Grantor Remains Liable. Notwithstanding anything herein to the contrary, (a) the Grantor shall remain liable under the contracts and agreements included in the Collateral, to the extent set forth therein, to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Bank of any of its rights hereunder shall not release the Grantor from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) the Bank shall not (i) have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement or (ii) be obligated to perform any of the obligations or duties of the Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

Section 4. Delivery of Certificates and Instruments; Control over Investment Property.

(a) All certificates and instruments, if any, representing or evidencing the Security Collateral shall be delivered to and held by or on behalf of the Bank pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Bank. Subject to the revocable rights specified in Section 10(a), the Bank shall have the right, at any time after the occurrence and during the continuation of any Event of Default, in its discretion and without notice to the Grantor, to transfer to or register in the name of the Bank or any of its nominees any or all of the Security Collateral. In addition, the Bank shall have the right to exchange certificates or instruments representing or evidencing Security Collateral for certificates or instruments of smaller or larger denominations.

(b) The Grantor will cause the Bank to receive control over all investment property included in the Collateral, including (i) in the case of any certificated security in bearer form, by delivering the same to the Bank; (ii) in the case of any certificated security in registered form, by delivering the certificate to the Bank and either (A) endorsing such certificate in blank by an endorsement in form and substance satisfactory to the Bank or (B) registering such certificate in the name of the Bank; (iii) in the case of any uncertificated security, either (A) registering such security in the name of the Bank or (B) causing the issuer of such security to agree, pursuant to documentation in form and substance satisfactory to the Bank, to comply with instructions originated by the Bank without further consent by the registered owner of such security; and (iv) in the case of any security entitlement, either (A) causing the Bank to become the entitlement holder with respect thereto or (B) causing the relevant securities intermediary to agree, pursuant to documentation in form and substance satisfactory to the Bank, to comply with entitlement orders originated by the Bank without further consent by the entitlement holder.

Section 5. Representations and Warranties. The Grantor represents and warrants to the Bank as set forth below.

(a) Location of Grantor and Collateral, Etc. All of the Equipment and Inventory are located at the places therefor specified in Schedule 1. The place of business of the Grantor or, if the Grantor has more than one place of business, the chief executive office of the Grantor and the office where the Grantor keeps its records concerning the Receivables, are located in each case at the address listed below the name of the Grantor on the signature page hereof. All promissory notes and other instruments, and all chattel paper, evidencing Collateral have been delivered to the Bank.

(b) Ownership of Collateral. The Grantor is the legal and beneficial owner of the Collateral, free and clear of any Lien other than Liens permitted by Section 5.2(a) of the Credit Agreement. No effective financing statement or other instrument similar in effect covering any or all of the Collateral is on file in any recording office, except such as may have been filed in favor of the Bank relating to this Agreement. The Grantor has no trade names.

(c) Possession of Equipment and Inventory. The Grantor has exclusive possession and control of the Equipment and the Inventory.

(d) Security Collateral. All Security Collateral owned by the Grantor is described on Schedule 2 hereto.

(e) Intellectual Property. As of the date hereof, the Grantor owns or holds only those Patents, Copyrights or Trade-marks described on Schedule 3 hereto.

(f) Valid and Perfected First-Priority Security Interest; Control. This Agreement, the making of the filings contemplated by Section 3.1 of the Credit Agreement and the taking of the other actions required hereby create a valid and perfected first-priority security interest in the Collateral. All filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken.

(g) Third-Party Authorizations, Etc. Except for the filing of financing statements required pursuant to Section 3.1 of the Credit Agreement no Governmental Action is required either (i) for the grant by the Grantor of the security interest granted hereby or for the execution, delivery or performance of this Agreement by the Grantor or (ii) for the perfection of or exercise by the Bank of its rights provided for in this Agreement or the remedies in respect of the Collateral provided pursuant to this Agreement (except as may be required in connection with the disposition of Security Collateral by laws affecting the offering and sale of securities generally).

Section 6. Further Assurances.

(a) The Grantor agrees that from time to time, at its own expense, it will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary, or that the Bank may request, in order to perfect and protect the security interest granted or purported to be granted hereby or to enable the Bank to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Grantor will (i) upon the request of the Bank, mark conspicuously each document included in the Inventory, each Related Contract and each of its records pertaining to the Collateral, in each case

with a legend, in form and substance satisfactory to the Bank, stating that such document, Related Contract or Collateral is subject to the security interest granted hereby; (ii) if any Collateral is evidenced by a promissory note or other instrument or by chattel paper, deliver and pledge to the Bank hereunder such note, instrument or chattel paper, duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Bank; and (iii) execute and file such financing and continuation statements, and amendments thereto, and such other instruments and notices, as may be necessary, or as the Bank may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(b) The Grantor hereby authorizes the Bank to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of the Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) The Grantor will furnish to the Bank from time to time statements and schedules further identifying and describing the Collateral, and such other reports in connection with the Collateral, as the Bank may request, all in reasonable detail.

(d) The Grantor will take all reasonable actions requested by the Bank to obtain any and all Governmental Action as may be necessary to enable the Bank to exercise and enjoy the full rights and benefits granted to it by this Agreement.

Section 7. As to Equipment and Inventory.

(a) The Grantor will keep the Equipment and Inventory (other than Inventory sold in the ordinary course of business) at the places therefor specified in Section 5(a) or, upon 30 days' prior written notice to the Bank, at such other places in jurisdictions where all actions required by Section 6 have been taken with respect to the Equipment and Inventory.

(b) The Grantor will cause the Equipment needed for its business to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any applicable manufacturers' manuals, and will forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements and other improvements in connection therewith as are necessary or reasonably desirable to such end. The Grantor will promptly furnish to the Bank a statement respecting any material loss or damage to the Equipment.

(c) The Grantor will pay promptly when due all property and other taxes, assessments and governmental charges and levies imposed upon, and all claims (including claims for labor, materials and supplies) against, the Equipment and Inventory; provided, however, that the Grantor shall not be required to pay or discharge any such tax, assessment, charge, levy or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained.

Section 8. Insurance.

(a) The Grantor will, at its own expense, maintain insurance in such amounts, against such risks, in such form and with such insurers as may be satisfactory to the Bank from time to time. Each policy for liability insurance shall name the Bank as an additional insured, and each policy for property-damage insurance shall provide for all losses (except for losses of less than \$500,000 per occurrence) to be paid directly to the Bank. Each such policy shall in addition provide that at least 10 days' prior written notice of cancellation or lapse shall be given to the Bank by the insurer. The Grantor will, if so requested by the Bank, deliver to the Bank original or duplicate policies of such insurance and, as often as the Bank may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further, the Grantor will, at the request of the Bank, duly exercise and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 6 and will cause the insurers to acknowledge notice of such assignment.

(b) Reimbursement under any liability insurance maintained by the Grantor pursuant to this Section 8 may be paid directly to the Person that has incurred liability covered by such insurance. In case of any loss involving damage to Equipment or Inventory when Section 8(c) is not applicable, the Grantor will make or cause to be made the necessary repairs to or replacements of such Equipment or Inventory, and any proceeds of insurance maintained by the Grantor pursuant to this Section 8 shall be paid to the Grantor as reimbursement for the costs of such repairs or replacements.

(c) Upon (i) the occurrence and during the continuation of any Default or (ii) the actual or constructive total loss (in excess of \$500,000 per occurrence) of any Equipment or Inventory, all insurance proceeds in respect of such Equipment or Inventory shall be paid to and applied by the Bank as provided in Section 15(b).

Section 9. Place of Business; Collection of Receivables.

(a) The Grantor will keep its place of business or, if it has more than one place of business, its chief executive

office and the office where it keeps its records concerning the Collateral at the location therefor specified in Section 5(a) or, upon 30 days' prior written notice to the Bank, at such other locations in jurisdictions where all actions required by Section 6 have been taken with respect to the Collateral. The Grantor will hold and preserve such records and chattel paper and will permit representatives of the Bank at any time during normal business hours, upon reasonable prior notice, to inspect, copy and make abstracts from such records and chattel paper.

(b) Except as otherwise provided in this Section 9(b), the Grantor will continue to collect, at its own expense, all amounts due or to become due to the Grantor under the Receivables. In connection with such collections, the Grantor may take (and, if a Default has occurred and is continuing, at the Bank's direction will take) such action as the Grantor or the Bank may deem necessary or advisable to enforce collection of the Receivables; provided, however, that the Bank shall have the right at any time, upon the occurrence and during the continuation of a Default and upon written notice to the Grantor of its intention to do so, to notify the account debtors or obligors under any Receivables of the assignment of such Receivables to the Bank and to direct such account debtors or obligors to make payment of all amounts due or to become due to the Grantor thereunder directly to the Bank and, upon such notification and at the expense of the Grantor, to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as the Grantor might have done. After receipt by the Grantor of the notice from the Bank referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including instruments) received by the Grantor in respect of the Receivables shall be received in trust for the benefit of the Bank hereunder, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Bank in the same form as so received (with any necessary endorsement) to be held as cash collateral and, if an Event of Default has occurred and is continuing, applied as provided by Section 15(b), and (ii) the Grantor will not adjust, settle or compromise the amount or payment of any Receivable, release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon.

Section 10. Rights with Respect to Security Collateral.

(a) So long as no Event of Default has occurred and is continuing, the provisions set forth below shall apply.

(i) The Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Security Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement and the other Credit Documents; provided, however, that the Grantor will not exercise or refrain from exercising any such right if, in the

Bank's judgment, such action would have a material and adverse effect on the value of the Security Collateral or any part thereof.

(ii) The Grantor shall be entitled to receive and retain any and all dividends, interest and other distributions paid in respect of the Security Collateral; provided, however, that any and all

(A) dividends, interest and other distributions paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of or exchange for, any Pledged Equity or Pledged Debt,

(B) dividends, interest and other distributions paid or payable in cash in respect of any Pledged Equity in connection with a partial or total liquidation or dissolution of the issuer thereof or in connection with a reduction of capital, capital surplus or paid-in surplus by such issuer and

(C) cash paid, payable or otherwise distributed in respect of principal of, or in redemption of or exchange for, any Pledged Equity

shall be, and shall be forthwith delivered to the Bank to hold as, Security Collateral and shall, if received by the Grantor, be received in trust for the benefit of the Bank, be segregated from the other property or funds of the Grantor and be forthwith delivered to the Bank as Security Collateral in the same form as so received (with any necessary endorsement).

(iii) The Bank will execute and deliver (or cause to be executed and delivered) to the Grantor all such proxies and other instruments as the Grantor may request for the purpose of enabling the Grantor to exercise the voting and other rights that it is entitled to exercise pursuant to Section 10(a)(i) and to receive the dividends, interest and other distributions that it is authorized to receive and retain pursuant to Section 10(a)(ii).

(b) Upon the occurrence and during the continuation of any Event of Default, the provisions set forth below shall apply.

(i) All rights of the Grantor to exercise the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 10(a)(i) and to receive the dividends, interest and other distributions that it would otherwise be authorized to receive and retain pursuant to Section 10(a)(ii) shall cease, and all such rights shall thereupon become vested in the Bank, which shall thereupon have the sole right to exercise such voting and other consensual rights and to receive

and hold as Security Collateral such dividends, interest and other distributions.

(ii) All dividends, interest and other distributions that are received by the Grantor contrary to the provisions of Section 10(b)(i) shall be received in trust for the benefit of the Bank, shall be segregated from other funds of the Grantor and shall be forthwith paid over to the Bank as Security Collateral in the same form as so received (with any necessary endorsement).

Section 11. Transfers and Other Liens. The Grantor will not (a) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral or (b) create or permit to exist any Lien upon or with respect to any of the Collateral, except that the Grantor may take any of the foregoing actions that are explicitly permitted by the Credit Agreement.

Section 12. Bank Appointed Attorney-in-Fact. The Grantor hereby irrevocably appoints the Bank as the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time in the Bank's discretion time after the occurrence and during the continuation of any Event of Default, to take any action and to execute any instrument that the Bank may deem necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Grantor under Section 9), including:

(a) to obtain and adjust insurance required to be paid to the Bank pursuant to Section 8;

(b) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due or to become due under or in respect of any of the Collateral;

(c) to receive, endorse and collect any drafts, other instruments, documents and chattel paper in connection with clause (a) or (b) above; and

(d) to file any claims, take any action and institute any proceedings that the Bank may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce compliance with the terms and conditions of the Assigned Agreements or the rights of the Bank with respect to any of the Collateral.

Section 13. Bank May Perform. If the Grantor fails to perform any agreement contained herein, the Bank may itself perform or cause performance of such agreement, and the expenses of the Bank incurred in connection therewith shall be payable by the Grantor under Section 16(b).

Section 14. Bank's Duties. The powers conferred on the Bank hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Bank shall have no duty as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Security Collateral, whether or not the Bank has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Bank shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that the Bank accords its own property.

Section 15. Remedies. If any Event of Default occurs and is continuing, the provisions set forth below shall apply.

(a) The Bank may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all of the rights and remedies of a secured party on default under the Code (whether or not the Code applies to the affected Collateral) and may also (i) require the Grantor to, and the Grantor hereby agrees that it will at its expense and upon request by the Bank forthwith, assemble all or part of the Collateral as directed by the Bank and make it available to the Bank at a place to be designated by the Bank that is reasonably convenient to both parties and (ii) without notice except as provided below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Bank's offices or elsewhere, for cash, on credit or for future delivery and upon such other terms as the Bank may deem commercially reasonable. The Grantor agrees that, to the extent notice of sale is required by law, at least 10 days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Bank shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Bank may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All payments received by the Bank in respect of the Collateral, and all cash proceeds received by the Bank in respect of any sale of, collection from or other realization upon all or any part of the Collateral, may, in the discretion of the Bank, be held by the Bank as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Bank pursuant to Section 16) in whole or in part by the Bank against, all or any part of the Secured Obligations in such

order as the Bank may elect. Any surplus of such payments or cash proceeds held by the Bank and remaining after payment in full of the Secured Obligations shall be paid over to the Grantor or to whoever may be lawfully entitled to receive such surplus.

(c) The Bank may, without notice to the Grantor except as required by law and at any time or from time to time, charge, set off and otherwise apply any or all of the Account Collateral against the Secured Obligations.

Section 16. Indemnity and Expenses.

(a) The Grantor agrees to indemnify the Bank from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including enforcement of this Agreement), except claims, losses or liabilities resulting from the Bank's gross negligence or willful misconduct.

(b) The Grantor will upon demand pay to the Bank the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel and of any experts and agents, that the Bank may incur in connection with (i) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral, (ii) the exercise or enforcement of any of the rights of the Bank hereunder or (iii) the failure by the Grantor to perform or observe any of the provisions hereof.

Section 17. Amendments, Waivers, Etc.

(a) No amendment or waiver of any provision of this Agreement, or consent to any departure by the Grantor herefrom, shall in any event be effective unless the same is in writing and signed by the Bank, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

(b) The waiver (whether expressed or implied) by the Bank of any breach of the terms or conditions of this Agreement shall not prejudice any remedy of the Bank in respect of any continuing or other breach of the terms and conditions hereof and shall not be construed as a bar to any right or remedy that the Bank would otherwise have on any future occasion under this Agreement.

(c) No failure to exercise or delay in exercising any right, power or privilege under this Agreement by the Bank shall operate as a waiver thereof or the exercise of any other right, power or privilege.

Section 18. Addresses for Notices. All notices and other communications provided for hereunder shall be given in accordance with the provisions of, and with the effect provided in,

Section 7.2 of the Credit Agreement and if to the Grantor, to the address set forth for it on the signature page hereof.

Section 19. Continuing Security Interest; Assignment. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the Secured Obligations have been paid in full and the Commitments have terminated, (b) be binding upon the Grantor and its respective successors and assigns and (c) inure, together with the rights and remedies of the Bank hereunder, to the benefit of the Bank and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), the Bank may assign or otherwise transfer any or all of its rights and obligations under this Agreement to any other Person, and such other Person shall thereupon become vested with all of the benefits in respect thereof granted to the Bank herein or otherwise.

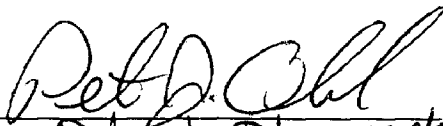
Section 20. Release and Termination.

(a) Upon any sale, lease, transfer or other disposition of any item of Collateral in accordance with the terms of Section 5.2(d) of the Credit Agreement, the Bank will execute and deliver to the Grantor, at the Grantor's expense, such documents as the Grantor may reasonably request to evidence the release of such item of Collateral from the security interest granted hereby; provided, however, that (i) the Grantor will deliver to the Bank, at least 10 Business Days before the date of the proposed release, a written request for release describing the item of Collateral and the terms of the sale, lease, transfer or other disposition in reasonable detail, including the price thereof and any expenses in connection therewith, together with a form of release for execution by the Bank and a certification by the Grantor to the effect that the transaction is in compliance with the Credit Documents and as to such other matters as the Bank may reasonably request and (ii) the proceeds of any such sale, lease, transfer or other disposition required to be applied in accordance with Section 2.6(b)(ii) of the Credit Agreement shall be paid to, or in accordance with the instructions of, the Bank at the closing.

(b) Upon payment in full of the Secured Obligations and termination of the Commitments, the security interest granted hereby shall terminate, and all rights to the Collateral shall revert to the Grantor. Upon any such termination, the Bank will execute and deliver to the Grantor, at the Grantor's expense, such documents as the Grantor may reasonably request to evidence such termination.

Section 21. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THE STATE OF CALIFORNIA, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTERESTS HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE GOVERNED BY THE MANDATORY LAWS OF A JURISDICTION OTHER THAN THE STATE OF CALIFORNIA.

COLOR PRELUDE, INC.
(formerly known as Color
Acquisition, Inc.)

By: 
Name: Peter J. Olaynack
Title: Secretary

Address for Notices:

7600 Energy Parkway
Baltimore, MD 21226
Attn: Vice President-Finance

State of Connecticut)
County of Fairfield) ss.

On Sept. 3, 1998 before me, Santa Iraola
_____, Notary Public, personally appeared _____
Peter J. Olayrak

_____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature Santa Iraola

SANTA IRAOLA
NOTARY PUBLIC
MY COMMISSION EXPIRES APR. 30, 2000

(Seal)

State of _____)
County of _____) ss.

On _____ before me, _____
_____, Notary Public, personally appeared _____

_____ personally known to me (or proved to me on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

(Seal)

LOCATIONS OF EQUIPMENT AND INVENTORY

7600 Energy Parkway
Baltimore, MD 21226

SCHEDULE 2
to Security Agreement

SECURITY COLLATERAL

None

PATENTS, COPYRIGHTS AND TRADEMARKS

[TO BE PROVIDED BY GRANTOR]

SCHEDULE 3

TRADEMARKS, PATENTS AND COPYRIGHTS

TRADEMARKS

	COLOR PRELUDE **		LIQISEAL		SHADESEAL		SURESHADE		SHADE-A-PEEL		ALL & DESIGN		MISCELLANEOUS DESIGN	
	STATUS	Application #	STATUS	Application #	STATUS	Application #	STATUS	Application #	STATUS	Application #	STATUS	Application #	STATUS	Application #
United States	Registered	73/768253	Pending	75/077920	Pending	75/385865	Pending	75/398058	Pending	75/421117	Registered	73/171984	Registered	73/400861
Argentina	Pending	2031759	Pending	2079168	Pending	2146827	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-
Australia	Registered	707953	Registered	733065	Pending	759880	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-
Brazil	Pending	819482501	Pending	819913430	Mailed	not issued	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-
Canada	Pending	816284	Pending	843439	Pending	877354	Mailed	not issued	Mailed	not issued	No Filing	-	No Filing	-
China	Pending	970050686	No Filing	960106588	Mailed	not issued	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-
European Union	Pending	258764	Pending	364422	Pending	811364	Mailed	not issued	Mailed	not issued	No Filing	-	No Filing	-
France	Registered	134752	No Filing	-	No Filing	-	No Filing	-	No Filing	-	No Filing	-	No Filing	-
Japan	Registered	059943/1996	Pending	108750&114773	Pending	031953-1998	Mailed	not issued	Mailed	not issued	No Filing	-	No Filing	-
South Korea	Pending	17436/1997	Registered	40353/1996	Pending	10183-1998	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-
Thailand	Pending	336058	No Filing	-	Pending	338896	Mailed	not issued	No Filing	-	No Filing	-	No Filing	-

** U.S. Trademark Registration Number 1,649,216

PATENTS

I. U.S. PATENTS GRANTED

<u>File #</u> <u>Title</u>	<u>U.S. Pat.</u> <u>No.</u>	<u>Issue</u> <u>Date</u>	<u>Remarks</u>
M-10756 COSMETIC SAMPLER	4,751,934	06/21/88	Covers cosmetic sampler with plastic overlay or folded
M-11302(DIV) STACKED UNIT DOSE COSMETIC SAMPLER	4,848,378	07/18/89	Covers stacked pad embodiment.
M-11301(DIV) METHOD OF MAKING A COSMETIC SAMPLER	5,192,386	03/09/93	Covers method of making cosmetic sampler and pre-heated lipstick sampler.
P/103-83 LIPSTICK SAMPLER	5,562,112	10/08/96	Covers screen printed lipstick sampler with protective overcoat.
M-12629 CIP FRAGRANCE SAMPLER	5,566,693	10/22/96	Covers screen printed fragrance sampler with protective cover and method of making same.
M-12638 CIP METHOD OF MAKING A LIPSTICK SAMPLER	5,647,941	07/15/97	Covers method of making a lipstick sampler.
M-12119 CIP COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	5,690,130	11/25/97	Covers integral applicator and method of making a cosmetic sampler by screen printing into a well.

II. ALLOWED U.S. PATENT APPLICATIONS

<u>File #</u> <u>Title</u>	<u>Serial</u> <u>No.</u>	<u>Filing</u> <u>Date</u>	<u>Remarks</u>
P/104-103 SCREEN PRINTED PRODUCT SAMPLER IN HERMETICALLY SEALED PACKAGE	810,370	03/03/97	Issue Fee Paid. Should Issue in September

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III. PENDING U.S. PATENT APPLICATIONS

<u>File #</u> <u>Title</u>	<u>Serial</u> <u>No.</u>	<u>Filing</u> <u>Date</u>	<u>Remarks</u>
P/104-121 COSMETIC SAMPLER WITH SAMPLE SCREEN PRINTED ON FILM	-	05/22/98	Awaiting First Office Action
P/104-123 COSMETIC SAMPLER WITH APPLICATOR BACKING	-	06/12/98	Awaiting First Office Action

IV. FOREIGN PATENTS GRANTED

<u>Country</u> <u>File #</u> <u>Title</u>	<u>Pat.</u> <u>No.</u>	<u>Issue</u> <u>Date</u>	<u>Remarks</u>
Australia M-10756 COSMETIC SAMPLER	583241	08/11/89	Covers cosmetic sampler with plastic overlay or folded.
Israel M-10756 COSMETIC SAMPLER	82874	06/10/91	Covers cosmetic sampler with plastic overlay or folded.
Canada M-10756 COSMETIC SAMPLER	1288940	09/17/91	Covers cosmetic sampler with plastic overlay or folded; method of making cosmetic sampler; pre-heated lipstick sampler.
Europe (EPC) M-10756 COSMETIC SAMPLER (France, Germany & UK)	0 252 001	05/19/93	Covers cosmetic sampler with plastic overlay or folded; stacked pad embodiment; method of making cosmetic sampler; pre-heated lipstick sampler; screen printed fragrance sampler.

V. PENDING FOREIGN PATENT APPLICATIONS

INTEGRAL APPLICATOR APPLICATION

<u>Country</u> <u>File #</u> <u>Title</u>	<u>Serial</u> <u>No.</u>	<u>Filing</u> <u>Date</u>	<u>Remarks</u>
EPC (EUROPE) P/104-84 COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	0 722 676	01/10/96	Request for examination filed 10/96. Covers same subject matter as allowed U.S. Pat. No. 5,690,130
Canada P/104-85 COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	2,167,616	01/19/96	Awaiting first Office Action. Covers same subject matter as allowed U.S. Pat. 5,690,130.
Australia P/104-86 COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	42074/96	01/18/96	Req. for Exam filed 12/23/97 Covers same subject matter as allowed U.S. Pat. 5,690,130.
Israel P/104-87 COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	116823	01/19/96	Allowed 2/98. Issue Fee Paid. Covers same subject matter as allowed U.S. Pat. 5,690,130.
Japan P/104-85 COSMETIC SAMPLER WITH INTEGRAL APPLICATOR	8-26226	01/22/96	Off. Act. resp. due 8/12/98. Covers same subject matter as allowed U.S. Pat. 5,690,130.

V. PENDING FOREIGN PATENT APPLICATIONS (cont.)

HERMETICALLY SEALED APPLICATION

Country File # Title	Serial No.	Filing Date	Remarks
EPC (Europe) P/104-124 SCREEN PRINTED PRODUCT SAMPLER IN HERMETICALLY SEALED PACKAGE	98850028.6	03/03/98	Awaiting first Office Action.
Japan P/104-127 SCREEN PRINTED PRODUCT SAMPLER IN HERMETICALLY SEALED PACKAGE	51041/1998	03/03/98	Awaiting first Office Action.
Canada P/104-125 SCREEN PRINTED PRODUCT SAMPLER IN HERMETICALLY SEALED PACKAGE	2,231,081	03/03/98	Awaiting first Office Action.
Australia P/104-126 SCREEN PRINTED PRODUCT SAMPLER IN HERMETICALLY SEALED PACKAGE	056440/98	03/03/98	Awaiting first Office Action.

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None.