

12-27-04

Form PTO-1594 (Rev. 06/04)
OMB Collection 0651-0027 (exp. 6/30/2005)

12-27-2004

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

RECO
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102910907

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)/Execution Date(s):

CHALLENGER ONE, LLC

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

Other Limited Liability Company

Citizenship (see guidelines) California

Execution Date(s) Nov. 12, 2004

Additional names of conveying parties attached? Yes No

3. Nature of conveyance:

- 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: Huntington Capital, L.P.

Internal Address:

Street Address: 11988 El Camino Real #160

City: San Diego

State: California

Country: USA Zip: 92130

- Association
- General Partnership
- Limited Partnership
- Corporation
- Other

Citizenship California
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. Trade-mark Application No.(s)

B. Trademark Registration No.(s)

2806734, 2787649, and 2817346

Additional sheet(s) attached? Yes No

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

2806734 - "77COLORS" - white letters within individual color...

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

Name: Everett G. Barry, Jr., Esq.

Internal Address: Mulvaney, Kahan & Barry, Attorneys for Huntington Capital, L.P.

Street Address: 401 West A Street
17th Floor

City: San Diego

State: California Zip: 92101

Phone Number: 619-238-1010

Fax Number: 619-238-1981

Email Address: ebarry@mkblaw.com

6. Total number of applications and registrations involved:

3

7. Total fee (37 CFR 2.6(b)(6) & 3.41) \$ 90.00

- 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 _____

DEC 27 AM 11:29
OPR/FINANCE

9. Signature:

MULVANEY, KAHAN & BARRY, Attorneys for HUNTINGTON CAPITAL, L.P. Date Dec 23, 2004

BY: Robert A. Linn, Esq.

Name of Person Signing

Total number of pages including cover sheet, attachments, and document: 21

Documents to be recorded (including cover sheet) should be faxed to (703) 306-5995, or mailed to: Mail Stop Assignment Recordation Services, Director of the USPTO, P.O. Box 1450, Alexandria, VA 22313-1450

TRADEMARK

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02 FC:1522
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ATTACHMENT TO RECORDATION FORM COVER SHEET

4.C. Continuation of Identification or Description of Trademarks:

Continuation of 2806734: ... boxes. The colored boxes are, from left to right, as follows - violet, purple, dark blue, blue, green, yellow, orange and red. Each box has a white border.

2787649: The words "LIFE FACTOR NATURE'S HGH".

2817346: The words "MyInk.com" within six ovals, in black letters with white bordering. The ovals behind the letters are comprised of the following colors (in order from left to right): red, orange, yellow, green, blue and purple.

HUCA.121.125932.1

Recording Requested by and
When Recorded, Return To:

Everett G. Barry, Jr., Esq.
MULVANEY, KAHAN & BARRY
401 W. "A" Street
17th Floor
San Diego, CA 92101

NOTICE OF SECURITY INTEREST IN INTELLECTUAL PROPERTY

NOTICE IS HEREBY GIVEN that, CHALLENGER ONE, LLC, a California limited liability company ("Grantor"), has, by virtue of a Commercial Security Agreement and an Agreement Regarding Security Interest in Intellectual Property, true and correct copies of which are attached hereto as Exhibits "1" and "2" respectively, and are incorporated herein by reference, granted HUNTINGTON CAPITAL, L.P., a California limited partnership federally licensed as a Small Business Investment Company, in its capacity as Collateral Agent, for the ratable benefit of itself and for TAMARACK MEZZANINE PARTNERS, LP, a Delaware limited partnership, and LEWIS & CLARK PRIVATE EQUITIES, LP, a Delaware limited partnership (individually and collectively referred to below as "Lender"), as security for payment of an obligation to Lender, a security interest in, inter alia, the Grantor's general intangibles, including the collateral described hereinbelow.

1. All inventory, chattel paper, accounts, contract rights, equipment, general intangibles, and fixtures, whether presently held or acquired in the future;
2. All software, firmware, object codes, source codes, and/or commented source codes with linking and compiling controls;
3. All trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired, or held;
4. All design rights which may be available to Grantor now or hereafter existing, created, acquired, or [with]held;
5. All copyright rights, registered or unregistered, and all derivative works, copyright applications, and like protections in each work or authorship and derivative work thereof, whether published or unpublished, and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired, or held.
6. All patents, patent applications, and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions, and continuations in part of the same.
7. Any trademark and service mark rights, whether registered or not, applications to register, and registrations of same and like protections, and the entire good will of the business of Grantor connected with and symbolized by such trademarks and service marks, including, without limitation, those set forth below:

a) "77COLORS," Serial No. 78221931, Registration No. 2806734, Owner: Challenger One, LLC, Filing Date: March 5, 2003, Registration Date: January 20, 2004;

b) "LIFE FACTOR NATURE'S HGH," Serial No. 78148081, Registration No. 2787649, Owner: Challenger One, LLC, Filing Date: July 26, 2002, Registration Date: November 25, 2003;

c) "MyInks.com," Serial No. 78221906, Registration No. 2817346, Owner: Challenger One, LLC, Filing Date: March 5, 2003; Registration Date: February 24, 2004;

8. Any and all claims for damages by way of past, present, and future infringement of any rights included above with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above.

9. All licenses or other rights to use any of the copyrights, patents, or trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or right.

10. All amendments, renewals, extensions of any of the copyrights, trademarks, or patents.

11. All proceeds and products of the foregoing, including without limitation, all payments under insurance or any indemnity or warranty payable in respect to any of the foregoing, and all general contract rights, intangibles and account proceeds, all goods, inventory, books and records, and accounts receivable from any source.

Dated: Nov 18, 2004

HUNTINGTON CAPITAL, LP,
a California Limited Partnership

By: Morgan L. Miller, Jr.
Name: Morgan L. Miller, Jr.
Title: President

11988 El Camino Real #160
San Diego, CA 92130

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COMMERCIAL SECURITY AGREEMENT

Borrower: CHALLENGER ONE, LLC
5900 San Fernando Road
Glendale, CA 91202

**Lender and
Collateral Agent:** HUNTINGTON CAPITAL, L.P.
11988 El Camino Real #160
San Diego, CA 92130

Grantor: CHALLENGER ONE, LLC
5900 San Fernando Road
Glendale, CA 91202

THIS COMMERCIAL SECURITY AGREEMENT is entered into between CHALLENGER ONE, LLC. (referred to below as "Grantor"); and HUNTINGTON CAPITAL, L.P., a federally licensed Small Business Investment Company, in its capacity as Collateral Agent, for the ratable benefit of itself and for TAMARACK MEZZANINE PARTNERS, LP, and LEWIS & CLARK PRIVATE EQUITIES, LP (individually and collectively referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the California Uniform Commercial Code, as defined herein. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All inventory, equipment, accounts (including but not limited to all health-care insurance receivables), chattel paper, instruments (including but not limited to all promissory notes), letter-of-credit rights, letters of credit, documents, deposit accounts, investment property, money, other rights to payment and performance, and general intangibles (including but not limited to all software and all payment intangibles); all oil, gas and other minerals before extraction; all oil, gas, other minerals and accounts constituting as-extracted collateral; all fixtures; all timber to be cut; all attachments, accessions, accessories, fittings, increases, tools, parts, repairs, supplies, and commingled goods relating to the foregoing property, and all additions, replacements of, and substitutions for all or any part of the foregoing property; all insurance refunds relating to the foregoing property; all good will relating to the foregoing property; all records and data and embedded software relating to the foregoing property, and all equipment, inventory and software to utilize, create, maintain and process any such records and data on electronic media; and all supporting obligations relating to the foregoing property; all whether now existing or hereafter arising, whether now owned or hereafter acquired or whether now or hereafter subject to any rights in the foregoing property; and all products and proceeds (including but not limited to all insurance payments) of or relating to the foregoing property.

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

(a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.

(b) All products and produce of any of the property described in this Collateral section.

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EXHIBIT 1

TRADEMARK

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COMMERCIAL SECURITY AGREEMENT

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(c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

(d) All proceeds (including, without limitation, insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.

(e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

The Collateral and fixtures are located on the following described real estate:
5838 and 5900 San Fernando Road, Glendale, CA 91202

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means **CHALLENGER ONE, LLC**, its successors and assigns.

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the indebtedness.

Indebtedness. The word "Indebtedness" means the indebtedness and obligations of performance evidenced by the Note, including all principal and interest, together with all other indebtedness, obligations of performance, and costs, fees and expenses for which Borrower or any Grantor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others; whether Grantor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable.

Lender. The word "Lender" means **HUNTINGTON CAPITAL, L.P.**, as Collateral Agent for itself and the other holders of the Note, its and their respective successors and assigns.

Note. The word "Note", individually and collectively, means the Promissory Note executed by Borrower dated November 12, 2004, in favor of **HUNTINGTON CAPITAL, LP**, in the original principal amount of One Million Dollars (\$1,000,000.00); the Promissory Note executed by Borrower in favor of **TAMARACK MEZZANINE PARTNERS, LP**, dated November 12, 2004, in the original principal amount of Six Hundred Fifty Thousand Dollars (\$650,000.00); and the Promissory Note executed by Borrower in favor of **LEWIS & CLARK PRIVATE EQUITIES, LP**, dated November 12, 2004, in the original principal amount of Nine Hundred Fifty Thousand Dollars (\$950,000.00); as well as any other promissory notes executed in connection with this Agreement, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the notes or credit agreements.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, royalty agreements, warrant agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the indebtedness, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions thereof.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

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COMMERCIAL SECURITY AGREEMENT

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Perfection of Security Interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby appoints Lender as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its membership agreement does not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor; there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Lender in writing.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Some or all of the Collateral may be located at the real property described above. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of California, without the prior written consent of Lender.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral, except in the ordinary course of Grantor's business. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender and except for any security interest in Far East National Bank and the sellers of JDI Technologies, Inc., each as approved in writing by Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement and any lien in favor of Far East National Bank approved in writing by Lender. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

COMMERCIAL SECURITY AGREEMENT

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Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the Collateral consists of equipment, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and Inspection of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral in excess of the aggregate monthly sum of \$100,000.00 or in excess of a single occurrence in the sum of \$50,000.00; of any other dispute arising with respect to the Collateral in excess of the aggregate monthly sum of \$200,000.00 or in excess of a single occurrence in the sum of \$50,000.00; and generally of all happenings and events materially affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due, subject to allowable extensions, all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien, upon written notice to Lender, if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, including without limitation all environmental laws, ordinances, rules and regulations, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Grantor represents and warrants that: (1) During the period of Grantor's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance (as defined in the Business Loan Agreement of even date herewith) by any person on, under, about or from any of the Collateral. (2) Grantor has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws (as defined in the Business Loan Agreement of even date herewith); (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Grantor nor any tenant, contractor, agent, or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Grantor authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Grantor's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Grantor or to any other person. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous

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COMMERCIAL SECURITY AGREEMENT

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waste and Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses (including attorneys fees incurred before trial, at trial, on appeal or in any bankruptcy or arbitration proceeding) which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or a Hazardous Substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least thirty (30) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if it so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually unless there is then an Event of Default, when appraisals may be made more frequently) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

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GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve, or maintain any security interest given to secure the Indebtedness.

EXPENDITURES BY LENDER. If not discharged or paid when due, Lender may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. Lender also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the default interest rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses shall become a part of the Indebtedness and, at Lender's option, will (a) be payable on demand, (b) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (i) the term of any applicable insurance policy or (ii) the remaining term of the Note, or (c) be treated as a balloon payment which will be due and payable at the Note's maturity. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of an Event of Default.

EVENTS OF DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Default on Indebtedness. Failure of Grantor to make any payment when due on the Indebtedness.

Environmental Default. Failure of any party to comply with or perform when due any term, obligation, covenant or condition contained in any environmental agreement executed in connection with any Loan.

Other Defaults. Failure of Grantor to comply with or to perform when required any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Should Borrower or any Grantor default under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by or on behalf of Grantor under this Agreement, the Note or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien) at any time and for any reason.

Death or Insolvency. The dissolution of Grantor (regardless of whether election to continue is made), or any other termination of Grantor's existence as a going business, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor

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workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against the Collateral or any other collateral securing the indebtedness. This includes a garnishment of any of Grantor's deposit accounts with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness, or any Guarantor becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender in good faith believes the prospect of payment or performance if the indebtedness is materially impaired.

Right to Cure. If any default, other than a Default on Indebtedness, is curable and if Grantor has not been given a prior notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured (and no Event of Default will have occurred) if Grantor, after Lender sends written notice demanding cure of such default, (a) cures the default within fifteen (15) days; or (b), if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, and at any time thereafter, Lender shall have all the rights of a secured party under the California Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and

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his or her attorney shall become part of the indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the indebtedness or apply it to payment of the indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, under the Note, the Related Documents, or otherwise.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement, by the Note, or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

CALIFORNIA UNIFORM COMMERCIAL CODE DEFINITIONS. All terms used herein, if not otherwise specifically defined, shall have the meaning defined by the current or any future version of the California Uniform Commercial Code, and as revised, amended or modified.

NO CHANGE IN JURISDICTION. Borrower or any Grantor will not change its jurisdiction of organization without prior notice to Lender.

OTHER DEFAULT WITH LENDER OR OTHER HOLDERS OF THE NOTE. In the event Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement in favor of Lender or the other holders of the Note that may affect any of Borrower's property or Borrower's ability to repay the Note or any of the related documents, it shall be considered an event of default ("Event of Default") under the Note.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with the Note and any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Governing Law and Venue. This Agreement will be governed by, construed and enforced in accordance with federal law and the laws of the State of California. This Agreement has been accepted by lender in the State of California. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the Courts of San Diego County, State of California.

COMMERCIAL SECURITY AGREEMENT

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Waiver of Jury Trial. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the reasonable costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Multiple Parties. All obligations of Grantor under this Agreement shall be joint and several, and all references to Grantor shall mean each and every Grantor. This means that each of the persons signing below is responsible for all obligations in this Agreement.

Notices. All notices required to be given under this Agreement shall be given in writing, may be sent by telefacsimile (unless otherwise required by law), and shall be effective when actually delivered or when deposited with a nationally recognized overnight courier or deposited in the United States mail, first class, postage prepaid, addressed to the party to whom the notice is to be given at the address shown above. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. To the extent permitted by applicable law, if there is more than one Grantor, notice to any Grantor will constitute notice to all Grantors. For notice purposes, Grantor will keep Lender informed at all times of Grantor's current address(es).

Power of Attorney. Grantor hereby appoints Lender as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of Lender may seem to be necessary or advisable. This power is given as security for the indebtedness, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by Lender.

Preference Payments. Any monies Lender pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the indebtedness and, at Lender's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY LENDER" paragraph.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

Successor Interests. Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

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Waiver. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Waiver of Co-obligor's Rights. If more than one person is obligated for the Indebtedness, Borrower irrevocably waives, disclaims and relinquishes all claims against such other person which Borrower has or would otherwise have by virtue of payment of the Indebtedness or any part thereof, specifically including but not limited to all rights of indemnity, contribution or exoneration.

Miscellaneous. The terms "include", "includes", or "including" shall mean "include", "includes", or "including" without limitation.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT, AND GRANTOR AGREES TO ITS TERMS. THIS AGREEMENT IS DATED NOVEMBER 12, 2004.

GRANTOR:

CHALLENGER ONE, LLC

By: 
Leon Hasson, Manager of Challenger One, LLC

By: 
Hamid Tabibzadeh, Manager of Challenger One, LLC

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

Borrower:	CHALLENGER ONE, LLC 5900 San Fernando Road Glendale, CA 91202	Lender and Collateral Agent:	HUNTINGTON CAPITAL, L.P. 11988 El Camino Real #160 San Diego, CA 92130
Grantor:	CHALLENGER ONE, LLC 5900 San Fernando Road Glendale, CA 91202		

This Agreement Regarding Security Interest in Intellectual Property ("Agreement") is made as of November 12, 2004 and is entered into between CHALLENGER ONE, LLC, a California limited liability company (referred to below as "Grantor"); and HUNTINGTON CAPITAL, L.P., a California limited partnership federally licensed as a Small Business Investment Company, in its capacity as Collateral Agent, for the ratable benefit of itself and for TAMARACK MEZZANINE PARTNERS, LP, a Delaware limited partnership, and LEWIS & CLARK PRIVATE EQUITIES, LP, a Delaware limited partnership (individually and collectively referred to below as "Lender"), and is made with reference to the following:

I.

RECITALS

A. Grantor has or will execute a Business Loan Agreement dated as of November 12, 2004, in connection with financial accommodations extended by Lender to Grantor as Borrower. Grantor also has or will execute Promissory Notes each dated as of November 12, 2004, with Lender in the total original principal amount of Two Million Six Hundred Thousand Dollars (\$2,600,000.00) (collectively "Note"). The Business Loan Agreement, the Note, any renewals and/or modifications of the same, and all ancillary loan documents are collectively referred to herein as the "Loan Documents."

B. In connection with the Loan to Grantor (the term "Loan" having the definition provided in the Business Loan Agreement), Grantor has agreed to execute all documents required by Lender to reflect Lender's security interest in certain intellectual property of Grantor and such documents that are required for perfection of said security interest.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for such other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

II.

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

A. Acknowledgment of Grant of Security Interest. Grantor acknowledges and agrees that, as collateral security for the prompt and complete payment and performance of all of Grantor's present or future indebtedness, obligations, and liabilities to Lender, Grantor assigns, transfers, conveys, and grants a security interest in and to Grantor's entire right, title, and interest in and to the following:

1. All inventory, chattel paper, accounts, contract rights, equipment, general intangibles, and fixtures, whether presently held or acquired in the future;
2. All software, firmware, object codes, source codes, and/or commented source codes with linking and compiling controls;

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

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3. All trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired, or held;
4. All design rights which may be available to Grantor now or hereafter existing, created, acquired, or [with]held;
5. All copyright rights, registered or unregistered, and all derivative works, copyright applications, and like protections in each work or authorship and derivative work thereof, whether published or unpublished, and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired, or held.
6. All patents, patent applications, and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions, and continuations in part of the same.
7. Any trademark and service mark rights, whether registered or not, applications to register, and registrations of same and like protections, and the entire good will of the business of Grantor connected with and symbolized by such trademarks and service marks, including, without limitation, those set forth below:
- a) "77COLORS," Serial No. 78221931, Registration No. 2806734, Owner: Challenger One, LLC, Filing Date: March 5, 2003, Registration Date: January 20, 2004;
- b) "LIFE FACTOR NATURE'S HGH," Serial No. 78148081, Registration No. 2787649, Owner: Challenger One, LLC, Filing Date: July 26, 2002, Registration Date: November 25, 2003;
- c) "MyInks.com," Serial No. 78221906, Registration No. 2817346, Owner: Challenger One, LLC, Filing Date: March 5, 2003; Registration Date: February 24, 2004;
8. Any and all claims for damages by way of past, present, and future infringement of any rights included above with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above.
9. All licenses or other rights to use any of the copyrights, patents, or trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or right.
10. All amendments, renewals, extensions of any of the copyrights, trademarks, or patents.
11. All proceeds and products of the foregoing, including without limitation, all payments under insurance or any indemnity or warranty payable in respect to any of the foregoing, and all general contract rights, intangibles and account proceeds, all goods, inventory, books and records, and accounts receivable from any source.

The foregoing described security is collectively referred to as the "Collateral".

B. Authorization and Request. Grantor acknowledges and agrees that Lender may and shall record appropriate documentation with the United States Copyright Office and/or U.S. Patent and Trademark Office and the appropriate state offices reflecting the Lender's security interest in the Collateral.

C. Covenants and Warranties. Grantor represents, warrants, covenants, and agrees as follows:

1. Grantor is now the sole owner of the Collateral, except for nonexclusive licenses granted by Grantor to its customers in the ordinary course of business.
2. Grantor does not own or have an interest in any patents, registered trademarks, or trademark applications other than those specifically identified in Section A.7. above.
3. Grantor's grant of a security interest in and/or performance of the terms and conditions of the Loan Documents does not conflict with or result in the breach of any agreement to which Grantor is a party or by which Grantor is bound, except to the extent that certain intellectual property agreements prohibit the assignment of the rights

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

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thereunder to a third party without the Licensor's or other party's consent, which Grantor acknowledges has been obtained if necessary.

4. Neither this Agreement nor any other Loan Document creates or is intended to create a present assignment of the Collateral. Subject to the rights of Lender, it is the intention of the parties hereto that Grantor continues to own the Collateral. During the term of Business Loan Agreement, as extended by any modifications, or renewals, Grantor will not transfer or otherwise encumber any interest in the Collateral, except for nonexclusive licenses granted by Grantor in the ordinary course of business or as set forth in this Agreement.

5. Grantor's interest in the Collateral, including all intangible personal property, is valid and enforceable and no part of the Collateral has been adjudicated invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Collateral violates the rights of any third party.

6. No third party has claimed an interest or right, in whole or in part, in or to any or all of the Collateral, except for nonexclusive licenses granted by Grantor in the ordinary course of business.

7. Grantor shall promptly advise Lender of any material adverse change in the composition of the Collateral, including but not limited to any subsequent ownership right of the Grantor in or to any intangible/intellectual property not specified in this Agreement.

8. Grantor shall promptly notify Lender of any additional interests and/or rights it acquires in and to any registered copyrights, patents, registered trademarks, and/or derivative work and/or any revisions, modifications, updates, upgrades, new subroutines, and/or new program or source codes which shall constitute part of the Lender's Collateral and shall be specifically identified thereafter. Notwithstanding such notice, the terms and conditions of this Agreement shall automatically apply to any and all such additional interests and/or rights.

9. Grantor shall use commercially reasonable efforts to detect what Grantor reasonably determines to be material infringements and to promptly advise Lender in writing of material infringements so detected.

10. Grantor shall use commercially reasonable efforts to protect, defend, and maintain the validity and enforceability of the Collateral, including copyrights, patents, and/or trademarks.

11. Grantor shall not knowingly allow any intangible/intellectual property including copyrights, patents, and/or trademarks to be abandoned, forfeited, or dedicated to the public without the written consent of Lender.

12. Any and all fees, costs, and expenses, of whatever kind or nature, including the reasonable attorneys' fees and legal expenses incurred by Lender in connection with the filing or recording of any documents (including all taxes in connection therewith other than income taxes) in public offices, the payment or discharge of any taxes, counsel fees, maintenance fees, encumbrances or otherwise protecting, maintaining or preserving the Collateral, or in defending or prosecuting any actions or proceedings arising out of or related to the Collateral, shall be borne and paid by Grantor on demand by Lender and until so paid shall be added to the principal amount of the Loan and shall bear interest at the rate prescribed in the Loan Documents.

13. Grantor acknowledges and agrees that in the event it seeks to abandon, forfeit, or dedicate to the public any Collateral, or portion thereof, Lender may withhold consent based on a reasonable determination that such abandonment, forfeiture, or dedication results in a material change in the value of the Collateral and/or Lender deems itself insecure.

14. By virtue of Grantor's execution of this Agreement and the Security Agreement(s) (as defined in the Business Loan Agreement), Lender has a valid perfected security interest in the Collateral.

15. All information provided by Grantor to Lender by or on behalf of Grantor with respect to the Collateral is accurate and complete in all material respects.

16. Grantor shall not enter into any agreement that would materially impair or conflict with Grantor's obligations under this Agreement and/or in any Security Agreement relating to the Loan Documents without Lender's prior written consent. Grantor shall not permit the inclusion in any material contract to which it becomes a party of any

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

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provisions that could or might in any way prevent the creation of a security interest in Lender's rights and interest in any property included with the definition of the Collateral acquired under such contract, except that certain contracts may contain anti-assignment provisions that could in effect prohibit the creation of a security interest in such contracts.

17. Grantor will promptly notify Lender in writing of any event that materially adversely affects the value of any Collateral, the ability of Grantor to dispose of any Collateral or the rights and remedies of Lender in relation thereto, including the levy of any legal process against any of the Collateral.

D. **Inspection Rights.** Grantor hereby grants to Lender and its employees, representatives, and agents the right to visit, during reasonable hours upon prior reasonable written notice to Grantor, any of Grantor's business facilities, and to inspect the Collateral and records relating thereto. Grantor also grants Lender and its employees, representatives, and/or agents the right to inspect, upon prior reasonable written notice to Grantor, the books and records reflecting the accounts receivable generated from the Collateral. Grantor shall provide Lender with copies of any and all accounts receivable records relating to the Collateral within two (2) business days of lender's written request for same.

E. **Further Assurances - Attorney in Fact**

1. On a continuing basis, Grantor will take all commercially reasonable action as may be necessary to make, execute, acknowledge, and deliver, and file and record in the proper filing and recording places in the United States, all such instruments including appropriate financing and continuation statements and collateral agreements and filings with the United States Patent and Trademark Office and the Registrar of Copyrights, and take all such action as may be reasonably deemed necessary or advisable or as requested by Lender to perfect Lender's security interest in all copyrights, patents, and trademarks, and to otherwise carry out the intent and purposes of this Agreement, or for assuring and confirming to Lender the grant or perfection of a security interest in all Collateral.

2. Grantor hereby irrevocably appoints Lender as Lender's attorney-in-fact with full authority in the place and stead of Grantor and in the name of Grantor from time to time in Lender's discretion to take any action and to execute any instrument which Lender may deem necessary or advisable to accomplish the purposes of this Agreement including, without limitation: (i) to modify, in its sole discretion, this Agreement without first obtaining Grantor's approval or signature to such modification as appropriate in order to include reference to any right, title, or interest in any additional collateral after the execution hereof, or to delete any reference to any right, title, or interest in any collateral which Grantor no longer has or claims any right, title, or interest in; (ii) to file, in its full discretion, one or more financing or continuation statements and amendments thereto relative to any of the Collateral without the signature of Grantor where permitted by law; and (iii) to endorse Grantor's name on all applications, documents, papers and instruments necessary for Lender to use the Collateral, or to grant or issue any exclusive or nonexclusive license under the Collateral to anyone else, or necessary for Lender to assign, pledge, convey or otherwise transfer title in or dispose of the Collateral to anyone else.

F. **Events of Default.** The occurrence of any of the following shall constitute an event of default under this Agreement:

1. When a default occurs under the Loan or any of the Loan Documents; or
2. Grantor breaches any warranty or agreement made by Grantor in this Agreement.

G. **Right to Cure.** If any default under this Agreement, other than a default in payment, is curable and if Grantor has not been given a prior notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured (and no Event of Default will have occurred) if Grantor, after Lender sends written notice demanding cure of such default, (a) cures the default within fifteen (15) days; or (b), if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

H. **Remedies.** Upon the occurrence of any event of default, subject to any right to cure set forth above, and at any time thereafter, Lender shall have the right to exercise all of the remedies of a secured party under the California Uniform Commercial Code. Lender shall have a nonexclusive royalty free license to use the Collateral to the extent reasonably necessary to permit Lender to exercise its rights and remedies upon an event of default. All of Lender's rights and remedies with respect to the Collateral shall be cumulative, and nothing contained herein shall preclude or limit

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

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Lender's rights and remedies set forth in the Note, the Security Agreement(s), or other Loan Documents, or to which Lender is entitled by law or in equity. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days, or such lesser time as required by state law, before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. To the extent permitted by applicable law, Lender shall have the following rights and remedies regarding the appointment of a receiver: (a) Lender may have a receiver appointed as a matter of right, (b) the receiver may be an employee of Lender and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in its discretion transfer any Collateral into its own name or that of its nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, under the Note, the Related Documents, or otherwise.

Cumulative Remedies. All of Lender's rights and remedies, whether evidenced by this Agreement, by the Note, or the Related Documents or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and to exercise its remedies.

Indemnity. Grantor agrees to defend, indemnify, and hold harmless Lender and its officers, employees, attorneys, and agents against: (i) all obligations, demands, claims, and liabilities claimed or asserted by any other party in

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

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connection with the transactions contemplated by this Agreement; (ii) all losses or expenses in any way suffered, incurred, or paid by Lender as a result of, or in any way arising out of, following, or consequential to, transactions between Lender and Grantor under this Agreement (including without limitation reasonable attorneys' fees and expenses); and (iii) all obligations, demands, claims, and liabilities claimed or asserted by any party in connection with the Collateral.

J. **Reassignment.** At such time as Grantor shall completely satisfy all of the obligations secured hereunder, Lender shall execute and deliver to Grantor all deeds, assignments, and other instruments as may be necessary or proper to vest in Grantor full title to the Collateral assigned hereunder subject to any disposition thereof which may have been made by Lender in accordance with the terms of this agreement and/or of the Loan Documents.

K. **No Waiver.** No course of dealing, nor failure to exercise, nor delay in exercising any right, power, or privilege hereunder shall operate as a waiver thereof.

L. **Gender and Person.** As used in this Agreement, the masculine, feminine, or neuter gender and the singular and plural shall be deemed to include the other whenever the context so indicates.

M. **Attorneys' Fees; Expenses.** Grantor agrees to pay upon demand all of Lender's costs and expenses, including reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may pay someone else to help enforce this Agreement, and Grantor shall pay the reasonable costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), arbitration, appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

N. **Advice of Counsel.** The parties acknowledge and agree that they have been or have had the opportunity to be represented by independent counsel in the negotiation, preparation, and the execution of this Agreement and that each of them have read this Agreement and has had the opportunity to have it fully explained by his, her, or their counsel prior to its execution and is fully aware of its contents and legal effect.

O. **Binding Upon Successors and Assigns.** This Agreement and the covenants and conditions contained herein shall apply to, be binding upon, and inure to the benefit of the respective heirs, administrators, executors, legal representatives, assignees, successors, and agents of the parties hereto.

P. **Severability.** The provisions of this Agreement are severable and should any provision be, for any reason, unenforceable, the balance shall, nonetheless, be of full force and effect.

Q. **Governing Law, Venue and Construction.** This Agreement shall, in all respects, be interpreted, enforced, and governed by and under the laws of the United States and the State of California. This Agreement has been accepted by Lender in the State of California. This Agreement is to be deemed to have been jointly prepared by the parties, and any uncertainty or ambiguity existing herein shall not be interpreted against any or the other parties, but according to the application of the rules of interpretation of contracts, if any such uncertainty or ambiguity exists. In the event that any suit or action is brought to enforce any of the provisions of this Agreement or to interpret same, Grantor agrees, upon Lender's request, to submit to the jurisdiction of, and to the venue being in, any court of competent jurisdiction sitting in San Diego County, California.

R. **Waiver of Jury Trial.** Lender and Grantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Grantor against the other.

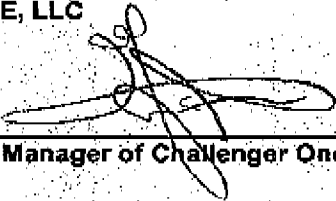
S. **Amendment.** This Agreement may not be and shall not be deemed or construed to have been modified, amended, rescinded, cancelled, or waived, in whole or in part, except by written instrument signed by the parties hereto.

T. **Relationship to Loan Documents.** This Agreement supplements, and the rights contained herein are cumulative to, the provisions contained in the Loan Documents/Related Documents.

AGREEMENT REGARDING SECURITY INTEREST IN INTELLECTUAL PROPERTY

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date and year set forth above.

BORROWER/GRANTOR: CHALLENGER ONE, LLC

By: 
Leon Hasson, Manager of Challenger One, LLC

By: 
Hamid Tabibzadeh, Manager of Challenger One, LLC