

12-15-2000

Docket No.: NEA5218.01K

FORM PTO-1595 (Modified)
(Rev. 6-93)
OMB No. 0651-0011 (exp. 4/94)
Copyright: 1996-97 LegalStar
P08A-REV02

MRD
11-27-00



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U.S. DEPARTMENT OF COMMERCE
Patent and Trademark Office

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

1. Name of conveying party(ies):
U.S.A. ARMORING LLC

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

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

Execution Date: **OCTOBER 26, 2000**

2. Name and address of receiving party(ies):
 Name: **GALLAGHER CORPORATION**
 Address: **3291 NORTH BUFFALO DRIVE**
SUITE 8

City: **LAS VEGAS** State/Prov.: **NV**
 Country: **UNITED STATES** ZIP: **89129**

Additional name(s) & address(es) Yes No

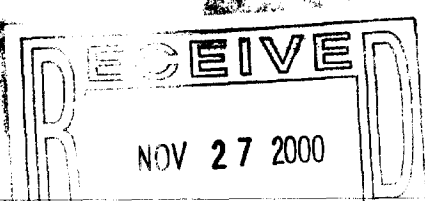
4. Application number(s) or registration numbers(s):
 If this document is being filed together with a new application, the execution date of the application is: _____

Patent Application No.	Filing date
09/189,105	NOVEMBER 9, 1998
09/513,563	FEBRUARY 25, 2000

Additional numbers Yes No

B. Patent No.(s)
 6,035,438
 6,088,979

Yes No



5. Name and address of party to whom correspondence concerning document should be mailed:
 Name: **JOHN P. O'BANION**
 Registration No. **33,201**
 Address: **O'BANION & RITCHEY LLP**
400 CAPITOL MALL
SUITE 1550
 City: **SACRAMENTO** State/Prov.: **CA**
 Country: **UNITED STATES** ZIP: **95814**

6. Total number of applications and patents involved: **4**

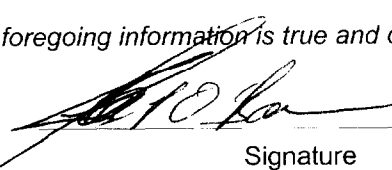
7. Total fee (37 CFR 3.41) **\$ 160.00**
 Enclosed - Any excess or insufficiency should be credited or debited to deposit account
 Authorized to be charged to deposit account

8. Deposit account number:
07-1137

12/15/2000 GTOM11 00000004 09189105
01 FC:581 160.00 DP

DO NOT USE THIS SPACE

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.

JOHN P. O'BANION  **11/28/00**
 Name of Person Signing Signature Date

Total number of pages including cover sheet, attachments, and **10**

SECURITY AGREEMENT

USA ARMORING, LLC

(Name of Debtor)

5816 East Shields Avenue, Suite 111, Fresno, Fresno County, California 93727

(No. and Street Address of (City) (County) (State) Principal Place of Business and Chief Executive Office)

The undersigned debtor (herein referred to as "Debtor"), for and in consideration of the payment by Secured Party to Debtor of \$5.00 and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and to induce GALLAGHER CORPORATION, a Nevada corporation (herein referred to as "Secured Party") to extend credit or other financial accommodations to Debtor and/or any other person, hereby agrees as follows:

1. SECURITY INTEREST - To secure the performance by Debtor of all of its obligations hereunder, as well as all of the rights of Secured Party hereunder, and to secure the payment of any and all indebtedness which may be owing by Debtor to Secured Party, its successors and assigns, absolute or contingent, due or to become due, under that certain Convertible Promissory Note (the "Note") of even date herewith, from Debtor to Secured Party in the original principal amount of \$1,350,000.00, or any replacement or modification thereof (all of said debts, obligations and liabilities under the Note and this Security Agreement are herein collectively called the "Liabilities"), and whether such Liabilities are from time to time reduced and thereafter increased or entirely extinguished and thereafter reincurred, Debtor hereby grants to Secured Party a present and continuing security interest in and security title to the patents and intellectual property described on Exhibit "A" attached hereto and hereby made a part hereof and all proceeds thereof (which property and proceeds are hereinafter collectively referred to as the "Collateral").

2. DEBTOR'S WARRANTIES AND COVENANTS - Debtor hereby represents, warrants and covenants as follows:

(a) Debtor has full title to the Collateral and the Debtor at its own expense will defend the Collateral against all claims and demands whatsoever of all persons at any time claiming the Collateral or any interest therein adverse to the Secured Party. Debtor will take such action at its expense as may be deemed to be reasonably necessary by Secured Party to enforce Debtor's intellectual property rights in the Collateral against persons who may be infringing upon same. Debtor has the right to convey the Collateral as security for the Liabilities, free and clear of any and all liens, security interests and encumbrances. Debtor will keep the Collateral free from any liens, encumbrances or security interests whatsoever, other than the security interest hereunder.

(b) No financing statement, mortgage, notice of lien, deed of trust, security agreement or any other agreement or instrument creating an encumbrance or charge against any of the Collateral is in existence or on file in any public office, and Debtor will from time to time on request of Secured Party, execute such financing statements, notices and other documents (and pay the costs, taxes and other expenses in connection with filing or recording same in all public offices deemed reasonably necessary by Secured Party) and do such other acts and things, all as Secured Party may reasonably request, to establish and maintain a valid security interest in and security title

to the Collateral to secure the payment of the Liabilities. Without limiting the foregoing, the Debtor will cause all financing and continuation statements and similar notices required by applicable law, at all times to be kept, recorded and filed at its own expense in such manner and in such places as may be required by law in order to preserve and protect the rights of the Secured Party hereunder, and will promptly deliver to the Secured Party evidence of such recordation and filing.

(c) Without the prior written consent of Secured Party, Debtor will not sell, transfer, lease, license or otherwise dispose of the Collateral or any interest therein.

(d) The Debtor at its own expense (1) will maintain, preserve and protect the Collateral; (2) will not use or permit the Collateral to be used for any unlawful purpose or in any manner which might cause the Collateral or any part thereof to be seized or confiscated; (3) will not abandon the Collateral, nor allow any other person to claim any ownership or other rights therein; (4) will pay when due and before any lien or penalty attaches, all taxes, charges and assessments now or hereafter imposed upon the Collateral and will not suffer to exist any liens on the Collateral except for the security interest in favor of the Secured Party hereunder; provided, however, that nothing herein shall be deemed to require the Debtor to pay or discharge or cause to be paid or discharged any tax, assessment, lien, claim or charge, the validity or amount of which is being contested in good faith by appropriate proceedings, unless the Collateral shall be thereby subjected to forfeiture or sale; (5) will indemnify and save harmless upon demand the Secured Party and its officers, directors, shareholders, representatives and agents from and against all claims, expenses, loss or liability of any nature whatsoever, including reasonable attorneys' fees, arising directly or indirectly from or in connection with the possession, maintenance or use of the Collateral; and (6) will not, without the prior written consent of the Secured Party, make any alterations or modifications to any part of the Collateral diminishing its market value.

(e) Debtor shall at all times keep its business insured against loss, damage, theft and all other risks, in such amounts (not less than the then outstanding balance under the Note), with such companies, under such policies and in such form as is customary in the industry (including, without limitation, fire and extended coverage and comprehensive liability insurance) which policies shall provide that any loss thereunder shall be payable to Secured Party as its interest may appear and shall contain a breach of warranty clause providing for the payment of the proceeds of said insurance first to the Secured Party up to the amount of the indebtedness secured hereby and further protecting the Secured Party against loss despite the breach of any warranties or policy conditions by the Debtor. All liability policies shall name the Secured Party as an additional insured. Secured Party may apply proceeds of such insurance which may be received by it toward payment of the Liabilities, whether or not due, in such order of application as Secured Party may determine. If the Debtor receives any proceeds of insurance maintained by the Debtor, the Debtor will receive such proceeds only as trustee for the Secured Party and will immediately pay over such proceeds to the Secured Party. All such policies or certificates issued with respect to the Debtor's business shall immediately be deposited with Secured Party, and not less than fifteen (15) days prior to the expiration date of each policy required hereunder, Debtor shall deliver to Secured Party proof of renewed coverage in the form of a certificate of insurance or binder of coverage in form and substance reasonably satisfactory to Secured Party, and, upon the issuance thereof, but in any event not later than forty-five (45) days after the renewal date, a duplicate original renewal policy or endorsement evidencing such renewal. The insurance policies must provide that there will be no cancellation or change of any material provision thereof without at least thirty (30) days' advance

notice to the Secured Party. Debtor shall pay any and all premiums for such coverage as and when the same become due and payable. The proceeds of such insurance are hereby assigned by Debtor to Secured Party and Secured Party is hereby appointed Debtor's duly appointed attorney-in-fact and agent to receive any such payment to be applied in accordance with the terms of this Security Agreement. The Debtor agrees to give the Secured Party prompt notice of any damage to or loss of any material part of the Collateral.

(f) Debtor's principal place of business and chief executive office are located at the address set forth above and Debtor agrees that it will not change its name or the location of its chief executive office or principal place of business without thirty (30) days' prior written notice to Secured Party.

(g) The execution, delivery and performance hereof are within the Debtor's powers, have been duly authorized, and are not in contravention of law or the terms of the Debtor's articles of organization, charter, by-laws, operating agreement or of any indenture, agreement or undertaking to which the Debtor is a party or by which it is bound.

(h) Secured Party, from time to time, at its option, may, after written notice to Debtor, perform any agreement of the Debtor hereunder which the Debtor shall fail to perform and take any other action which Secured Party deems reasonably necessary for the maintenance or preservation of any of the Collateral or its interest therein or Debtor's exclusive rights in such intellectual property, and Debtor agrees to reimburse forthwith Secured Party for all expenses of Secured Party in connection with the foregoing, together with interest thereon at the lesser of (i) the highest rate of interest Debtor has contracted to pay on any of the Liabilities and (ii) the highest rate permissible under applicable law, from the date incurred until reimbursed by the Debtor.

(i) Each of the representations and warranties made by Debtor in this Agreement is true as of the date hereof and will be true so long as this Agreement is in effect.

3. DEBTOR'S DUTIES AND FURTHER ASSURANCES - Debtor covenants and agrees that, so long as this Agreement is in effect, it shall:

(a) RETENTION OF RECORDS - Keep records which shall be of such character as will enable the Secured Party to determine at any time the status of the Collateral;

(b) INSPECTION - Permit the Secured Party, its agents and employees, from time to time, to inspect, audit and make copies of and extract from all records and other papers in the possession of Debtor pertaining to the Collateral.

4. EVENTS OF DEFAULT - The occurrence of any one or more of the following events will constitute a default by Debtor under this Agreement (herein referred to as an "Event of Default"):

(a) Failure by Debtor to pay when due any amount payable under the Liabilities.

(b) Failure by Debtor to perform or breach of a covenant set forth in the Liabilities and Debtor fails to perform or cure such breach within ten (10) days after Debtor receives written

notice thereof from Secured Party in accordance with the procedures for notice set forth below, provided, however, that Debtor shall be entitled to notice and opportunity to cure on account of any failure of the type described in this clause (b) only two (2) times during any twelve (12) calendar month period, and any subsequent failure of the type described in this clause (b) during such twelve (12) calendar month period shall constitute an Event of Default without the giving by Secured Party of any notice or opportunity to cure whatsoever;

(c) Failure of Debtor punctually and fully to perform, observe, discharge or comply with any of the covenants set forth in this Agreement, which failure is not cured within ten (10) days of the receipt by Debtor of written notice of same from Secured Party, provided, however, that Debtor shall be entitled to notice and opportunity to cure on account of any failure of the type described in this clause (c) only two (2) times during any twelve (12) calendar month period, and any subsequent failure of the type described in this clause (c) during such twelve (12) calendar month period shall constitute an Event of Default without the giving by Secured Party of any notice or opportunity to cure whatsoever;

(d) If Debtor becomes insolvent as defined in the Nevada Uniform Commercial Code or makes an assignment for the benefit of creditors, or if any action is brought by Debtor seeking its dissolution or liquidation of its assets or seeking the appointment of a trustee, interim trustee, receiver or other custodian for any of its property, or if Debtor commences a voluntary case under the Federal Bankruptcy Code, or if any reorganization or arrangement proceeding is instituted by Debtor for the settlement, readjustment, composition or extension of any of its debts upon any terms, or if any action or petition is otherwise brought by Debtor seeking similar relief or alleging that it is insolvent or unable to pay its debts as they mature;

(e) If any action is brought against Debtor seeking its dissolution or liquidation of any of its assets or seeking the appointment of a trustee, interim trustee, receiver or other custodian for any of its property, and such action is consented to or acquiesced in by Debtor or is not dismissed within forty-five (45) days of the date upon which it was instituted; or if any proceeding under the Federal Bankruptcy Code is instituted against Debtor, and (i) an order for relief is entered in such proceeding or (ii) such proceeding is consented to or acquiesced in by Debtor or is not dismissed within forty-five (45) days of the date upon which it was instituted; or if any reorganization or arrangement proceeding is instituted against Debtor for the settlement, readjustment, composition or extension of any of its debts upon any terms, and such proceeding is consented to or acquiesced in by Debtor or is not dismissed within forty-five (45) days of the date upon which it was instituted; or if any action or petition is otherwise brought against Debtor seeking similar relief or alleging that it is insolvent, unable to pay its debts as they mature or generally not paying its debts as they become due, and such action or petition is consented to or acquiesced in by Debtor or is not dismissed within forty-five (45) days of the date upon which it was brought;

(f) If Debtor suffers any casualty loss which is not insured against or as to which the purported insurer disclaims coverage and which exceeds, or which when aggregated with all such other casualty losses would cause the aggregate thereof to exceed, \$50,000;

(g) If Collateral is seized or levied upon or a receiver or other custodian is appointed for it and Debtor fails to obtain the return or release thereof or fails to have the

appointment of such receiver or custodian dismissed, each within thirty (30) days of the seizure thereof or the appointment of such receiver or custodian, as the case may be.

5. SECURED PARTY'S RIGHTS ON DEFAULT - Upon the occurrence of an Event of Default hereunder, any of the Liabilities may, at the option of Secured Party and without demand or notice of any kind, be declared by Secured Party, and thereupon immediately shall become, due and payable, and Secured Party shall have, in addition to all other rights and remedies which Secured Party may have under law, the following rights and remedies all of which may be exercised with or without further notice to Debtor: to execute in Debtor's name any affidavits and notices with regard to any and all lien rights; and to do all other acts and things necessary to carry out this Agreement or to deal with the Collateral or proceeds thereof in its own name or in the name of the Debtor. All acts of said attorney-in-fact are hereby ratified and approved, and said attorney-in-fact shall not be liable for any errors of commission or omission nor for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as this Agreement is in effect. Secured Party shall also have the right to foreclose the liens and security interests created under this Agreement or under any other agreement relating to the Collateral by any available judicial procedure or without judicial process; to enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same; to sell, assign, lease or otherwise dispose of the Collateral, or any part thereof, either at public or private sale, in lots or in bulk, for cash, or credit or otherwise, with or without representations or warranties, and upon such terms as shall be acceptable to Secured Party, all at Secured Party's sole option and as Secured Party in its sole discretion may deem advisable, and Secured Party may bid or become purchaser at any such sale, free from any right of redemption which is hereby expressly waived by Debtor, and Secured Party shall have the right at its option to apply or credit the amount of all or any part of the Liabilities owing to Secured Party against the purchase price bid by Secured Party at any such sale. The net cash proceeds resulting from the collection, liquidation, sale, lease or other disposition of the Collateral shall be applied first, to the expenses (including reasonable attorneys' fees) of retaking, holding, storing, processing and preparing for sale, selling, collection, liquidation and the like, and then to the satisfaction of all Liabilities, application as to particular Liabilities or against principal or interest to be in Secured Party's absolute discretion. The Debtor shall be liable to Secured Party and shall pay to Secured Party on demand any deficiency which may remain after such sale, disposition, collection or liquidation of the Collateral and Secured Party in turn agrees to remit to Debtor any surplus remaining after all Liabilities have been paid in full. If any of the Collateral shall require preparation or the like, Secured Party shall have the right, but shall not be obligated, to do such preparation for the purpose of putting the same in such saleable form as Secured Party shall deem appropriate, but Secured Party shall have the right to sell or dispose of such Collateral without such processing. The Debtor will, at Secured Party's request, assemble all the Collateral and make it available to Secured Party at places which Secured Party may select, whether at Debtor's premises or elsewhere, and will make available to Secured Party all premises and facilities of the Debtor for the purpose of Secured Party's taking possession of the Collateral or of removing or putting the Collateral in saleable form. To facilitate the exercise by Secured Party of the rights and remedies set forth in this paragraph, Debtor hereby constitutes Secured Party or its agents, or any other person whom Secured Party may designate, as attorney-in-fact for Debtor, at Debtor's own cost and expense, to exercise all or any of the following powers, which being coupled with an interest, shall be irrevocable, shall continue so long as this Agreement is in effect, and shall be in addition to any other rights and remedies that Secured Party may have: (i) to remove from any premises where the same shall be located, any and all

documents, instruments, files and records, and any receptacles and cabinets containing the same, relating to Collateral, and Secured Party may at Debtor's cost and expense, use such of the personnel, supplies and space of Debtor at its places of business as may be necessary to properly administer and control the Collateral or the realization thereon, and (ii) to take or bring in Secured Party's name or in the name of Debtor, all steps, actions, suits or proceedings deemed by Secured Party necessary or desirable to realize upon the Collateral. DEBTOR HEREBY WAIVES ANY AND ALL RIGHTS IT MAY HAVE TO NOTICE OR HEARING PRIOR TO SEIZURE BY SECURED PARTY OF THE COLLATERAL WHETHER BY WRIT OF POSSESSION OR OTHERWISE.

6. MISCELLANEOUS PROVISIONS - This Agreement shall be governed by and interpreted in accordance with the laws of the State of Nevada. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

Words importing the singular number hereunder shall include the plural number and vice versa, and any pronoun used herein shall be deemed to cover all genders.

Secured Party shall not be deemed to waive any of its rights hereunder unless such waiver be in writing and signed by Secured Party. No delay or omission by Secured Party in exercising any of its rights hereunder shall operate as a waiver of such rights and a waiver in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion.

Risk of loss of the Collateral shall at all times be upon Debtor irrespective of whether it is in Debtor's possession.

This Agreement and the security interests and security title conveyed hereunder shall remain in full force and effect until such time as no Liabilities are outstanding.

All obligations of the Debtor shall bind its heirs, legal representatives, successors and assigns.

The word "Secured Party" as used herein shall include transferees and assignees of the Secured Party, and all rights of Secured Party hereunder shall inure to the benefit of its successors and assigns.

SIGNED, SEALED AND DELIVERED by the Debtor as of the 26 day of October, 2000.

DEBTOR:

USA ARMORING,LLC

By: 

Title: MEMBER

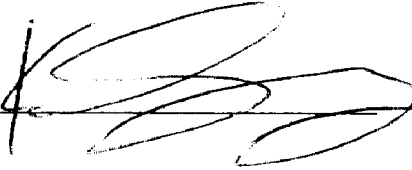
Attest: 

Title: member

(SEAL)

ACCEPTED BY SECURED PARTY:

GALLAGHER CORPORATION

By: 

Title: _____

(CORPORATE SEAL)

EXHIBIT "A"
DESCRIPTION OF COLLATERAL

All of Debtor's rights, title and interest in and to the following intellectual property:

A. Issued Patents:

- 1) U.S. Patent No. 6,035,438 entitled METHOD AND APPARATUS FOR DEFEATING BALLISTIC PROJECTILES issued March 14, 2000;
- 2) U.S. Patent No. 6,088,979 entitled FRAME FOR SUPPORTING AN AUXILIARY GLAZING METHOD FOR INSTALLING THE IMPROVED FRAME issued July 18, 2000;

B. Patent Applications

[Including any continuation, divisional, continuation-in-part, or foreign applications arising therefrom]

- 1) U.S. Patent Application Serial No. 09/189,105 entitled METHOD AND APPARATUS FOR DEFEATING BALLISTIC PROJECTILES filed on November 9, 1998.
- 2) U.S. Patent Application Serial No. 09/513,563 entitled METHOD AND APPARATUS FOR DEFEATING BALLISTIC PROJECTILES filed on February 25, 2000.

C. Trademarks

U.S. Trademark registration number 2,336,585