

01-15-2002



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**RECORDATION FORM COVER SHEET  
PATENTS ONLY**

TO: The Commissioner of Patents and Trademarks: Please record the attached original document(s) or copy(ies).

**Submission Type**

New

Resubmission (Non-Recordation)  
Document ID#

Correction of PTO Error  
Reel #  Frame #

Corrective Document  
Reel #  Frame #

**Conveyance Type**

Assignment  Security Agreement

License  Change of Name

Merger  Other

**U.S. Government**  
(For Use ONLY by U.S. Government Agencies)

Departmental File  Secret File

**Conveying Party(ies)**

Mark if additional names of conveying parties attached

Execution Date  
Month Day Year

Name (line 1) ENDO SURGICAL DEVICES, INC.

8 23 01

Name (line 2)

**Second Party**

Execution Date  
Month Day Year

Name (line 1)

Name (line 2)

**Receiving Party**

Mark if additional names of receiving parties attached

If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative is attached. (Designation must be a separate document from Assignment.)

Name (line 1) BLACK, INC.

Name (line 2)

Address (line 1) 5140 Yonge Street, Suite 1540

Address (line 2)

Address (line 3) Toronto, Ontario Canada M2N 6L7  
City State/Country Zip Code

**Domestic Representative Name and Address**

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**FOR OFFICE USE ONLY**

01/14/2002 GTOW11 00000436 09294566  
01 FC:581 120.00 DP

Public burden reporting for this collection of information is estimated to average approximately 30 minutes per Cover Sheet to be recorded, including time for reviewing the document and gathering the data needed to complete the Cover Sheet. Send comments regarding this burden estimate to the U.S. Patent and Trademark Office, Chief Information Officer, Washington, D.C. 20231 and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Paperwork Reduction Project (0651-0027), Washington, D.C. 20503. See OMB Information Collection Budget Package 0651-0027, Patent and Trademark Assignment Practice. DO NOT SEND REQUESTS TO RECORD ASSIGNMENT DOCUMENTS TO THIS ADDRESS.

Mail documents to be recorded with required cover sheet(s) information to:  
Commissioner of Patents and Trademarks, Box Assignments, Washington, D.C. 20231

**Correspondent Name and Address**

Area Code and Telephone Number (212) 632-8034

Name Henrietta Trachsel

Address (line 1) Salans Hertzfeld Heilbronn Christy & Viener

Address (line 2) Rockefeller Center

Address (line 3) 620 Fifth Avenue

Address (line 4) New York, New York 10020

**Pages** Enter the total number of pages of the attached conveyance document including any attachments. # 39

**Application Number(s) or Patent Number(s)**

Mark if additional numbers attached

Enter either the Patent Application Number or the Patent Number (DO NOT ENTER BOTH numbers for the same property).

**Patent Application Number(s)**

**Patent Number(s)**

09294566

5954713

09703532

If this document is being filed together with a new Patent Application, enter the date the patent application was signed by the first named executing inventor.

Month Day Year

**Patent Cooperation Treaty (PCT)**

Enter PCT application number only if a U.S. Application Number has not been assigned.

PCT PCT PCT  
PCT PCT PCT

**Number of Properties**

Enter the total number of properties involved. # 3

**Fee Amount**

Fee Amount for Properties Listed (37 CFR 3.41): \$ 120.00

Method of Payment:  
Deposit Account

Enclosed  Deposit Account

(Enter for payment by deposit account or if additional fees can be charged to the account.)

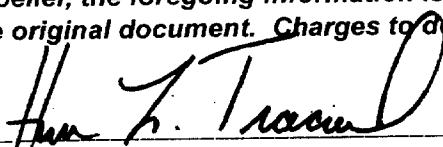
Deposit Account Number: # 50-1628

Authorization to charge additional fees: Yes  No

**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. Charges to deposit account are authorized, as indicated herein.

Henrietta Trachsel



10/23/01

Name of Person Signing

Signature

Date

SECURITY AGREEMENT

AGREEMENT dated as of the 23rd day of August, 2001 by and between Endo Surgical Devices, Inc., a Delaware corporation, having an address at 722 Post Road, 2<sup>nd</sup> Floor, Darien, CT 06820 (the "Grantor") and Black, Inc., an Ontario corporation having an address at 5140 Yonge Street, Suite 1540, Toronto, Ontario M2N 6L7, Canada (the "Secured Party").

**WITNESSETH:**

WHEREAS, the Grantor has issued to the Secured Party a Convertible Debenture executed simultaneously with this Security Agreement in the principal amount of eight hundred fifty thousand (\$850,000) dollars, a copy of which is annexed hereto and made a part hereof as Exhibit "A"; and

WHEREAS, to induce the Secured Party to make the loan evidenced by the Convertible Debenture, the Grantor agreed to grant to the Secured Party a lien with respect to all current and future assets including, but not limited to, fixed assets and the Grantor's intellectual property, to secure full payment of the Convertible Debenture by executing and delivering this Security Agreement to the Secured Party,

NOW, THEREFORE, in consideration of the mutual covenants of the parties which are hereinafter set forth and for other good and valuable consideration, receipt of which is hereby acknowledged,

IT IS AGREED:

1. Recitals Adopted. The parties hereto adopt as part of this Security Agreement each of the recitals which are contained above in the WHEREAS clauses, and agree that such recitals shall be binding upon the parties hereto by way of contract and not merely by way of recital or inducement; and such clauses are hereby confirmed and ratified as being true and accurate by each party as to itself and himself.

2. Security Interest. To secure the payment of all principal and interest pursuant to the Convertible Debenture and the payment and performance by the Grantor of all obligations and liabilities of the Grantor to the Secured Party (the "Obligations") including, but not limited to, pursuant to the Convertible Debenture and the Security Agreement, the Grantor shall and hereby does, on and as of the date hereof, grant, convey, assign and transfer to the Secured Party a continuing lien upon, and security interest in all of the assets including, but not limited to, the fixed assets and Intellectual Property (hereinafter defined in Paragraph B of Article 3 of this Security Agreement), of the Grantor, whether now owned or hereafter acquired, and its successors and assigns and all additions, accessions or attachments to or replacements of any of the Grantor's assets (the "Collateral"), including, but not limited to, those assets set forth on Exhibit "C" which is annexed hereto and made a part hereof.

3. Representations of the Grantor. The Grantor represents and warrants to the Secured Party that:

A. Company Status (i) The Grantor is a corporation duly organized, validly

existing and in good standing under the laws of Delaware with all requisite power and authority to carry on its business as presently conducted in all jurisdictions where presently conducted, to execute and deliver this Security Agreement and to perform its obligations pursuant to this Security Agreement.

(ii) Copies of (a) the Certificate of Incorporation, and all amendments thereto to date for the Grantor, certified by the Secretary of State of the State of Delaware, and (b) the Bylaws of the Grantor, as amended to date, certified by the Secretary of the Grantor, are annexed hereto, and made a part hereof, as Exhibits "B" and "D", respectively, and are complete and correct as of the date of this Security Agreement.

The Grantor currently maintains no functioning office. The mailing address of the Grantor is 722 Post Road, 2<sup>nd</sup> Floor, Darien, CT 06820. The Grantor will promptly notify the Secured Party upon the establishment of a principal office.

B. Collateral. (i) Collateral including, but not limited to, the Intellectual Property (hereinafter defined) is described on Exhibit "C" to this Security Agreement. All collateral, except collateral having an aggregate value of no more than \$10,000, and the documentation with respect to the Intellectual Property, is located at the locations set forth on Exhibit "C" (the "Collateral Locations"), and the Grantor has no other place or places of business;

(ii) For purposes of this Security Agreement "Intellectual Property" shall mean (a)

all

inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, continuances, continuations-in-part, revisions, extensions, and reexaminations thereof, (b) all trademarks, service marks, trade dress, logos, trade names, and corporate names, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations and renewals in connection therewith, (c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (d) all trade secrets and confidential business information (including ideas, research and development, know-how, formulas, data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), (e) license rights, including, but not limited to, such license rights as are included in the Research, Development and License Agreement as of the 8<sup>th</sup> day of June, 2000 between the Grantor and DEKA Products Limited Partnership and DEKA Research and Development Corp. (f) all computer software (including source code, data and related documentation), (g) all other proprietary rights, and (h) all copies and tangible embodiments thereof (in whatever form or medium).

(iii) The Grantor is the legal and beneficial owner of all Collateral, subject to any License Rights (as such term is defined in Paragraph C of Article 4 of this Security Agreement).

C. Authority and Due Authorization. The Grantor has full authority, right and power to execute and deliver this Security Agreement and to consummate the transactions which are

provided for herein. The execution of this Security Agreement by the Grantor, and its delivery to the Secured Party and the consummation by the Grantor of the transactions which are contemplated herein have been duly approved and authorized by all necessary action by the Grantor's Board of Directors. A certified copy of the Board of Directors resolution approving and authorizing this Security Agreement in the form of Exhibit "E" which is attached hereto and made a part hereof. Except as set forth in Exhibit "F", annexed hereto and made a part hereof, no consent of any person is necessary in connection with the execution or delivery of this Security Agreement by the Grantor or the performance by the Grantor of the Obligations pursuant to this Security Agreement. No further action shall be necessary on the part of the Grantor for the performance and consummation by the Grantor of the transactions which are contemplated by this Security Agreement.

D. Accounts Payable. Annexed hereto and made a part hereof as Exhibit J is a true and complete schedule of all accounts payable of the Grantor, as of August 1, 2001, including an aging of such accounts payable.

E. Capitalization. The Grantor's authorized capital stock consists of 5,000,000 shares of the Grantor's Common Stock, \$.01 par value, of which 439,985 shares are issued and outstanding, all of which are validly issued, fully paid and nonassessable, and 400,000 shares of Series A Convertible Preferred Stock, \$.01 par value, of which 200,000 shares are issued and outstanding, all of which are validly issued, fully paid and nonassessable. No other shares of capital stock of the Grantor are issued and outstanding and, except as set forth on Exhibit E to the

Debenture, there are no subscriptions, options, warrants, rights or other agreements outstanding to acquire shares of stock of the Grantor and any other equity security or security convertible into an equity security. Except as expressly contemplated by the Debenture, there are no agreements or commitments to increase, decrease or otherwise alter the authorized capital stock of the Grantor.

F. Compliance with the Law and other Instruments. Except as otherwise provided in this Security Agreement and in the Exhibits annexed hereto, the business and operations of the Grantor have been and are being conducted in accordance with all applicable laws, rules and regulations of all authorities which affect the Grantor or its properties, assets, businesses or prospects. The execution, delivery and performance of this Security Agreement does not violate any law or any agreement or undertaking to which the Grantor is a party or by which the Grantor may be bound and shall not result in any breach of, or constitute a default under, or result in the imposition of any lien or encumbrance, upon any of the Collateral, including, but not limited to Intellectual Property, other than the lien created by this Security Agreement, or cause an acceleration under any arrangement, any security agreement or other instrument to which the Grantor is a party or by which any of the Collateral is bound. The Grantor has performed in all respects all of its obligations which are, as of the date of this Security Agreement, required to be performed by it pursuant to the terms of any such agreement, contract or commitment. The Grantor is not in default with respect to any agreement, contract or commitment to which it is a party or by which it is bound, which default could reasonably be expected to have an adverse effect upon the business of the



Grantor, its ability to perform its Obligations hereunder, or upon the enforceability of the Convertible Debenture or this Security Agreement.

G. Other Liens. The Grantor has not created and is unaware of any lien on or affecting any of the Collateral other than the lien created by this Security Agreement in favor of the Secured Party which constitutes a valid and legal security interest in all of the Collateral for payment and performance of the Obligations. The Grantor has executed and delivered simultaneously with the execution of this Security Agreement to the Secured Party Forms UCC-1, filings with the United States Patent and Trademark Office, and such other forms which may be required to perfect the Secured Party's lien with respect to the Grantor's Intellectual Property and such other forms as the Secured Party may request or deem necessary to evidence, perfect and continue the perfection of a security interest in the Collateral in favor of the Secured Party in any and all jurisdictions as the Secured Party deems advisable.

H. Litigation. There are no legal, administrative, arbitration, or other proceedings or governmental investigations to which the Grantor or its assets are subject or with respect to any matter arising out of the conduct of the business of the Grantor, or, to the Grantor's knowledge, threatened by or against the Grantor or any of its officers or directors in connection with the Grantor's affairs, whether or not covered by insurance. The Grantor is not presently engaged in or contemplating any legal action to recover claims for monies which are due to it or damages which were sustained by it. Neither the Grantor, nor any of its officers, directors or employees are subject

to any order, writ, injunction, or decree of any Court, department, agency or instrumentality, affecting the Grantor.

I. Complete Disclosure. The representations and warranties of the Grantor contained in this Security Agreement, the factual disclosures contained in the Grantor's Private Placement Memorandum, dated August 20, 2001 (subject to the qualifications and disclaimers set forth therein and it being understood that this Paragraph G of this Section 3 shall not apply to any projections contained in the Private Placement Memorandum) which are described on Exhibit G, considered in the aggregate, do not contain any untrue statement of a material fact, and do not omit to state any material fact known to the Grantor which is required to make the statements which are contained herein or therein, in light of the circumstances under which they were made, not misleading. There is no fact known to the Grantor relating to its business, assets, liabilities, financial condition or results of operations or business prospects which would materially adversely affect same which has not been disclosed to the Secured Party in this Security Agreement or in the foregoing documents.

J. No Defense. It shall not be a defense to a suit for damages for any misrepresentation or breach or warranty that the Secured Party knew or had reason to know (other than pursuant to any written disclosure by or on behalf of the Secured Party, which are further described in the Exhibits hereto or in the Convertible Debenture) that any representation or warranty in this Security Agreement, or furnished or to be furnished to the Secured Party contained untrue

statements.

4. Affirmative Covenants. Unless and until all of the Obligations of the Secured Party have been paid in full, or the Convertible Debenture has been converted in full in accordance with its terms, the Grantor shall do all that is necessary to protect the Secured Party's Security Interest in the Collateral, including but not limited to the following:

A. The Grantor shall execute and deliver simultaneously with the execution of this Security Agreement to the Secured Party Forms UCC-1, filings with the United States Patent and Trademark Office, and such other forms which may be required to perfect the Secured Party's lien with respect to the Grantor's Intellectual Property and such other forms as the Secured Party may request or deem necessary to evidence, perfect, and continue the perfection of a security interest in the Collateral in favor of the Secured Party in any and all jurisdictions as the Secured Party deems advisable.

B. The Grantor shall, at its own cost, take any and all actions necessary to defend its title to the Collateral and defend the Secured Party's lien on the Collateral granted pursuant to this Security Agreement against any adverse lien. The assertion by anyone of any claim with respect to any portion of the Collateral shall not constitute a default hereunder if such claim is diligently, adequately and successfully contested by the Grantor or is settled or discharged by the Grantor with reasonable diligence. In the event of failure by the Grantor to diligently defend or contest any such claim, the Secured Party may contest, settle or discharge any such claim, and the Grantor shall pay

to the Secured Party within five (5) days of demand, all costs and expenses, in connection with the foregoing, including reasonable attorneys' fees and expenses.

C. The Grantor shall keep the Collateral free and clear of any and all liens and encumbrances of any kind other than the lien created by this Security Agreement except with respect to equipment leasing relating to collateral acquired after the date hereof; provided that nothing herein shall be construed to limit the grant or receipt by the Grantor of any license or similar rights with respect to any of its Intellectual Property; provided such license or similar right with respect to any of its Intellectual Property be on commercially reasonable terms to third parties ("License Rights," which shall also include the limitations applicable to the Intellectual Property pursuant to the agreements under which the Intellectual Property was licensed to the Grantor);

D. The Grantor shall bear the full risk of loss from any loss of any nature whatsoever with respect to the Collateral. The Grantor shall, to the Secured Party's satisfaction, at such time as the Grantor's tangible assets equal \$100,000 or more, and at all times thereafter, keep all insurable Collateral insured at the expense of the Grantor against loss by fire, theft and any other risks to which the Collateral may be subject, and cause all such policies to be endorsed in favor of the Secured Party and to list the Secured Party as loss payee and as an additional insured, and if the Secured Party so requests, give copies of such policies to the Secured Party, and the Grantor shall cause all such policies to provide that each insurer will give the Secured Party not less than thirty (30) days prior written notice before giving notice of cancellation.

E. The Grantor shall keep the tangible property included in the Collateral in good condition at all times (normal wear and tear excepted) and from time to time make all necessary and proper repairs, renewals, replacements, additions, and improvements thereto and provide to the Secured Party such information as the Secured Party from time to time may request with respect to the condition of the Collateral and the Grantor's places of business;

F. The Grantor shall give to the Secured Party at least thirty (30) days prior written notice before changing the location or disposing of Collateral having an aggregate value of \$25,000 or more (other than with respect to the location of motor vehicles or the grant of any License Rights and other than a motor vehicle, or in connection with the sale of Inventory, as defined in the Uniform Commercial Code in effect in the State of New York (the "UCC"), in the ordinary course of business);

G. The Grantor shall keep records and books of account in which accurate and complete entries will be made of all dealings or transactions in relation to its business and affairs in accordance with generally accepted accounting principles applied on a consistent basis, and the Grantor shall use reasonable efforts to deliver to the Secured Party as soon as available, but no later than: (i) thirty (30) days after the end of each of the first three quarterly accounting periods in each fiscal year, consolidated profit and loss statements of the Grantor and its subsidiaries for such quarterly period and on a consolidated basis for the expired portion of the fiscal year ending with the end of such period and a consolidated balance sheet of the Grantor and its subsidiaries as at the end of such

quarterly period—all in reasonable detail, subject to audited year-end adjustments and certified by an authorized financial officer of the Grantor to have been prepared in accordance with generally accepted accounting principles consistently maintained by the Grantor and its subsidiaries during the fiscal year preceding the period covered by each quarterly statement, except for inconsistencies explained in such certificate; and (ii) ninety (90) days after the end of each fiscal year, consolidated profit and loss statements of the Grantor and its subsidiaries for such year, and a consolidating balance sheet of the Grantor and its subsidiaries as at the end of such year, setting forth in each case in comparative form the corresponding consolidated figures of the preceding fiscal year—all in reasonable detail, including all supporting schedules and comments, and certified by the Company's current accountants, Drucker, Math & Whitman, or other independent public accountants of recognized standing, selected by the Grantor and satisfactory to the Secured Party, to have been prepared in accordance with generally accepted accounting principles consistently maintained by the Grantor and its subsidiaries during the fiscal year preceding that for which each statement is being furnished, except for inconsistencies explained in such certificate. In addition, the Grantor will use its best efforts to obtain from the accountants and deliver to the Secured Party within such sixty (60) day period, their written statement that, in making the examination necessary to their certification, they have no knowledge of any default by the Grantor in the performance of any obligation under this Security Agreement or the Convertible Debenture, or disclosing all defaults of which they have obtained knowledge; provided however, in making their examination the accountants shall not be

required to go beyond the bounds of generally accepted auditing procedures.

H. The Grantor shall deliver to the Secured Party, concurrently with the delivery of the audited annual financial statements pursuant to Paragraph G of this Article 4 of this Security Agreement, an officers' certificate substantially in the form as Exhibit H, which is annexed hereto and made a part hereof, stating that (i) all taxes, assessments and charges which have become due by the Grantor and its subsidiaries have been paid, or specifying any such taxes, assessments or charges which have not been paid and stating why they have not been paid, and (ii) the Grantor is not to the knowledge of the signers in default in the performance of any obligation under this Security Agreement or the Convertible Debenture, or specifying each default of which the signers, or either of them, have knowledge.

I. In addition to the Grantor's obligations pursuant to Paragraph G of this Article 4 of this Security Agreement, the Grantor shall furnish to the Secured Party (i) copies of such financial statements, reports and proxy statements as the Grantor shall send to its stockholders; (ii) copies of such financial statements, reports and returns as it may make to or file with the Securities and Exchange Commission or any securities exchange; (iii) copies of any special and significant reports by independent public accountants, appraisals, engineering surveys and other reports submitted to or prepared by the Grantor concerning its properties or operations which, in the opinion of the Grantor, would be helpful to the Secured Party in evaluating its investment in the Convertible Debenture; and (iv) all other reasonable financial information as the Secured Party may from time

to time request.

J. The Grantor shall permit the Secured Party, by its officers and agents, upon reasonable prior notice and at the Secured Party's expense, not more than six (6) times per calendar year to access and examine during normal business hours the Collateral, properties, minute books and other corporate records, books of accounts, and financial and other business records of the Grantor including, but not limited to, all books, records, ledger cards, computer programs, tapes and computer disks and diskettes and other property recording, evidencing or relating to any Collateral; provided, however, such inspection will not unreasonably interfere with the normal course of business;

K. The Grantor shall take all necessary action in order to avoid subjecting the Collateral to any lien, charge, claim or encumbrance arising under or relating to any environmental law or regulation or the release or threatened release of any Hazardous Materials (as defined under applicable state and federal environmental laws). If the Grantor shall fail to comply with any of the requirements of any environmental law or regulation, the Secured Party may, upon reasonable prior notice to Grantor and in a manner that does not reasonably impair the conduct of the Grantor's business, but without the obligation to do so, for the sole purpose of protecting the Secured Party's interest in the Collateral, enter onto the Grantor's property (or authorize third parties to enter onto such property) and take such actions as the Secured Party (or such third parties as directed by the Secured Party) deem reasonably necessary or advisable, to clean up, remove, mitigate or otherwise



deal with such Hazardous Materials or environmental violation or claim. All reasonable costs and expenses incurred by the Secured Party (or such third parties) in the exercise of any such rights, including any sums paid in connection with any judicial or administrative investigation or proceedings, fines and penalties, together with interest thereon from the date expended at the lesser of eighteen (18%) percent or the maximum rate of interest allowable under applicable law, shall be paid by the Grantor upon the Secured Party's demand, and until paid, shall be added to and become a part of the Obligations secured by the liens created by the terms of this Security Agreement or any other agreement between the Secured Party and the Grantor.

L. The Grantor shall promptly pay and discharge, or cause to be paid and discharged, when due and payable, all lawful taxes, assessments, and governmental charges or levies imposed upon the income, profits, property, or business of the Grantor or any current or future subsidiary of the Grantor (collectively referred hereinafter as the "Grantor");

M. The Grantor shall at all times comply with the provisions of all leases to which it is a party or under which it occupies property so as to prevent any loss or forfeiture thereof or thereunder;

N. The Grantor shall comply with requirements of all applicable laws, rules, regulations, and orders of any governmental authority, a breach of which could have an adverse effect on its business or credit;

O. The Grantor shall maintain in full force and effect its corporate existence, rights and

franchises and all licenses and other rights to use patents, processes, licenses, trademarks, trade names, or copyrights owned or possessed by it and necessary to the conduct of the Grantor's business;

P. The Grantor shall notify the Secured Party promptly following the receipt by the Grantor of notice of the commencement of any proceedings and investigations by or before and/or the receipt of any other notices (other than routine tax, municipal, regulatory and similar communications) from, any governmental or nongovernmental body including, but not limited to, any court or before any arbitrator, against or in any way concerning any of the Grantor's properties, assets or business;

Q. The Grantor shall promptly provide the Secured Party with copies of all FDA correspondences and notices, other than immaterial communications;

R. The Grantor shall promptly notify the Secured Party of any attachment or other legal process levied against any part of the Collateral and any information received by the Grantor relative to the Collateral, which may in any way materially and adversely affect the value of the Collateral as a whole or the rights and remedies of the Secured Party in respect thereto;

S. The Grantor shall promptly notify the Secured Party of any adverse change in the Grantor's business, assets, liabilities, financial condition or results of operations or business prospects other than payment of ordinary operating expenditures in the ordinary course of business and consistent with the Grantor's operating budget;

T. Promptly notify the Secured Party of any default or any event which, with the passage of time or giving of notice or both, would constitute a default under any loan agreement, evidence of indebtedness, or agreement for the payment of money in an aggregate amount of \$25,000 or more to which the Grantor is a party or by which the Grantor or any of the Grantor's properties may be bound.

U. The Grantor shall promptly notify the Secured Party of any delay in the Grantor's performance of any of its obligations to any of its customers, which purchase more than \$10,000 per year from the Grantor, or its suppliers, who provide more than \$10,000 per year in goods and/or services to the Payor, and of any assertion of any claims, offsets or counterclaims by any of the Grantor's customers; provided, however that if notification by the Payor to the Payee is not required pursuant to this Section, the failure to make any payment may still be deemed a default, pursuant to other terms of the Debenture or this Security Agreement.

V. The Grantor shall promptly notify the Secured Party of any Event of Default (hereinafter defined) of which the Grantor becomes aware.

W. The Grantor shall certify to the Payee, on a monthly basis, or more often at the request of the Secured Party and upon three (3) days notice, that the Grantor is not aware of the occurrence of any Event of Default (hereinafter defined) and that it has not willfully avoided becoming aware of the occurrence of an Event of Default (hereinafter defined).

5. Negative Covenants Unless and until all of the Obligations have been paid in full,

the Grantor shall not:

A. Conduct its business in any manner other than in the ordinary course;

B. Increase the compensation payable or to become payable by the Grantor to any officer, director and/or consultant above the amount as set forth on Exhibit "I", which is annexed hereto and made a part hereof, without prior notice to the Board of Directors observer appointed by the holders of Debentures, or pay compensation to any of the immediate family of any officer and/or director including, but not limited to, the following: any spouse, parent, spouse of a parent, mother-in-law, father-in-law, child, spouse of a child, sibling, spouse of a sibling, grandparent, spouse of a grandparent or any issue of any of the foregoing.

E. Voluntarily mortgage, pledge or subject to lien, charge or any other encumbrance, any tangible or intangible asset of the Grantor except with respect to equipment leasing of newly acquired assets or the granting of a license for the Grantor's products on commercially reasonable terms, to a third party;

F. Declare or make any dividend or may any other payment or distribution in respect to its capital stock or purchase or redeem any of its securities;

G. Sell, liquidate, or otherwise dispose of any of its assets having an aggregate value of \$25,000 or more, other than in the ordinary course of business; provided that the sale of Intellectual Property shall not be deemed to be in the ordinary course of business;

H. Guarantee the borrowing of money;

I. Enter into any agreement of merger, reorganization or consolidation of the Grantor unless the Grantor is the surviving entity or the surviving entity has expressly assumed the obligations of the Grantor under the Convertible Debenture and this Security Agreement; and

J. Issue any additional Series A Preferred Stock, except pursuant to that certain letter agreement, dated July 31, 2001, which is annexed hereto and made a part hereof as Exhibit "K".

6. Right of the Secured Party to Perform. If the Grantor fails to perform any of its affirmative covenants set forth in Article 4 or breaches any of the negative covenants set forth in Article 5 of this Security Agreement, or if the Grantor is in breach of any of its obligations under the Convertible Debenture, the Secured Party, after five (5) days prior written notice to the Grantor, may, but shall not be obligated to, cure, in a manner which does not unreasonably impair the conduct of the Grantor's business, any such failure to perform or to cure any such breach and take any action that it deems necessary and appropriate for the maintenance and preservation of the Collateral or its security interest therein; and the expenses so incurred in connection therewith shall be payable by the Grantor upon demand, with interest at a rate per annum equal to the Default Interest (as defined in the Convertible Debenture). All sums advanced or paid by the Secured Party pursuant to this Article "6" of this Security Agreement shall be reimbursed by the Grantor to the Secured Party on demand, with interest equal to the Default Interest until paid by the Grantor to the Secured Party, and shall be secured as additional Obligations hereunder.

7. Default.

A. Event of Default. The term "Event of Default" as used herein shall mean

the occurrence of any one or more of the following events:

- (i) If the Grantor fails to take all necessary measures to prevent the cancellation of any insurance policy covering the Collateral;
- (ii) If the Grantor takes any action which reduces its ability to repay the Obligations.
- (iii) The default in the due observance or performance of any covenant, condition, agreement or obligation on the part of the Grantor to be observed or performed pursuant to this Security Agreement or the Convertible Debenture, which default remains uncured for twenty (20) days after the earlier to occur of a written notice of default to the Grantor from the Secured Party or the Grantor becoming aware of the default; provided, however, that the Grantor will not willfully avoid becoming aware of any default; provided further that said twenty (20) day cure period shall be automatically extended for the period during which the Grantor is complying with this Subsection iii of this Paragraph A of this Section 7 of this Security Agreement, if and only if (A) the designated breach or default is not reasonably capable of being cured within twenty (20) days, (B) said breach or default was not intentional (C) that the ability to comply is not based upon lack of funds, and (D) if the

Grantor takes prompt, diligent, reasonable and continuing efforts and action to cure said breach or default as quickly as reasonably practicable .

- (iv) The Grantor fails to obtain the regulatory approval necessary for marketing by the US Food and Drug Administration of a 510(k) submission with respect to the Payor's Carbodissecting Technology (as described in the Grantor's Private Placement Memorandum, dated August 20, 2001), which approval shall be final and not subject to appeal (the "FDA Approval") within two (2) years after the date hereof.
- (v) The Grantor fails to obtain an additional \$500,000 in investments on or prior to March 31, 2002.
- (vi) If the Grantor is in breach, of or default of, any of its obligations pursuant to any of its contracts, agreements or obligations.
- (vii) Any sale, disposal, waste, destruction or other transfer of any portion of the Collateral (other than in connection with the sale of Inventory, as defined in the Uniform Commercial Code in effect in the State of New York (the "UCC"), in the ordinary course of business) by the Grantor without the Secured Party's prior written consent.
- (viii) If the Grantor fails to pay when due any payment due hereunder and such failure continues for five (5) days after Secured Party notifies the Grantor

thereof in writing pursuant to Paragraph C of this Article 7 of this Security Agreement.

- (ix) The admission in writing by the Grantor of its inability to pay its debts as they mature.
- (x) The filing by the Grantor of a petition in bankruptcy.
- (xi) The making of an assignment by the Grantor for the benefit of its creditors.
- (xii) Consent by the Grantor to the appointment of, or possession by, a custodian for itself or for all or substantially all of its property.
- (xiii) The filing of a petition in bankruptcy against the Grantor with the consent of the Grantor.
- (xiv) The filing of a petition in bankruptcy against the Grantor without the consent of the Grantor, and the failure to have such petition dismissed within sixty (60) days from the date upon which such petition is filed.
- (xv) Notwithstanding the sixty (60) day provision in Subparagraph (viii) of this Paragraph (A) of this Article 7 of this Security Agreement, on a petition in bankruptcy filed against the Grantor, the Grantor is adjudicated insolvent.
- (xvi) The Grantor shall become insolvent, which, for purposes of this Security Agreement, shall mean: (1) the Grantor is unable to meet its obligations as they mature; or (2) the Grantor is unable to execute upon its business plan as



described in the Payor's Private Placement Memorandum due to a lack of capital.

- (xvii) The entry by a court of competent jurisdiction of an order, judgment or decree appointing a receiver, trustee or custodian for the Grantor or of all or substantially all of the property or assets of Grantor.
- (xviii) The commencement of a proceeding to foreclose the security interest in, or lien on, any of the Grantor's property or assets to satisfy the security interest or lien therein of any creditor of the Grantor which has not been stayed or dismissed within sixty (60) days after such proceeding is commenced.
- (xix) The entry of a judgment for the payment of money by a court of competent jurisdiction against the Grantor, which together with all other such judgments after the date hereof, exceeds \$10,000, which judgment the Grantor shall not discharge within thirty (30) days after the date of entry thereof, or procure a stay of execution thereof within thirty (30) days after the date of entry thereof and, within such thirty (30) day period, or such longer period during which execution of such judgment shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.
- (xx) The imposition of any lien, attachment or levy in an amount of \$5,000 or more, singly or in the aggregate, which lien, attachment or levy the Grantor

shall not discharge or post a bond within thirty (30) days.

(xxi) If, in the judgment of Secured Party, there is any deterioration, depreciation or impairment of the value of the Collateral, or any part thereof, which causes the Collateral to have less value than the amount due to the Secured Party pursuant to the Convertible Debenture.

(xxii) If any representation set forth in this Security Agreement, the Convertible Debenture or the Merger Agreement proves to have been false or misleading in any adverse respect when made and it is not susceptible to cure in accordance with Subsection (iii) of this Paragraph A of this Section 7 of this Security Agreement.

(xxiii) If any certification of the Grantor, as provided pursuant to Paragraph X of Section 4 of this Security Agreement, proves to have been untrue in any respect when made.

B. Acceleration. Upon the occurrence of an Event of Default (as defined in Article 7 of this Security Agreement), and any time thereafter while such Event of Default is continuing, the entire unpaid principal balance of this Security Agreement, and all accrued and unpaid interest which is due pursuant to this Security Agreement shall, at the Secured Party's option upon written notice to the Grantor, or shall be accelerated and become and be immediately due and payable without presentment, demand, protest or further notice of any kind (except as expressly

provided in Paragraph of Article 7 of this Security Agreement), all of which are expressly waived by the Grantor. Any warrants to purchase securities of the Secured Party and all rights to convert upon prepayment shall survive any acceleration of payment and shall continue in existence pursuant to the terms thereof.

C. Collections Following Event of Default. If an Event of Default shall have occurred:

(i) The Secured Party may notify any parties obligated to the Grantor on any Account (as defined in the UCC) to make payment to the Secured Party of any amounts due or to become due thereunder and enforce collection of any Account by suit or otherwise and surrender, release or exchange all or any part thereof, or compromise or extend or renew for any period (whether or not longer than the original period) any indebtedness obligated thereunder or evidenced thereby. Upon request of the Secured Party, the Grantor will, at its own expense, notify all parties obligated on any Account to make payment to the Secured Party of any amount due or to become due thereafter.

(ii) All payments received by the Grantor in connection with the Collateral shall be held by the Grantor in trust for the Secured Party, shall be segregated from other funds of the Grantor and shall be turned over to the Secured Party upon request by the Secured Party in the same form as received by the Grantor (duly endorsed by the Grantor to the Secured Party, if required).

(iii) Any and all such payments so received by the Secured Party (whether from the Grantor or otherwise), may be held, in the sole discretion of the Secured Party to be applied in whole or in part to the satisfaction of the Obligations as the Secured Party shall determine, in its sole and absolute discretion, and any such payments remaining after satisfaction in full or all of the Obligations shall be paid over to the Grantor, or to whomever may be entitled lawfully to receive the same.

D. Other Remedies.

(i) If any Event of Default shall occur, in addition to all other rights and remedies granted to it in this Security Agreement and in the Convertible Debenture, the Secured Party may exercise all rights and remedies of a Secured Party pursuant to the UCC and any other law, and may apply the net proceeds of any sale, lease, or other disposition of the Collateral, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the taking, holding, preparing for sale, selling, leasing of the Collateral or of any similar acts or in any way relating to the Secured Party' rights hereunder (including, but not limited to, attorneys' fees and expenses) to the satisfaction, in whole or in part of the Obligations as the Secured Party shall determine, in its sole and absolute discretion. Any balance of such proceeds held by the Secured Party and remaining after satisfaction in full of all of the Obligations shall be paid to the Grantor or to whomever may be lawfully entitled to receive same;

(ii) The Secured Party may institute legal proceedings for the appointment

of

a receiver or receivers with respect to any or all of the Collateral pending foreclosure hereunder or for the sale of any or all of the Collateral under the order of a court of competent jurisdiction or pursuant to other legal process;

(iii) Either personally, or by means of a court-appointed receiver, the Secured Party may take possession of all or any of the Collateral and exclude therefrom the Grantor and all others claiming under the Grantor. If the Secured Party demands or attempts to take possession of the Collateral in the exercise of any rights pursuant to this Security Agreement, the Grantor promises and agrees promptly to turn over and deliver complete possession thereof to the Secured Party.

(iv) If the Secured Party seeks to take possession of any or all of the Collateral by court process, the Grantor hereby waives any bonds, and any surety or security relating thereto regardless of whether required by any statute, court rule or otherwise as an incident to such possession, and waives any demand for possession prior to the commencement of any suit or action to recover with respect thereto;

E. Assembly and Disposition of Collateral. If an Event of Default occurs and, if requested by the Secured Party, the Grantor agrees to assemble the Collateral and make it available to the Secured Party at a place or places reasonably convenient to the Secured Party. The Grantor also agrees to pay all reasonable costs, including, but not limited to, attorneys' fees and expenses incurred by the Secured Party with respect to the enforcement of any of the Secured Party's

rights pursuant to this Security Agreement. The Grantor hereby waives, to the fullest extent permitted by law, any and all notices, advertisements, hearings or process of law in connection with any of the rights and remedies of the Secured Party upon an Event of Default. Any notice of intended disposition of any of the Collateral required by law shall be deemed reasonably and properly given if mailed to the Grantor pursuant to Paragraph C of Article 13 of this Security Agreement.

8. Power of Attorney. (A) Upon the occurrence of an Event of Default, the Grantor hereby irrevocably constitutes and appoints the Secured Party and its agents, attorneys, assignees, or any other Person whom the Secured Party may designate as the Grantor's true and lawful attorney, irrevocably, with full power of substitution, to take all actions which are reasonably necessary to protect the Secured Party's security interest including, but not limited to, the following:

(i) To make all necessary transfers of all or any part of the Collateral in connection with any sale, lease or other disposition made pursuant to this Article 8 of this Security Agreement;

(ii) To execute and deliver all necessary or appropriate bills of sale, assignments or other instruments in connection with any such sale, lease or other disposition;

(iii) To endorse the Grantor's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security which may come into Secured Party's possession;

(iv) To settle, compromise, compound, prosecute or defend any action, claim or proceeding with respect to the Collateral;

(v) To sign the Grantor's name on any invoice or bill of lading relating to any receivables, drafts against customers, schedules and assignments of receivables, notices of assignment, financing statements and other public records, verifications of account and notices to or from customers;

(vi) To verify the validity, amount or any other matter relating to any receivable by mail, telephone, telegraph or otherwise;

(vii) To execute customs declarations and such other documents as may be required to clear inventory pursuant to customs rules of any country;

(viii) To do all things necessary to carry out this Security Agreement and the Convertible Debenture;

(ix) To continue any insurance existing pursuant to the terms of the Convertible Debenture or this Security Agreement and pay all or any part of the premium therefore and the cost thereof; and

(x) To notify the post office authorities to change the address for delivery of the Grantor's mail to an address designated by the Secured Party, and to receive, open and dispose of all mail addressed to the Grantor.

(B) The Grantor hereby ratifies and approves all acts of the Secured Party pursuant to this Security Agreement and anyone else designated by the Secured Party and shall execute to and deliver to the Secured Party all proper bills of sale, assignments, releases, leases and other instruments as

may be designated by the Secured Party pursuant to this Article 8 of this Security Agreement. The powers conferred on the Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to act pursuant to this Article 8 of this Agreement or any other Article of this Agreement.

9. Restrictions on Transfer. Except in the ordinary course of business or pursuant to the grant of any License Rights as provided herein, the Grantor shall not sell, transfer or otherwise convey all or any portion of the Collateral unless the Secured Party shall consent in writing prior to such sale, transfer or other conveyance.

10. Termination of Agreement. This Security Agreement and the security interest created by this Security Agreement shall terminate only (i) upon conversion of the Convertible Debenture in full in accordance with its terms, or (ii) when the Grantor has fully satisfied the Obligations, whether at maturity, by acceleration or prepayment, or otherwise. Upon such conversion or full satisfaction of the Obligations, the Secured Party shall execute and deliver to the Grantor all such instruments and documents as the Grantor shall reasonably request to confirm and evidence such termination. If this Security Agreement terminated, the termination will only affect the provisions of this Security Agreement and will not affect other rights of the Secured Party and obligations of the Grantor.

Notwithstanding the foregoing, if the Convertible Debenture is prepaid and if the Grantor is released from its obligations pursuant to this Security Agreement, the Grantor may provide a new



security interest, to (i) a director, officer, employee, consultant or agent of the Grantor, or member of the family of any such person or any corporation, partnership, trust or other entity in which any such person, or any member of the family of any such person, has a substantial interest, serves as an officer, director, trustee or partner (an "Affiliate") only upon commercially reasonable terms or (ii) a party other than those persons specified in section (i) above, only upon bona fide terms.

11. Grantor Remains Liable. The Grantor hereby agrees that any and all of the Secured Party's rights with respect to the Collateral shall continue unimpaired, and the Grantor shall be and remain obligated in accordance with the terms hereof, notwithstanding the release or substitution of any Collateral at any time, or of any rights or interests therein, or the exercise of any remedies by the Secured Party or any delay, extension of time, renewal, compromise or other indulgence granted by the Secured Party with respect to any of the Obligations. The Grantor hereby waives all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence and hereby consents to be bound thereby as fully and effectually as if the Grantor had expressly agreed thereto in advance.

12. Secured Party Not Liable. Nothing in this Agreement shall be deemed to constitute an assumption or acceptance by the Secured Party of any of the obligations of the Grantor and the Grantor hereby specifically confirms and acknowledges that, the Grantor remains liable for any obligations it may have under or with respect to any of the Collateral and agrees to indemnify the Secured Party and hold the Secured Party harmless against any such liability or obligation.

13. Miscellaneous.

A. Headings. The headings contained in this Security Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Security Agreement.

B. Enforceability. If any provision which is contained in this Security Agreement should, for any reason, be held to be invalid or unenforceable in any respect under the laws of any State of the United States, such invalidity or unenforceability shall not affect any other provision of this Security Agreement. Instead, this Security Agreement shall be construed as if such invalid or unenforceable provisions had not been contained herein.

C. Notices. Any notice or other communication required or permitted hereunder must be in writing and sent by overnight delivery with confirmation of delivery or facsimile transmission with an original mailed by first class mail, postage prepaid, addressed as follows:

To the Grantor:

Endo Surgical Devices, Inc.  
722 Post Road  
2<sup>nd</sup> Floor  
Darien, CT 06820  
Facsimile No.

Copy to:

Salans, Hertzfeld, Heilbronn, Christy & Viener  
620 Fifth Avenue  
New York, NY 10020  
Facsimile No. 212-632-5555  
Attn: Anthony Carroll

Drew Fromkin  
231 Yellowknife Road  
Morganville, NJ 17751  
Facsimile No. 732-972-6224

To the Secured Party:

Black, Inc.  
5140 Yonge Street  
Suite 1540  
Toronto, Ontario M2N 6L7  
Canada  
Facsimile No. 412-222-9788

Copy to:

Mintz & Fraade, P.C.  
488 Madison Avenue  
Suite 1100  
New York, NY 10022  
Facsimile No. 212-486-0701  
Attn: Frederick M. Mintz

or in each case to such other address and facsimile number as shall have last been furnished by like notice. If mailing is impossible due to an absence of postal service, and the other methods of sending notice set forth in this Paragraph C of this Article 13 of this Security Agreement are not otherwise available, notice shall be hand delivered to the aforesaid addresses. Each notice or communication shall be deemed to have been given as of two business days following the date so mailed or on the date

delivered, as the case may be; provided, however, that any notice sent by facsimile shall be deemed to have been given as of the date sent by facsimile if a copy of such notice is also mailed by first class mail on the date sent by facsimile; if the date of mailing is not the same as the date of sending by facsimile, then the date of mailing by first class mail shall be deemed to be the date upon which notice is given.

D. Governing Law. This Security Agreement shall, in accordance with Section 5-1401 of the General Obligations Law of New York, in all respects be construed, governed, applied and enforced under the internal laws of the State of New York without giving effect to the principles of conflicts of laws and be deemed to be an agreement entered into in the State of New York and made pursuant to the laws of the State of New York. The parties hereby consent to and submit to personal jurisdiction over each of them by the Courts of the State of New York in any action or proceeding, waive personal service of any and all process and specifically consent that in any such action or proceeding, any service of process may be effectuated upon any of them by certified mail, return receipt requested, in accordance with Paragraph C of this Article 13 of this Security Agreement.

E. Entire Agreement. The Convertible Debenture, this Security Agreement and the other documents delivered in connection therewith or herewith constitute the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof and are not intended to confer upon any person other than the parties hereto any rights or remedies hereunder. All understandings and agreements heretofore had between the parties with respect to the subject matter hereof are superceded by the

Convertible Debenture and this Security Agreement which alone fully and completely express their agreement.

F. Modification. This Security Agreement may not be amended changed, modified, extended, terminated or discharged orally, but only by an agreement in writing which is signed by both of the parties to this Security Agreement.

G. Further Assurances. The parties agree to execute any and all such other further instruments and documents, and to take any and all such further actions which are reasonably required to consummate, evidence, confirm or effectuate this Security Agreement and the intents and purposes hereof.

H. Binding Agreement. This Security Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

I. Waiver. Except as otherwise expressly provided herein, no waiver of any covenant, condition, or provision of this Security Agreement shall be deemed to have been made unless expressly in writing and signed by the party against whom such waiver is charged; and (i) the failure of any party to insist in any one or more cases upon the performance of any of the provisions, covenants or conditions of this Security Agreement or to exercise any option herein contained shall not be construed as a waiver or relinquishment for the future of any such provisions, covenants or conditions, (ii) the acceptance of performance of anything required by this Security Agreement to be performed with knowledge of the breach or failure of a covenant, condition or provision hereof shall not be deemed a

waiver of such breach or failure, and (iii) no waiver by any party of one breach by another party shall be construed as a waiver with respect to any other breach of this Security Agreement.

J. Construction. Each of the Parties hereby acknowledges and agrees that each has been advised by counsel during the course of negotiations and had significant input in the drafting of this Security Agreement and shall not, therefore, be construed more strictly against any party responsible for its drafting regardless of any presumption or rule requiring construction against the party whose attorney drafted this Security Agreement.

K. Counterparts. This Security Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**IN WITNESS WHEREOF**, the parties have executed this Security Agreement as of the  
day, month and year first written above,

Endo Surgical Devices, Inc.

By: *Drew Fromkin*  
Title *President*

Black, Inc.

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

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

Endo Surgical Devices, Inc.

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

Black, Inc.

By: M. Shugel  
Title CONTROLLER