

PATENT ASSIGNMENT

Electronic Version v1.1

Stylesheet Version v1.1

SUBMISSION TYPE:

NEW ASSIGNMENT

NATURE OF CONVEYANCE:

SECURITY AGREEMENT

CONVEYING PARTY DATA

Name	Execution Date
Kinetic Systems, Inc.	01/06/2005
Kinetic Systems Caribe, Inc.	01/06/2005
Kinetic Systems International, Inc.	01/06/2005

RECEIVING PARTY DATA

Name:	Canyon Capital Advisors LLC, as Collateral Agent
Street Address:	9665 Wilshire Boulevard, Suite 200
City:	Beverly Hills
State/Country:	CALIFORNIA
Postal Code:	90212

PROPERTY NUMBERS Total: 1

Property Type	Number
Application Number:	10278748

CORRESPONDENCE DATA

Fax Number: (213)896-6600

Correspondence will be sent via US Mail when the fax attempt is unsuccessful.

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Address Line 4: Los Angeles, CALIFORNIA 90013

NAME OF SUBMITTER:

Kim Bernstein, Legal Assistant

Total Attachments: 42

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SECURITY AGREEMENT

THIS SECURITY AGREEMENT dated as of January 6, 2005 (as amended, restated, supplemented and otherwise modified from time to time, this "Agreement"), is among Kinetic Systems, Inc., a California corporation (the "Company"), each of the Subsidiaries of the Company identified under the caption "Subsidiary Guarantors" on the signature pages hereto (individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors" and, together with the Company, the "Obligors"), and Canyon Capital Advisors LLC, as collateral agent under the Purchase Agreement referred to below (together with its successors and assigns in such capacity, the "Collateral Agent").

The Company, the Subsidiary Guarantors, the "Purchasers" signatory thereto and the Collateral Agent are parties to that certain Assignment and Assumption Agreement dated as of the date hereof (as amended, restated, supplemented and otherwise modified from time to time, the "Purchase Agreement"), providing *inter alia*, subject to the terms and conditions thereof, for the purchase of notes by said Purchasers from the Company in an aggregate principal or face amount of \$25,500,000.

To induce said Purchasers to enter into the Purchase Agreement and to purchase the notes thereunder, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Obligor has agreed to grant a security interest in the Pledged Collateral (as hereinafter defined) as security for the Secured Obligations (as so defined). Accordingly, the parties hereto agree as follows:

Section 1. Definitions.

(a) Terms defined in the Purchase Agreement are used herein as defined therein.

(b) The terms "Accounts", "Chattel Paper", "Contract", "Deposit Account", "Document", "Electronic Chattel Paper", "Equipment", "Fixtures", "General Intangible", "Goods", "Instrument", "Inventory", "Investment Property", "Letter-of-Credit Right", "Payment Intangible", "Proceeds" and "Software" have the respective meanings ascribed thereto in Article 9 of the UCC. The term "Financial Assets" and "Securities Account" shall have the meaning ascribed thereto in Article 8 of the UCC.

(c) In addition, as used herein:

"Collateral Account" has the meaning assigned to such term in Section 4.

"Commercial Tort Claims" means "Commercial Tort Claims" as such term is defined in the UCC and which are described on Annex 8 hereto.

"Copyright Collateral" means all Copyrights, whether now owned or hereafter acquired by any Obligor, including each Copyright identified in Annex 4.

"Copyrights" means all copyrights, copyright registrations and applications for copyright registrations, including, without limitation, all renewals and extensions thereof, the right to recover for all past, present and future infringements thereof, and all other rights of any kind whatsoever accruing thereunder or pertaining thereto.

"Intellectual Property" means, collectively, all Copyright Collateral, all Patent Collateral and all Trademark Collateral, together with (a) all inventions, processes, production methods, proprietary information, know-how and trade secrets; (b) all licenses or user or other agreements granted to any Obligor with respect to any of the foregoing, in each case whether now or hereafter owned or used including, without limitation, the licenses or other agreements with respect to the Copyright Collateral, the Patent Collateral or the Trademark Collateral, listed in Annex 7; (c) all information, customer lists, identification of suppliers, data, plans, blueprints, specifications, designs, drawings, recorded knowledge, surveys, engineering reports, test reports, manuals, materials standards, processing standards, performance standards, catalogs, computer and automatic machinery software and programs; (d) all field repair data, sales data and other information relating to sales or service of products now or hereafter manufactured; (e) all accounting information and all media in which or on which any information or knowledge or data or records may be recorded or stored and all computer programs used for the compilation or printout of such information, knowledge, records or data; (f) all licenses, consents, permits, variances, certifications and approvals of governmental agencies now or hereafter held by any Obligor; and (g) all causes of action, claims and warranties now or hereafter owned or acquired by any Obligor in respect of any of the items listed above.

"Issuers" means, collectively, (a) the respective corporations, partnerships or other entities identified next to the names of the Obligors on Annex 3 under the caption "Issuer" and (b) any other entity that shall at any time be a Subsidiary of any of the Obligors.

"Motor Vehicles" means motor vehicles, tractors, trailers and other like property, whether or not the title thereto is governed by a certificate of title or ownership.

"Patent Collateral" means all Patents, whether now owned or hereafter acquired by any Obligor, including each Patent identified in Annex 5.

"Patents" means all patents and patent applications, including, without limitation, the inventions and improvements described and claimed therein together with the reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof, all income, royalties, damages and payments now or hereafter due and/or payable under and with respect thereto, including, without limitation, damages and payments for past or future infringements thereof, the right to sue for past, present and future infringements thereof, and all rights corresponding thereto throughout the world.

"Pledged Collateral" has the meaning assigned to such term in Section 3.

"Pledged Stock" has the meaning assigned to such term in Section 3(k).

"Secured Obligations" means, collectively, (a) in the case of the Company, the principal of and interest on the Notes and all other amounts whatsoever now or hereafter from time to time owing by the Company to the Secured Parties, or any of them, under the Transaction

Documents and (b) in the case of each Subsidiary Guarantor, all present and future obligations of such Subsidiary Guarantor under the Purchase Agreement and the other Transaction Documents to which it is party (including, without limitation, in respect of its Guaranty under the Purchase Agreement). The term "Secured Obligations" shall include any interest, fees and any and all other amounts accruing or arising after the date of any filing by any Obligor of any petition in bankruptcy or the commencing of any bankruptcy, insolvency or similar proceedings with respect to such Obligor, whether or not such interest, fees or other amounts are allowable as a claim in any such proceeding.

"Secured Parties" means, collectively, the Holders and the Collateral Agent.

"Stock Collateral" has the meaning assigned to such term in Section 3(k)(ii).

"Trademark Collateral" means all Trademarks, whether now owned or hereafter acquired by any Obligor, including each Trademark identified in Annex 6. Notwithstanding the foregoing, the Trademark Collateral does not and shall not include any Trademark that would be rendered invalid, abandoned, void or unenforceable by reason of its being included as part of the Trademark Collateral.

"Trademarks" means all trade names, trademarks and service marks, logos, trademark and service mark registrations, and applications for trademark and service mark registrations, including, without limitation, all renewals of trademark and service mark registrations, all rights corresponding thereto throughout the world, the right to recover for all past, present and future infringements thereof, all other rights of any kind whatsoever accruing thereunder or pertaining thereto, together, in each case, with the product lines and goodwill of the business connected with the use of, and symbolized by, each such trade name, trademark and service mark.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of New York.

Section 2. Representations and Warranties. Each Obligor represents and warrants to the Secured Parties that:

(a) Title and Priority. Such Obligor is the sole beneficial owner of the Pledged Collateral, and no Lien exists upon such Pledged Collateral, except for Permitted Collateral Liens as defined in clause (a) and clause (b) of the definition thereof. The security interest created pursuant hereto constitutes a valid and perfected security interest in the Pledged Collateral, subject to no equal or prior Lien except for Permitted Collateral Liens set forth in clause (a) and clause (b) of the definition thereof.

(b) Names, Etc.

(i) The full and correct legal name, type of organization, jurisdiction of organization, organizational ID number (if applicable) and mailing address of each Obligor as of the date hereof are correctly set forth in Annex 1.

(ii) Annex 1 correctly specifies (i) the place of business of each Obligor or, if such Obligor has more than one place of business, the location of the chief executive office of such Obligor, and (ii) each location where Goods of each Obligor are located (other than Motor Vehicles constituting Equipment and Goods in transit).

(c) Changes in Circumstances. Such Obligor has not (i) within the period of four months prior to the date hereof, changed its location (as defined in Section 9-307 of the UCC), (ii) except as specified in Annex 1, heretofore changed its name, or (iii) except as specified in Annex 2, heretofore become a "new debtor" (as defined in Section 9-102(a)(56) of the UCC) with respect to a currently effective security agreement previously entered into by any other Person.

(d) Pledged Stock. The Pledged Stock identified under the name of such Obligor in Annex 3 is, and all other Pledged Stock in which such Obligor shall hereafter grant a security interest pursuant to Section 3 will be, duly authorized, validly existing, fully paid and non-assessable and none of such Pledged Stock is or will be subject to any contractual restriction, or any restriction under the charter or by-laws of the respective Issuer of such Pledged Stock, upon the transfer of such Pledged Stock (except for any such restriction contained herein or in the Purchase Agreement). The Pledged Stock identified under the name of such Obligor in Annex 3 constitutes all of the issued and outstanding shares of Stock of any class of the Issuers beneficially owned by such Obligor on the date hereof (whether or not registered in the name of such Obligor) and Annex 3 correctly identifies, as at the date hereof, the respective Issuers of such Pledged Stock, the respective class and par value of the shares constituting such Pledged Stock and the respective number of shares (and registered owners thereof) represented by each such certificate.

(e) Intellectual Property. Annexes 4, 5, and 6, respectively, set forth under the name of such Obligor a complete and correct list of all Copyrights, Patents and Trademarks owned by such Obligor on the date hereof; except pursuant to licenses and other user agreements entered into by such Obligor in the ordinary course of business that are listed in Annex 7, such Obligor owns and possesses the right to use, and has done nothing to authorize or enable any other Person to use, any Copyright, Patent or Trademark listed in Annexes 4, 5, and 6, and all registrations listed in Annexes 4, 5, and 6, are valid and in full force and effect; and except as may be set forth in Annex 7, such Obligor owns and possesses the right to use all Copyrights, Patents and Trademarks.

Annex 7 sets forth a complete and correct list of all licenses and other user agreements included in the Intellectual Property on the date hereof.

To such Obligor's knowledge, (i) except as set forth in Annex 7, there is no violation by others of any right of such Obligor with respect to any Copyright, Patent or Trademark listed in Annexes 4, 5, and 6, respectively, under the name of such Obligor and (ii) such Obligor is not infringing in any respect upon any Copyright, Patent or Trademark of any other Person; and no proceedings have been instituted or are pending against such Obligor or threatened, and no claim against such Obligor has been received by such Obligor, alleging any such violation, except as may be set forth in Annex 7.

Such Obligor does not own any Trademarks registered in the United States of America to which the last sentence of the definition of Trademark Collateral applies.

(f) Fair Labor Standards Act. Any Goods now or hereafter produced by such Obligor or any of its Subsidiaries included in the Pledged Collateral have been and will be produced in compliance with the requirements of the Fair Labor Standards Act, as amended.

(g) Commercial Tort Claims. Each Commercial Tort Claim in which such Obligor, to such Obligor's knowledge, has an interest as of the date hereof is described in reasonable detail on Annex 8.

(h) Deposit Accounts and Securities Accounts. Annex 9 attached hereto identifies each deposit account and securities account in the name of each Obligor, the deposit bank or securities intermediary, respectively, at which such deposit account or securities account is held, and the function of such deposit account or securities account.

Section 3. Collateral. As collateral security for the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the Secured Obligations, whether now existing or hereafter from time to time arising, each Obligor hereby grants to the Collateral Agent, for the benefit of the Secured Parties as hereinafter provided, a security interest in all of such Obligor's right, title and interest in, to and under the following property, assets and revenues, whether now owned by such Obligor or hereafter acquired and whether now existing or hereafter coming into existence (all of the property, assets and revenues described in this Section 3 being collectively referred to herein as the "Pledged Collateral"):

- (a) all Accounts;
- (b) all Deposit Accounts and Securities Accounts;
- (c) all Instruments;
- (d) all Documents;
- (e) all Chattel Paper (whether tangible or electronic);
- (f) all Inventory;
- (g) all Equipment;
- (h) all Fixtures;
- (i) all Goods not covered by the preceding clauses of this Section 3;
- (j) all Letter-of-Credit Rights;

(k) the shares of Stock of each Issuer identified in Annex 3 (which, in the case of Issuers that are Foreign Subsidiaries, shall not exceed 66% of the shares of such Issuers) under the name of such Obligor and all other shares of Stock of whatever class of each Issuer, and all

options and warrants for the purchase of shares of such Stock held in the name of Obligor, now or hereafter owned by such Obligor (which, in the case of Issuers that are Foreign Subsidiaries, shall not exceed 66% of the shares of such Issuers), and all certificates evidencing the same (collectively, the "Pledged Stock"), together with, in each case:

(i) all shares, securities, moneys or property representing a dividend on any of the Pledged Stock, or representing a distribution or return of capital upon or in respect of the Pledged Stock, or resulting from a split-up, revision, reclassification or other like change of the Pledged Stock or otherwise received in exchange therefor, and any subscription warrants, rights or options issued to the holders of, or otherwise in respect of, the Pledged Stock, and

(ii) without affecting the obligations of such Obligor under any provision prohibiting such action hereunder or under the Purchase Agreement, in the event of any consolidation or merger in which an Issuer is not the surviving entity, all shares of each class of the Stock of the successor entity (unless such successor entity is such Obligor itself) formed by or resulting from such consolidation or merger (the Pledged Stock, together with all other certificates, shares, securities, properties or moneys as may from time to time be pledged hereunder pursuant to this clause (ii) and clause (i) above being herein collectively called the "Stock Collateral");

(l) all Investment Property and Financial Assets not covered by clause (k) of this Section 3;

(m) all Intellectual Property;

(n) all Payment Intangibles, Software and all other General Intangibles whatsoever not covered by the preceding clauses of this Section 3;

(o) all Commercial Tort Claims described on Annex 8;

(p) all other tangible and intangible personal property whatsoever of such Obligor; and

(q) all Proceeds, products, offspring, accessions, rents, profits, income, benefits, substitutions and replacements of and to any of the Pledged Collateral and, to the extent related to any Pledged Collateral, all books, correspondence, credit files, records, invoices and other papers (including without limitation all tapes, cards, computer runs and other papers and documents in the possession or under the control of such Obligor or any computer bureau or service company from time to time acting for such Obligor).

Notwithstanding the foregoing provisions of this Section 3, the grant, assignment and transfer of a security interest as provided herein shall not extend to, and the term "Pledged Collateral" shall not include (a) "intent-to-use" Trademarks at all times prior to the first use thereof, whether by actual use thereof in commerce, the recording of a statement of use with the United States Patent

and Trademark Office or otherwise or (b) any Contract, Instrument or Chattel Paper in which any Obligor has any right, title or interest if and to the extent such Contract, Instrument or Chattel Paper includes a provision containing a restriction on assignment such that the creation of a security interest in the right, title or interest of Obligor therein would be prohibited and would, in and of itself, cause or result in a default thereunder enabling another person party to such Contract, Instrument or Chattel Paper to enforce any remedy with respect thereto; provided that the foregoing exclusion shall not apply if (i) such prohibition has been waived or such other person has otherwise consented to the creation hereunder of a security interest in such Contract, Instrument or Chattel Paper or (ii) such prohibition would be rendered ineffective pursuant to Sections 9-407(a) or 9-408(a) of the UCC, as applicable and as then in effect in any relevant jurisdiction, or any other applicable law (including the Bankruptcy Code) or principles of equity).

Section 4. Cash Proceeds of Collateral.

(a) Collateral Account. The Collateral Agent will cause to be established at a banking institution to be selected by the Collateral Agent a cash collateral account (the "Collateral Account"), which

(i) to the extent of all Investment Property or Financial Assets (other than cash) shall be a "securities account" (as defined in Section 8-501 of the UCC) in respect of which the Collateral Agent shall be the "entitlement holder" (as defined in Section 8-102(a)(7) of the UCC) and

(ii) to the extent of any cash, shall be a Deposit Account and into which there shall be deposited from time to time the cash proceeds of any of the Pledged Collateral (including proceeds of insurance thereon) required to be delivered to the Collateral Agent pursuant hereto and into which the Obligors may from time to time deposit any additional amounts that any of them wishes to pledge to the Collateral Agent for the benefit of the Secured Parties as additional collateral security hereunder. The balance from time to time in the Collateral Account shall constitute part of the Pledged Collateral hereunder and shall not constitute payment of the Secured Obligations until applied as hereinafter provided. Except as expressly provided in the next sentence, the Collateral Agent shall remit the collected balance standing to the credit of the Collateral Account to or upon the order of the respective Obligor as such Obligor through the Company shall from time to time instruct. However, at any time following the occurrence and during the continuance of an Event of Default, the Collateral Agent at the request of the Required Holders may apply or cause to be applied (subject to collection) the balance from time to time standing to the credit of the Collateral Account to the payment of the Secured Obligations in the manner specified in Section 5.09. The balance from time to time in the Collateral Account shall be subject to withdrawal only as provided herein.

(b) Proceeds of Accounts. If so requested by the Collateral Agent at any time after the occurrence and during the continuance of an Event of Default, each Obligor shall instruct all account debtors in respect of Accounts, Chattel Paper and General Intangibles and all obligors on Instruments to make all payments in respect thereof either (a) directly to the Collateral Agent (by instructing that such payments be remitted to a post office box which shall be in the name and under the control of the Collateral Agent) or (b) to one or more other banks in the United States of America (by instructing that such payments be remitted to a post office box which shall be in the name and under the control of the Collateral Agent) under arrangements, in form and substance satisfactory to the Collateral Agent, pursuant to which such Obligor shall have irrevocably instructed such other bank (and such other bank shall have agreed) to remit all proceeds of such payments directly to the Collateral Agent for deposit into the Collateral Account. All payments made to the Collateral Agent, as provided in the preceding sentence, shall be immediately deposited in the Collateral Account. In addition to the foregoing, each Obligor agrees that, at any time after the occurrence and during the continuance of an Event of Default, if the proceeds of any Pledged Collateral hereunder (including the payments made in respect of Accounts) shall be received by it, such Obligor shall, upon the request of the Collateral Agent, as promptly as possible deposit such proceeds into the Collateral Account. Until so deposited, all such proceeds shall be held in trust by such Obligor for and as the property of the Collateral Agent and shall not be commingled with any other funds or property of such Obligor.

(c) Investment of Balance in Collateral Account. The cash balance standing to the credit of the Collateral Account shall be invested from time to time in such Permitted Investments as the respective Obligor through the Company (or, after the occurrence and during the continuance of a Default, the Collateral Agent) shall determine, which Permitted Investments shall be held in the name and be under the control of the Collateral Agent (and credited to the Collateral Account), provided that at any time after the occurrence and during the continuance of an Event of Default, the Collateral Agent at the request of the Required Holders may in their discretion at any time and from time to time elect to liquidate any such Permitted Investments and to apply or cause to be applied the proceeds thereof to the payment of the Secured Obligations in the manner specified in Section 5.09.

Section 5. Further Assurances; Remedies. In furtherance of the grant of the pledge and security interest pursuant to Section 3, the Obligors hereby agree with the Collateral Agent for the benefit of the Secured Parties as follows:

5.01 Delivery and Other Perfection. Each Obligor shall:

(a) deliver to the Collateral Agent any and all Instruments constituting part of the Pledged Collateral in which such Obligor purports to grant a security interest hereunder, endorsed and/or accompanied by such instruments of assignment and transfer in such form and substance as the Collateral Agent may request; provided, that so long as no Default or Event of Default shall have occurred and be continuing, such Obligor may retain for collection in the ordinary course any Instruments received by such Obligor in the ordinary course of its business and the Collateral Agent shall, promptly upon request of such Obligor through the Company, make appropriate arrangements for making any Instrument pledged by such Obligor available to such Obligor for purposes of presentation, collection or renewal (any such arrangement to be

effected, to the extent deemed appropriate by the Collateral Agent, against trust receipt or like document);

(b) give, execute, deliver, file, record, authorize or obtain all such financing statements, notices, instruments, documents, agreements or consents or other papers as may be necessary or desirable in the judgment of the Collateral Agent to create, preserve, perfect or validate the security interest granted pursuant hereto or to enable the Collateral Agent to exercise and enforce its rights hereunder with respect to such pledge and security interest, including, without limitation, causing any or all of the Stock Collateral to be transferred of record into the name of the Collateral Agent or its nominee (and the Collateral Agent agrees that if any Stock Collateral is transferred into its name or the name of its nominee, the Collateral Agent will thereafter promptly give to the respective Obligor copies of any notices and communications received by it with respect to the Stock Collateral pledged by such Obligor hereunder), provided that notices to account debtors in respect of any Accounts, Chattel Paper or General Intangibles and to obligors on Instruments shall be subject to the provisions of clause (c) below;

(c) upon the occurrence and during the continuance of any Event of Default, upon request of the Collateral Agent, promptly notify (and such Obligor hereby authorizes the Collateral Agent so to notify) each account debtor in respect of any Accounts, Chattel Paper, Instruments or General Intangibles of such Obligor that such Pledged Collateral has been assigned to the Collateral Agent hereunder, and that any payments due or to become due in respect thereof are to be made directly to the Collateral Agent;

(d) without limiting the obligations of such Obligor under Section 5.04(c), upon the acquisition after the date hereof by such Obligor of any Equipment covered by a certificate of title or ownership, cause the Collateral Agent to be listed as the lienholder on such certificate of title and take such other steps as may be required under the law applicable to perfection of a security interest in such property to perfect such security interest, and within 60 days of the acquisition thereof deliver evidence of the same to the Collateral Agent;

(e) keep full and accurate books and records relating to the Pledged Collateral, and stamp or otherwise mark such books and records in such manner as the Collateral Agent may reasonably require in order to reflect the security interests granted by this Agreement; and

(f) permit representatives of the Collateral Agent, at the Collateral Agent's expense and upon reasonable notice, at any time during normal business hours to inspect and make abstracts from its books and records pertaining to the Pledged Collateral, and permit representatives of the Collateral Agent, at the Collateral Agent's expense, to be present at such Obligor's place of business to receive copies of all communications and remittances relating to the Pledged Collateral, and forward copies of any notices or communications received by such Obligor with respect to the Pledged Collateral, all in such manner as the Collateral Agent may reasonably require.

5.02 Other Financing Statements and Liens. Except in connection with Permitted Collateral Liens, without the prior written consent of the Collateral Agent (granted with the authorization of the Required Holders as specified in Section 16.10 of the Purchase

Agreement), no Obligor shall (a) file or suffer to be on file, or authorize or permit to be filed or to be on file, in any jurisdiction, any financing statement or like instrument with respect to any of the Pledged Collateral in which the Collateral Agent is not named as the sole secured party for the benefit of the Secured Parties, or (b) cause or permit any Person other than the Collateral Agent to have "control" (as defined in Section 9-104, 9-105, 9-106 or 9-107 of the UCC) of any Deposit Account, Securities Account, Electronic Chattel Paper, Investment Property or Letter-of-Credit Right constituting part of the Pledged Collateral.

5.03 Preservation of Rights. No Secured Party shall be required to take steps necessary to preserve any rights against prior parties to any of the Pledged Collateral, except for Pledged Collateral in possession of such Secured Party. The powers conferred on the Collateral Agent hereunder are solely to protect the Secured Party's interest in the Pledged Collateral and shall not impose any duty upon any Secured Party to exercise any such powers. Except for the safe custody of any Pledged Collateral in its possession and the accounting for monies actually received by it hereunder, the Collateral Agent shall not have any duty as to any Pledged Collateral. The Collateral Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if the Pledged Collateral is accorded treatment substantially equal to that which the Collateral Agent accords its own property, it being understood that the Collateral Agent shall be under no obligation to take any necessary steps to preserve rights against prior parties or any other rights pertaining to any Pledged Collateral, but may do so at their option, and all reasonable expenses incurred in connection therewith shall be for the sole account of Obligors and shall be added to the Liabilities. Obligors bears all risk of loss or damage of any of the Pledged Collateral, except to the extent such loss or damage shall arise solely from the gross negligence or willful misconduct of the Collateral Agent.

5.04 Special Provisions Relating to Certain Collateral.

(a) Stock Collateral.

(1) The Obligors will cause the Stock Collateral to constitute at all times 100% (or, in the case of any Issuer that is a Foreign Subsidiary, 66%) of the total number of shares of each class of Stock of each Issuer then outstanding.

(2) If any of the shares, securities, moneys or property required to be pledged by such Obligor under Section 3 are received by such Obligor, forthwith either (x) transfer and deliver to the Collateral Agent such shares or securities so received by such Obligor (together with the certificates for any such shares and securities duly endorsed in blank or accompanied by undated stock powers duly executed in blank), all of which thereafter shall be held by the Collateral Agent, pursuant to the terms of this Agreement, as part of the Pledged Collateral or (y) take such other action as the Collateral Agent shall deem necessary or appropriate to duly record the Lien created hereunder in such shares, securities, moneys or property in said Section 3.

(3) So long as no Event of Default shall have occurred and be continuing, the Obligors shall have the right to exercise all voting, consensual and other powers of ownership pertaining to the Stock Collateral for all purposes not inconsistent with the terms of

this Agreement, the Purchase Agreement or any other instrument or agreement referred to herein or therein, provided that the Obligors jointly and severally agree that they will not vote the Stock Collateral in any manner that is inconsistent with the terms of this Agreement, the Purchase Agreement or any such other instrument or agreement; and the Collateral Agent shall execute and deliver to the Obligors or cause to be executed and delivered to the Obligors all such proxies, powers of attorney, dividend and other orders, and all such instruments, without recourse, as the Obligors may reasonably request for the purpose of enabling the Obligors to exercise the rights and powers that they are entitled to exercise pursuant to this Section 5.04(a)(3) or Section 5.04(a)(4).

(4) Unless and until an Event of Default has occurred and is continuing, the Obligors shall be entitled to receive and retain any and all dividends, income, distributions and proceeds on or with respect to the Stock Collateral.

(5) If any Event of Default shall have occurred, then so long as such Event of Default shall continue, and whether or not the Collateral Agent or any Holder exercises any available right to declare any Secured Obligation due and payable or seeks or pursues any other relief or remedy available to it under applicable law or under this Agreement, the Purchase Agreement or any other agreement relating to such Secured Obligation, all dividends and other distributions on the Stock Collateral shall be paid directly to the Collateral Agent and retained by it in the Collateral Account as part of the Stock Collateral, subject to the terms of this Agreement, and, if the Collateral Agent shall so request in writing, the Obligors jointly and severally agree to execute and deliver to the Collateral Agent appropriate additional dividend, distribution and other orders and documents to that end, provided that if such Event of Default is cured, any such dividend or distribution theretofore paid to the Collateral Agent shall, upon request of the Obligors (except to the extent theretofore applied to the Secured Obligations), be returned by the Collateral Agent to the Obligors.

(b) Intellectual Property.

(1) For the purpose of enabling the Collateral Agent to exercise rights and remedies under Section 5.05 at such time as the Collateral Agent shall be lawfully entitled to exercise such rights and remedies, upon the occurrence and during the continuance of an Event of Default, and for no other purpose, each Obligor hereby grants to the Collateral Agent, to the extent assignable, an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to such Obligor) to use, assign, license or sublicense any of the Intellectual Property now owned or hereafter acquired by such Obligor, wherever the same may be located, including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer programs used for the compilation or printout thereof.

(2) Notwithstanding anything contained herein to the contrary, but subject to the provisions of Sections 12.01 and 12.02 of the Purchase Agreement that limit the rights of the Obligors to dispose of their property, so long as no Event of Default shall have occurred and be continuing, the Obligors will be permitted to exploit, use, enjoy, protect, license, sublicense, assign, sell, dispose of or take other actions with respect to the Intellectual Property in the ordinary course of the business of the Obligors. In furtherance of the foregoing, unless an

Event of Default shall have occurred and be continuing the Collateral Agent shall from time to time, upon the request of the respective Obligor, execute and deliver any instruments, certificates or other documents, in the form so requested, that such Obligor through the Company reasonably request to allow it to take any action permitted above (including relinquishment of the license provided pursuant to clause (1) immediately above as to any specific Intellectual Property). Further, upon the payment in full of all of the Secured Obligations or earlier expiration of this Agreement or release of the Pledged Collateral, the Collateral Agent shall grant back to the Obligors the license granted pursuant to clause (1) immediately above. The exercise of rights and remedies under Section 5.05 by the Collateral Agent shall not terminate the rights of the holders of any licenses or sublicenses theretofore granted by the Obligors in accordance with the first sentence of this clause (2).

(3) The Obligors will furnish to the Collateral Agent from time to time (but, unless an Event of Default shall have occurred and be continuing, no more frequently than quarterly) statements and schedules further identifying and describing the Copyright Collateral, the Patent Collateral and the Trademark Collateral, respectively, and such other reports in connection with the Copyright Collateral, the Patent Collateral and the Trademark Collateral as the Collateral Agent may reasonably request, all in reasonable detail; and promptly upon request of the Collateral Agent, following receipt by the Collateral Agent of any statements, schedules or reports pursuant to this clause (3), modify this Agreement by amending Annexes 2, 3 and/or 4, as the case may be, to include any Copyright, Patent or Trademark that becomes part of the Pledged Collateral under this Agreement.

(c) Motor Vehicles. Upon the occurrence and during the continuance of an Event of Default:

(1) Each Obligor shall deliver to the Collateral Agent originals of the certificates of title or ownership for the Motor Vehicles owned by it with the Collateral Agent listed as lienholder and take such other action as the Collateral Agent shall deem appropriate to perfect the security interest created hereunder in all such Motor Vehicles.

(2) Without limiting the generality of the foregoing, upon the acquisition after the date hereof by any Obligor of any Motor Vehicle, such Obligor shall deliver to the Collateral Agent originals of the certificates of title or ownership for such Motor Vehicles, together with the manufacturer's statement of origin with the Collateral Agent listed as lienholder; provided, however, if the Motor Vehicle to be acquired is subject to a purchase money security interest, the Collateral Agent shall be listed as a junior lienholder to the Person holding such purchase money security interest.

(3) Without limiting Section 5.10, each Obligor hereby appoints the Collateral Agent as its attorney-in-fact, effective the date hereof and terminating upon the termination of this Agreement, for the purpose of (i) executing on behalf of such Obligor title or ownership applications for filing with appropriate state agencies to enable Motor Vehicles now owned or hereafter acquired by such Obligor to be retitled and the Collateral Agent listed as lienholder thereon, (ii) filing such applications with such state agencies and (iii) executing such other documents and instruments on behalf of, and taking such other action in the name of, such Obligor as the Collateral Agent may deem necessary or advisable to accomplish the purposes

hereof (including, without limitation, the purpose of creating in favor of the Collateral Agent a perfected lien on the Motor Vehicles and exercising the rights and remedies of the Collateral Agent under Section 5.05). This appointment as attorney-in-fact is irrevocable and coupled with an interest.

(4) Any certificates of title or ownership delivered pursuant to the terms hereof shall be accompanied by odometer statements for each Motor Vehicle covered thereby.

5.05 Events of Default, Etc. During the period during which an Event of Default shall have occurred and be continuing:

(a) each Obligor shall, at the written request of the Collateral Agent, assemble the Pledged Collateral owned by it at such place or places, reasonably convenient to both the Collateral Agent and such Obligor, designated in its request;

(b) the Collateral Agent may make any reasonable compromise or settlement deemed desirable with respect to any of the Pledged Collateral and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, any of the Pledged Collateral;

(c) the Collateral Agent shall have all of the rights and remedies with respect to the Pledged Collateral of a secured party under the UCC (whether or not said UCC is in effect in the jurisdiction where the rights and remedies are asserted) and such additional rights and remedies to which a secured party is entitled under the laws in effect in any jurisdiction where any rights and remedies hereunder may be asserted, including, without limitation, the right, to the fullest extent permitted by applicable law, to exercise all voting, consensual and other powers of ownership pertaining to the Pledged Collateral as if the Collateral Agent were the sole and absolute owner thereof (and each Obligor agrees to take all such action as may be appropriate to give effect to such right);

(d) the Collateral Agent in its discretion may, in its name or in the name of the Obligors or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Pledged Collateral, but shall be under no obligation to do so;

(e) the Collateral Agent may deliver to any deposit bank at which any Obligor maintains deposit accounts or deliver to any securities intermediary at which any Obligor maintains a securities account, notice of such Event of Default and notice that such Obligor may no longer give instructions with respect to, or make withdrawals from, such deposit account or securities account; and

(f) the Collateral Agent may, upon ten days' prior written notice to the Obligors of the time and place, with respect to the Pledged Collateral or any part thereof that shall then be or shall thereafter come into the possession, custody or control of the Collateral Agent, the Holders or any of their respective agents, sell, lease, assign or otherwise dispose of all or any part of such Pledged Collateral, at such place or places as the Collateral Agent deems best, and for cash or for credit or for future delivery (without thereby assuming any credit risk),

at public or private sale, without demand of performance or notice of intention to effect any such disposition or of the time or place thereof (except such notice as is required above or by applicable statute and cannot be waived), and any Secured Party or anyone else may be the purchaser, lessee, assignee or recipient of any or all of the Pledged Collateral so disposed of at any public sale (or, to the extent permitted by law, at any private sale) and thereafter hold the same absolutely, free from any claim or right of whatsoever kind, including any right or equity of redemption (statutory or otherwise), of the Obligors, any such demand, notice and right or equity being hereby expressly waived and released. In the event of any sale, assignment, or other disposition of any of the Trademark Collateral, the goodwill connected with and symbolized by the Trademark Collateral subject to such disposition shall be included, and the Obligors shall supply to the Collateral Agent or its designee, for inclusion in such sale, assignment or other disposition, all Intellectual Property relating to such Trademark Collateral. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the sale may be so adjourned.

The Proceeds of each collection, sale or other disposition under this Section 5.05, including by virtue of the exercise of the license granted to the Collateral Agent in Section 5.04(b), shall be applied in the manner specified in Section 5.09.

The Obligors recognize that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws, the Collateral Agent may be compelled, with respect to any sale of all or any part of the Pledged Collateral, to limit purchasers to those who will agree, among other things, to acquire the Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. The Obligors acknowledge that any such private sales may be at prices and on terms less favorable to the Collateral Agent than those obtainable through a public sale without such restrictions, and, notwithstanding such circumstances, agree that any such private sale shall be deemed to have been made in a commercially reasonable manner and that the Collateral Agent shall have no obligation to engage in public sales and no obligation to delay the sale of any Pledged Collateral for the period of time necessary to permit the respective Issuer or issuer thereof to register it for public sale.

5.06 Deficiency. If the proceeds of sale, collection or other realization of or upon the Pledged Collateral pursuant to Section 5.05 are insufficient to cover the costs and expenses of such realization and the payment in full of the Secured Obligations, the Obligors shall remain liable for any deficiency.

5.07 Locations; Names. Without at least 30 days' prior written notice to the Collateral Agent, no Obligor shall change its location (as defined in Section 9-307 of the UCC) or change its name from the name shown as its current legal name on Annex 1.

5.08 Private Sale. None of the Secured Parties shall incur any liability as a result of the sale of the Pledged Collateral, or any part thereof, at any private sale pursuant to Section 5.05 conducted in a commercially reasonable manner. Each Obligor hereby waives any claims against any Secured Party arising by reason of the fact that the price at which the Pledged Collateral may have been sold at such a private sale was less than the price that might have been

obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Collateral Agent accepts the first offer received and does not offer the Pledged Collateral to more than one offeree.

5.09 Application of Proceeds. Except as otherwise herein expressly provided and except as provided below in this Section 5.09, the Proceeds of any collection, sale or other realization of all or any part of the Pledged Collateral pursuant hereto, and any other cash at the time held by the Collateral Agent under Section 4 or this Section 5, shall be applied by the Collateral Agent in the following order:

First, to the payment of the taxes (excluding any taxes based on income to a Secured Party or similar concepts) and reasonable costs, expenses, fees and commissions in connection with the exercise of such remedies, including reasonable out-of-pocket costs and expenses of the Secured Parties and the reasonable fees and expenses of its agents and counsel, and all reasonable costs, expenses or other liabilities incurred and advances made by the Secured Parties or agent of the Secured Parties in connection with the preservation or preparation for sale of the Pledged Collateral;

Second, to the payment in full of the Secured Obligations, in each case equally and ratably in accordance with the respective amounts thereof then due and owing or as the Holders may otherwise agree; and

Finally, to the payment to the relevant Obligor, or their respective successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining.

5.10 Attorney-in-Fact. Without limiting any rights or powers granted by this Agreement to the Collateral Agent while no Event of Default has occurred and is continuing, upon the occurrence and during the continuance of any Event of Default, the Collateral Agent is hereby appointed the attorney-in-fact of each Obligor for the purpose of carrying out the provisions of this Section 5 and taking any action and executing any instruments that the Collateral Agent may deem necessary or advisable to accomplish the purposes hereof, which appointment as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, so long as the Collateral Agent shall be entitled under this Section 5 to make collections in respect of the Pledged Collateral, the Collateral Agent shall have the right and power to receive, endorse and collect all checks made payable to the order of any Obligor representing any dividend, payment or other distribution in respect of the Pledged Collateral or any part thereof and to give full discharge for the same.

5.11 Perfection. Prior to or concurrently with the execution and delivery of this Agreement, each Obligor shall (i) file such financing statements and other documents in such offices as the Collateral Agent may request to perfect the security interests granted by Section 3 of this Agreement, (ii) deliver to the Collateral Agent all certificates identified in Annex 1, accompanied by undated stock powers duly executed in blank and (iii) execute and deliver such short form assignments or security agreements relating to Pledged Collateral consisting of the Intellectual Property as the Collateral Agent may reasonably request. Without limiting the foregoing, each Obligor consents that UCC financing statements may be filed describing the Pledged Collateral as "all assets" or "all personal property" of such Obligor (provided that no

such description shall be deemed to modify the description of Pledged Collateral set forth in Section 3).

5.12 Termination. When all Secured Obligations shall have been indefeasibly paid in full in cash, this Agreement shall terminate, and the Collateral Agent shall forthwith cause to be assigned, transferred and delivered, against receipt but without any recourse, warranty or representation whatsoever, any remaining Pledged Collateral and money received in respect thereof, to or on the order of the respective Obligor and to be released and canceled all licenses and rights referred to in Section 5.04(b). The Collateral Agent shall also execute and deliver, at the expense of the Obligors, to the respective Obligor upon such termination such Uniform Commercial Code termination statements, certificates for terminating the Liens on the Motor Vehicles and such other documentation as shall be reasonably requested by the respective Obligor to effect the termination and release of the Liens on the Pledged Collateral.

5.13 Further Assurances. Each Obligor agrees that, from time to time upon the written request of the Collateral Agent, such Obligor will execute and deliver such further documents and do such other acts and things as the Collateral Agent may reasonably request in order fully to effect the purposes of this Agreement. Each Obligor shall furnish to the Collateral Agent revised Annexes hereto as and when necessary to make the information therein accurate as of any date hereafter, including, but not limited to, (a) updating Annex 1 to reflect any change in the information required to be set forth therein with respect to the Obligors, (b) updating Annex 3 with respect to Pledged Stock, (b) updating Annexes 4, 5, 6 and 7 with respect to Intellectual Property, (c) updating Schedule 8 to identify any Commercial Tort Claims and (d) updating Schedule 9 to identify any deposit accounts or securities accounts.

Notwithstanding anything to the contrary set forth in this Agreement, it is expressly agreed that Pledged Collateral required to be delivered by the Obligors to the Collateral Agent under this Agreement may be delivered to any agent of the Collateral Agent identified in a written agreement with or notice to the Company and any such delivery shall be deemed a delivery to the Collateral Agent.

5.14 Waivers. Except as otherwise specifically provided herein, each Obligor hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law and unless notice is expressly required in the Purchase Agreement or in the Guaranty) of any kind in connection with this Agreement or any Pledged Collateral.

Section 6. Miscellaneous.

6.01 Notices. All notices, requests, consents and demands hereunder shall be in writing and telecopied or delivered to the intended recipient at its "Address for Notices" specified pursuant to Section 16.03 of the Purchase Agreement and shall be deemed to have been given at the times specified in said Section.

6.02 No Waiver. No failure on the part of any Secured Party to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by any Secured Party of any right, power or remedy hereunder preclude any other or further exercise

thereof or the exercise of any other right, power or remedy. The remedies herein are cumulative and are not exclusive of any remedies provided by law.

6.03 Amendments, Etc. The terms of this Agreement may be waived, altered or amended only by an instrument in writing duly executed by each Obligor and the Required Holders. Any such amendment or waiver shall be binding upon the Secured Parties and each holder of any of the Secured Obligations and each Obligor.

6.04 Expenses. The Obligors jointly and severally agree to reimburse each of the Secured Parties for all costs and expenses incurred by them (including, without limitation, the fees and expenses of legal counsel) in connection with (i) any Default or Event of Default and any enforcement or collection proceeding resulting therefrom, including, without limitation, all manner of participation in or other involvement with (w) performance by the Collateral Agent of any obligations of the Obligors in respect of the Pledged Collateral required to be performed hereunder that the Obligors have failed or refused to perform, (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, or any actual or attempted sale, or any exchange, enforcement, collection, compromise or settlement in respect of any of the Pledged Collateral, and for the care of the Pledged Collateral and defending or asserting rights and claims of the Collateral Agent in respect thereof, by litigation or otherwise, including expenses of insurance, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section 6.04, and all such costs and expenses shall be Secured Obligations entitled to the benefits of the collateral security provided pursuant to Section 3.

6.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of each Obligor and the Secured Parties, (provided, however, that no Obligor shall assign or transfer its rights or obligations hereunder without the prior written consent of the Collateral Agent).

6.06 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

6.07 Governing Law. This Agreement shall be governed by, and construed in accordance with, the law of the State of New York. This Agreement shall be subject to Section 16.07 of the Purchase Agreement.

6.08 Captions. The captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

6.09 Agents. The Collateral Agent may employ agents and attorneys-in-fact in connection herewith and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Collateral Agent shall be obligated, and shall have the right hereunder, to make demands, to give notices, to exercise or refrain from exercising any rights, and to take or refrain from taking any action (including without limitation

the release or substitution of Pledged Collateral), solely in accordance with this Agreement and the Purchase Agreement.

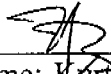
6.10 Severability. If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (a) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Secured Parties in order to carry out the intentions of the parties hereto as nearly as may be possible and (b) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

6.11 Additional Obligors. As contemplated in Section 11.12 of the Purchase Agreement, a new Subsidiary of the Company formed or acquired by the Company after the date hereof may become a "Subsidiary Guarantor" under the Purchase Agreement and an "Obligor" under this Agreement, by executing and delivering to the Collateral Agent a Joinder Agreement. Accordingly, upon the execution and delivery of any such Joinder Agreement by any such Subsidiary, such new Subsidiary shall automatically and immediately, and without any further action on the part of any Person, become an "Obligor" for all purposes of this Agreement, and each of the Annexes hereto shall be supplemented in the manner specified in such Joinder Agreement.

* * *


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

KINETIC SYSTEMS, INC.,
as Company and an Obligor

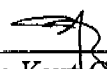
By: 
Name: Kurt Gilson
Title: President and Chief Executive Officer

SUBSIDIARY GUARANTORS

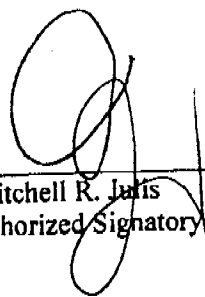
KINETIC SYSTEMS CARIBE, INC.,
as a Subsidiary Guarantor

By: 
Name: Kurt Gilson
Title: President and Chief Executive Officer

KINETIC SYSTEMS INTERNATIONAL, INC.,
as a Subsidiary Guarantor

By: 
Name: Kurt Gilson
Title: President and Chief Executive Officer

CANYON CAPITAL ADVISORS LLC, as
Collateral Agent

By: 
Name: Mitchell R. Jalis
Title: Authorized Signatory

SIGNATURE PAGE TO SECURITY AGREEMENT

LAI 634367v2

PATENT
REEL: 015539 FRAME: 0706

SECURITY AGREEMENT

- Attachments -

Annex 1	Obligor Information
Annex 2	Changes in Circumstances
Annex 3	Pledged Stock
Annex 4	List of all Copyrights
Annex 5	List of all Patents
Annex 6	List of all Trademarks
Annex 7	List of License and Other Agreements
Annex 8	Commercial Tort Claims
Annex 9	Deposit Accounts And Securities Accounts

FILING DETAILS

Current Legal Name (no trade names)	Type of Organization (corporation, limited liability company, etc.)	Jurisdiction of Organization	Organizational ID Number (if applicable)	Current Mailing Address	Place of Business or Location of Chief Executive Officer	Location of Goods	Former Legal Name(s) (if any)
Kinetic Systems, Inc.	Corporation	California	C - 0690684	33225 Western Avenue Union City, CA 94587	33225 Western Avenue Union City, CA 94587	See Attachment - 1	KSI Mechanical, Inc.
Kinetic Systems Caribe, Inc.	Corporation	Delaware	7590261	St. 3 Bldg. 19 Vega Alta Industrial Park, Vega Alta, Puerto Rico 00692	33225 Western Avenue Union City, CA 94587	See Attachment - 1	N/A
Kinetic Systems International, Inc.	Corporation	California	1964354	33225 Western Avenue Union City, CA 94587	33225 Western Avenue Union City, CA 94587	See Attachment - 1	Kinetics International, Inc.

-ATTACHMENT 1 to Annex 1 -

Facility Address	Facility City	Facility State	Facility Country
850 E. Teton, Hangar 3 the South End	Tucson	AZ	USA
2825 West Thomas Road	Phoenix	AZ	USA
1964 West Broadway Road	Phoenix	AZ	USA
1667 North Priest Drive	Tempe	AZ	USA
3200 S. Dodge Blvd, Suite 5	Tucson	AZ	USA
955 E. Javelina, Suites B101 thru B103	Mesa	AZ	USA
2805 Mission College Blvd.	Santa Clara	CA	USA
33225 Western Avenue	Union City	CA	USA
1013 Pardee Street, Suite 102	Berkeley	CA	USA
384 Oyster Point Blvd., Suite 10 & Suite 6	San Francisco	CA	USA
9 Marconi Street	Irvine	CA	USA
6190 Corte Del Cedro	Carlsbad	CA	USA

Facility Address	Facility City	Facility State	Facility Country
7 Marconi Street	Irvine	CA	USA
2696 Lavery Court Unit 4	Newbury Park	CA	USA
1632,1634, 1636, 1638, 1640, 1642-1648, S. Murray Blvd.	Colorado Springs	CO	USA
2416 S. Lake Orange Drive, Suite 140	Orlando	FL	USA
2815 Directors Row, Suite 600	Orlando	FL	USA
Dawson Industrial Park, 50 Brigham St.	Marlboro	MA	USA
161 John Roberts Road	South Portland	ME	USA
4226 Surles Court, Suite 500, Bedford Building, Imperial Ctr Bus Park	Durham	NC	USA
600 Park Avenue, Suite 100	Manalapan	NJ	USA
8904/8906 Washington N.E.	Albuquerque	NM	USA
5711-5805 S.W. Hood	Portland	OR	USA
2108 N.W. York	Portland	OR	USA
26055 S.W. Canyon Creek Road	Wilsonville	OR	USA

Facility Address	Facility City	Facility State	Facility Country
7930 SW Burns Way, Suite B, Stafford Corporate Park	Wilsonville	OR	USA
5 Boyertown Industrial Park	New Berlinville	PA	USA
6 Rowell Road	New Berlinville	PA	USA
7000 West William Cannon Dr., Suite 2100/2130/2140	Austin	TX	USA
400 Parker Drive, Suite 1100	Austin	TX	USA
1960 W. Northwest Highway	Dallas	TX	USA
3701 Drossett Drive, Suite 190	Austin	TX	USA
5111 Glen Alden Drive	Henrico	VA	USA

CHANGES IN CIRCUMSTANCES

None

ANNEX 3

PLEDGED STOCK
- Domestic -

CERT. NO.	ISSUER	SHAREHOLDER	STOCK	PAR VALUE	SHARES
10	Kinetic Systems Caribe, Inc.	Kinetic Systems, Inc.	Common	10.00	1,000
3	Kinetic Systems International, Inc.	Kinetic Systems, Inc.	Common	0.00	100,000
5	Kinetic Systems, Inc	Kinetics Holdings LLC	Common	0.01	1,000

PLEDGED STOCK
- Foreign -

CERT. NO.	ISSUER	SHAREHOLDER	STOCK	PAR VALUE	SHARES
2	F.E.I. Hi-Tec Systems, Ltd (inactive – defunct)	Kinetic Systems, Inc. (formerly: Fullman International, Inc.)	Management	10.00 N.I.S.	7
4	F.E.I. Hi-Tec Systems, Ltd (inactive – defunct)	Kinetic Systems, Inc. (formerly: Fullman International, Inc.)	Ordinary	1.00 N.I.S.	747
3	KSI Mexico, S.A. de C.V.	Kinetic Systems, Inc.	Ordinary	1.00 Peso	32,499
5	Kinetics Mexico, S.A. de C.V.	Kinetic Systems, Inc.	Ordinary	1,000 Pesos	31
4	Kinetic Systems Singapore Pte Ltd	Kinetic Systems International, Inc.	Ordinary	\$1.00	32,500
9	Kinetics Process Systems Sdn Bhd	Kinetic Systems International, Inc.	Common	RM1.00	2,457,000
009	Kinetics TEK Systems Sdn. Bhd.	Kinetic Systems International, Inc.	Common	RM 100,000	7,000
5	Kinetics Australia PTY Limited	Kinetic Systems International, Inc.	Ordinary	\$1.00	65
5	KSI Canada, Inc.	Kinetic System International, Inc.	Common	-	65
4	Kinetics Process System Pte Ltd.	Kinetic System International, Inc.	Ordinary	SGD1.00	117,000

PLEDGED STOCK
- UNCERTIFICATED -

ISSUER	SHAREHOLDER	STOCK	PAR VALUE	SHARES
Trimega Ireland Limited	Kinetic Systems International, Inc.	Ordinary	1.25 euros	100% Owned
Fullman International (Thailand) Ltd (inactive defunct)	Kinetic Systems, Inc.	N/A	N/A	99.94% Owned
Kinetic Systems Costa Rica S.A.	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetic Systems Israel Ltd.	Kinetic Systems Netherlands B.V.	N/A	N/A	100% Owned
Kinetic Systems Netherlands B.V.	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Brasil Ltd	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Europe SPRL (inactive)	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Europe GmbH	Kinetic Systems , Inc.	N/A	N/A	100% Owned
Kinetics France, SA	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Germany GmbH	Kinetic Systems, Inc.	N/A	N/A	100% Owned
Kinetics Italy srl (pending closure)	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Process Systems (Shanghai) Ltd.	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Process Systems (Tianjin) Ltd.	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
Kinetics Process Systems S.A.	Kinetic Systems Netherlands, B.V.	N/A	N/A	100% Owned
Kinetics Process Systems UK Ltd	Kinetics Germany GmbH	N/A	N/A	100% Owned
Kinetics Taiwan Co Ltd	Kinetic Systems International, Inc.	N/A	N/A	100% Owned
MMD Building (Holding) Ltd	Kinetic Systems Israel Ltd	N/A	N/A	100% Owned
Reinhold Faeth (Malaysia) Sdn Bhd	Kinetics Germany GmbH	N/A	N/A	100% Owned
Reinhold Faeth Asia Pacific Pte Ltd (inactive)	Kinetics Germany GmbH	N/A	N/A	100% Owned

**LIST OF COPYRIGHTS, COPYRIGHT REGISTRATIONS AND
APPLICATIONS FOR COPYRIGHT REGISTRATIONS**

Copyrights	Country	Registration No.	Registration Date	Comments
Cassi--caterpillar service skills inventory system: system reference manual / for Marlin H. Troxell, service training supervisor, Boyce Machinery Corp.	USA	Txu-33-913	10/15/1979	Author: Kinetic Systems, Inc.

LIST OF PATENTS AND PATENT APPLICATIONS

Kinetic Systems, Inc.					
Patent	Country	Patent Application No.	Filing Date	Patent Number	Patent Issue Date Status
MicroFabrication Tool Pedestal and Method of Use	USA	10/278,748	10/23/2002		Active

**LIST OF TRADE NAMES, TRADEMARKS, SERVICES MARKS,
TRADEMARK AND SERVICE MARK REGISTRATIONS AND
APPLICATIONS FOR TRADEMARK AND SERVICE MARK REGISTRATIONS**

-Domestic and Foreign-

Kinetics Systems, Inc.						
Trademark	Country	Filing No.	Filing Date	Registration No.	Registration Date	Status
KINETICS	France	96/657,734	12/31/1996		6/13/1997	Active
KINETICS	U.S.A	75166046	9/11/1996	2158214	5/19/1998	Active
MISCELLANEOUS DESIGN (Chemical Icon)	U.S.A	75,176,410	10/3/1996	2281909	9/28/1999	Active
MISCELLANEOUS DESIGN (Ring Design)	China				10/707/98	Active
MISCELLANEOUS DESIGN (Gas Icon)	U.S.A	75,176,414	10/3/1996	2285861	10/12/1999	Active
MISCELLANEOUS DESIGN (Ring Design)	U.S.A	75,206,750	12/2/1996	2160105	5/26/1998	Active
MISCELLANEOUS DESIGN (Water Icon)	U.S.A	75,176,413	10/3/1996	2278282	9/14/1999	Active
X-50	U.S.A	75,034,069	12/18/1995	2168804	6/30/1998	Active
SYSTEM SOLUTIONS FOR A CHANGING WORLD	USA	76403553	5/3/2002	2854511	6/15/2004	Active

LIST OF LICENSES AND OTHER AGREEMENTS

Comprehensive Settlement Agreement between Kinetics Mechanical Services, Inc. ("KMS") and Kinetic Systems, Inc., dated on or about June 15, 2003, permits the use of the mark Kinetics, Registration No. 2158214 to KMS.

COMMERCIAL TORT CLAIMS

None

DEPOSIT ACCOUNTS AND SECURITIES ACCOUNTS

Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetics Australia Pty Ltd.	Kinetics Australia Pty Ltd.	HSBC	Australia	342011-142650 001	AUD	General Account	AR, Ap for Local/Overseas	HSBC Centre 580 George Street Sydney, NSW 2000 Australia
Kinetics Australia Pty Ltd.	Kinetics Australia Pty Ltd.	HSBC	Australia	342011-142650 101	USD	General Account	USD Deposits and Payments	HSBC Centre 580 George Street Sydney, NSW 2000 Australia
Kinetics Australia Pty Ltd.	Kinetics Australia Pty Ltd.	HSBC	Australia	342011-142650 102	SGD	General Account	SGD Deposits and Payments	HSBC Centre 580 George Street Sydney, NSW 2000 Australia
Kinetics Europe BVBA	Kinetics Europe BVBA	KBC Bank	Belgium	739-0039774-13	EUR	General Account		Oude Haachtsesteenweg 101 1831 Diegem
Kinetic Systems Costa Rica	KSI Costa Rica	Bancrecen	Costa Rica	1001550319	USD	Checking	Incoming A/P	Plaza Real Cariari en el cruce San Antonio de Belen, Heredia 2o Piso Locales 13 y 15
Kinetic Systems Costa Rica	KSI Costa Rica	Bancrecen	Costa Rica	1001550221	CRC	Checking	Incoming A/P	Plaza Real Cariari en el cruce San Antonio de Belen, Heredia 2o Piso Locales 13 y 15
Kinetic Systems France SARL	Kinetics France	Banque Populaire	France	12067 00049 00121350722 06	EUR	General Account	Most Used	26 Bis av Beregovoy BP130-58001 Nevers France

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetic Systems France SARL	Kinetics France	Banque Populaire	France	12607 000049 45049217339	USD	General Account	Not Used	26 Bis av Beregovoy BPI30-58001 Nevers France
Kinetic Systems France SARL	Kinetics France	Paribas	France	30004 02037 000250076 6754	EUR	General Account	Few Used	695 rte des Dollines 06560 Valbonne France
Kinetic Systems France SARL	Kinetics France	Paribas	France	30004 02037 000250372 5254	EUR	Credit Card Acct	5 Credit Cards	695 rte des Dollines 06560 Valbonne France
Kinetic Systems France SARL	Kinetics France	Societe Generale	France	0424000020926818 61	EUR	General Account	Few Used	48 rue D. Papin 94208 Ivry/Siene France
Kinetic Systems France SARL	Kinetics France	Societe Generale	France	424000020 926818	EUR	Guarantee SICAV	Not Used	48 rue D. Papin 94208 Ivry/Siene France
Kinetics Germany GmbH	Kinetics Germany GmbH	Commerzbank Aschaffenburg	Germany	1041441	EUR	General Account	Day by Day Business (Hobbach)	Commerzbank Aschaffenburg Frohsinnstrasse 16, 63769 Aschaffenburg
Kinetics Germany GmbH	None	Deutsche Bank AG - EUR	Germany	11746500	EUR	General Account	Day by Day Business	Robmarkt 18, 60311 Frankfurt/ Filiale: Luitpoldstrabe 2, 63739 Aschaffenburg
Kinetics Germany GmbH	None	Hypo Vereinsbank-DEM	Germany	1670433	EUR	General Account	Day to day business (Hobbach)	Weibenburger Strabe 20- 26, 63739 Aschaffenburg

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetics Germany GmbH	None	Hypo Vereinsbank-DEM	Germany	1509969	EUR	General Account	Fixed Deposit	Weibenburger Strabe 20-26, 63739 Aschaffenburg
Kinetics Germany GmbH	None	Raiffeisenbank e.G. - DM	Germany	101447025	EUR	General Account	Fixed deposit, Cover Bonds	Raiffeisenstrabe 3, 63872 Heimbuchental
Kinetics Germany GmbH	None	Sparkasse Miltenberg-Obernburg	Germany	500167036	EUR	General Account	Fixed Deposit	Mainstrabe 15, 63897 Miltenberg
Kinetics Germany GmbH	None	Sparkasse Miltenberg-Obernburg	Germany	430330399	EUR	General Account	Day to day business Hobbach	Mainstrabe 15, 63897 Miltenberg
Kinetics Germany GmbH	None	Sparkasse Munchen	Germany	93144103	EUR	Current	Day to day business Munich	Oskar-Maria-Graf-Ring 26, 81737 Munchen
TriMega Ireland Ltd.	Kinetics Ireland Ltd-Mountrath	Allied Irish Bank	Ireland	17393099	USD	Call Deposit		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.	Kinetics Ireland Ltd-Mountrath	Allied Irish Bank	Ireland	10428155	EUR	Working Account		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.	Kinetics Ireland Ltd-Mountrath	Allied Irish Bank	Ireland	34176519	EUR	Call Deposit		Ashford House, Tara Street, Dublin 2

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
TriMega Ireland Ltd.		Allied Irish Bank	Ireland	37176436	EUR	Call Deposit		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.		Allied Irish Bank	Ireland	17388412	USD	Call Deposit		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.		Allied Irish Bank	Ireland	62995368	USD	Fixed Deposit		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.		Allied Irish Bank	Ireland	10428239	EUR	Working Account		Ashford House, Tara Street, Dublin 2
TriMega Ireland Ltd.		Anglo Irish Bank	Ireland	143-00216335-03	USD	Investment Account	Corporate Investments	Stephen Court, 18/21 .St. Stephens Green, Dublin 2
Kinetic Systems Israel LTD. (formerly KPPI)	KPPI	HaPoalim Bank	Israel	749-566604	NIS	General Account	All Bank Activities	11 Independence Circus, Netanya 42271, Israel
Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	Leumi Bank	Israel	717-339000/71	NIS	General Account	All Bank Activities	1A Hazoran St. Industrial Zone Netanya Israel
Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	HaPoalim Bank	Israel	749-566612 - USD	NIS	General Account	All Bank Activities	11 Independence Circus, Netanya 42271, Israel

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
KPPI	KPPI	Leumi Bank	Israel	717-457400/46	NIS	General Account	All Bank Activities	1A Hazoran St. Industrial Zone Netanya Israel
Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	Kinetic Systems Israel LTD. (formerly MMD Technologies Israel LTD.)	Leumi Bank	Israel	717-468300/39	NIS	General Account	All Bank Activities	1A Hazoran St. Industrial Zone Netanya Israel
Kinetic Systems Italy S.r.l.		Carivit	Italy	1006163719		General Account		
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Hong Leong Bank Berhad	Malaysia	032-00-04-2425	MYR	General Account	MYR Deposits and Payments for KPS-Shah Alam	3 Jalan Takal, 15/21, Section 15, 40000 Shah Alam, Selangor, Malaysia
Kinetics Tek Systems SDN BHD	Kinetics Tek Systems SDN BHD	Hong Leong Bank Berhad	Malaysia	032-00-04-7169	MYR	General Account	MYR Deposits, Payments for KTS	3 Jalan Takal, 15/21, Section 15, 40000 Shah Alam, Selangor, Malaysia
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Hong Leong Bank Berhad	Malaysia	032-60-08-4863	MYR	Bank Facilities Account	Placement of Fixed Deposits as Collaterals for Banking Facilities	3 Jalan Takal, 15/21, Section 15, 40000 Shah Alam, Selangor, Malaysia
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Hong Leong Bank Berhad	Malaysia	059-00-02-1706	MYR	General Account	Construction Site Acct - Kulim Branch Office	5&6 Jalan Raya, 09000 Kulim, Kedah, Malaysia
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Hong Leong Bank Berhad	Malaysia	032-60-08-4863	MYR	Investment Account	Investment Account	3 Jalan Takal, 15/21, Section 15, 40000 Shah Alam, Selangor, Malaysia

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Public Bank Berhad	Malaysia	1021403735	MYR	Investment Account	Investment Account	31-35 Jalan Utas B, Seksyen 15/B, P.O. Box #4, 40700 Shah Alam, Selangor, Malaysia
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Public Bank Berhad	Malaysia	306262130-5	MYR	General Account	MYR Deposits and payments for KPS-Shah Alam	31-35 Jalan Utas B, Seksyen 15/B, P.O. Box #4, 40700 Shah Alam, Selangor, Malaysia
Kinetics Process Systems SDN BHD	Kinetics Process Systems SDN BHD	Public Bank Berhad	Malaysia	3590115010	USD	General Account	USD Deposits and payments for KPS-Shah Alam	31-35 Jalan Utas B, Seksyen 15/B, P.O. Box #4, 40700 Shah Alam, Selangor, Malaysia
Kinetics Mexico, S.A. De C.V.	KSI Mexico, S.A. De C.V.	Bancreeer	Mexico	124381010	MXP	Checking	Transfer from Mexico to Costa Rica	Periferico Sur 4124-C Col. Jardines del Pedregal C.P. 01900 Mexico DF
Kinetic Systems Netherlands, B.V.	Kinetic Systems Netherlands, B.V.	Bank of America	Netherlands	15851012	EUR	General Account		Herengracht 469, 1017 BS Amsterdam, Netherlands
Kinetics Process Systems (Shanghai) Ltd.	Kinetics Process Systems (Shanghai) Ltd..	Bank of China	Shanghai, China	044188-00182505571	RMB	General	AP, PR, RMB Deposits	Shanghai Branch
Kinetics Process Systems (Shanghai) Ltd.	Kinetics Process Systems (Shanghai) Ltd.	Commerzbank	Shanghai, China	147180178600EUR	DEM	General	EUR Deposit and Payments	Shanghai Branch
Kinetics Process Systems (Shanghai) Ltd.	Kinetics Process Systems (Shanghai) Ltd.	Commerzbank	Shanghai, China	147180178600USD	USD	General	USD Deposits and Payments	Shanghai Branch

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetics Process Systems Pte Ltd		HSBC	Singapore	260310883178	USD	Current	Checking	21 Collyer Quay #11-0 HSBC Building Singapore 049320
Kinetics Process Systems Pte Ltd		Bank of America	Singapore	53800011	SGD	Commercial		9 Raffles Place #1800 Rep. Plaza Tower 1
KPPI	KPPI	Leumi Bank	Switzerland	709113-CHF-2410-52	CHF / USD	Current	General	Rue du Rhone 80, 1211 Geneva Switzerland
Kinetics Process Systems SA	Kinetics Process Systems SA	UBS	Switzerland	255-G4413676.0	CHF	General Account	All Bank Activities	UBS SA Place Saint Francois 1002 Lausanne
Kinetic Systems, Inc.	Kinetics Systems, Inc. - Corporate	Bank of the West	USA	754003051	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Staubach Global Services Escrow Agent for Kinetic Systems, Inc.	Bank of the West	USA	754003382	USD	Business Checking	Property Management	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Kinetic Systems, Inc. - CA Branch	Bank of the West	USA	754003234	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Kinetic Systems, Inc. - SO CA Branch	Bank of the West	USA	754001238	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113

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Company Name	Account Name	Bank Name	Country-Acc.	Account Number	Account Currency	Type of Account	Account Purpose	Bank Address
Kinetic Systems, Inc.	Kinetic Systems, Inc.	Wachovia Bank	USA	N/A	USD	Check Cashing	Check Cashing	1400 Benviene Road Rocky Mountain , NC 27804
Kinetic Systems, Inc.	Kinetic Systems, Inc. - East Region	Bank of the West	USA	754003069	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Kinetic Systems Caribe, Inc.	Bank of the West	USA	754001220	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Kinetics Thermal Systems	Bank of the West	USA	754003317	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	Kinetic Systems, Inc. - NW Branch	Bank of the West	USA	754003226	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113
Kinetic Systems, Inc.	JBR Mech. Contractors	Wells Fargo	USA	415-9518125	USD	Checking	General	100 West Washington, 25th Floor Phoenix, AZ 85003
Kinetic Systems, Inc.	Kinetic Systems, Inc. - SW Branch	Bank of the West	USA	754002921	USD	Business Checking	Concentration Account	1 Almaden Blvd. San Jose, CA 95113

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