

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
Safe Boats International LLC	06/16/2006
RECEIVING PARTY DATA	
Name:	Washington Trust Bank
Street Address:	2 Union Square, 601 Union Street
Internal Address:	Suite 4747
City:	Seattle
State/Country:	WASHINGTON
Postal Code:	98101
PROPERTY NUMBERS Total: 6	
Property Type	Number
Patent Number:	5282436
Patent Number:	5647297
Patent Number:	5870965
Application Number:	10462088
Patent Number:	6810827
Application Number:	10867379
CORRESPONDENCE DATA	
Fax Number:	(206)903-3739
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Address Line 2:	STE 2600
Address Line 4:	Seattle, WASHINGTON 98101-1688

CH \$240.00 5282436

ATTORNEY DOCKET NUMBER:	48205-28
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NAME OF SUBMITTER:	George C. Rondeau, Jr.
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Total Attachments: 28
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SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Agreement") is made as of June 16, 2006, by SAFE BOATS INTERNATIONAL L.L.C., a Washington limited liability company (the "Debtor"), in favor of WASHINGTON TRUST BANK, a Washington state bank (the "Secured Party").

RECITALS

A. The Debtor and the Secured Party are parties to that certain Credit Agreement dated as of June 16, 2006 (as amended, restated, modified, renewed, supplemented or extended from time to time, the "Credit Agreement").

B. It is a material condition precedent to the Secured Party's obligation to make the Loan under the Credit Agreement that the Debtor enter into this Agreement and grant to the Secured Party the security interests hereinafter provided to secure the obligations of the Debtor described below.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration receipt of which is hereby acknowledged, the Debtor hereby agrees as follows:

AGREEMENT

1. Definitions; Interpretation.

(a) **Terms Defined in Credit Agreement.** Capitalized terms not otherwise defined herein shall have the meanings given in the Credit Agreement.

(b) **Certain Defined Terms.** As used in this Agreement, the following terms have the following meanings:

"Account Debtor" means any Person who is or who may become obligated to the Debtor under, with respect to or on account of an Account or other Right to Payment.

"Affiliate" means any Person who, directly or indirectly, controls or is controlled by or is under common control with such Person.

"Agreement" shall have the meaning assigned to such term in the first paragraph of this document.

"Collateral" shall have the meaning assigned to such term in Section 2(a).

"Copyright License" shall mean any written agreement, now or hereafter in effect, granting any right to any third party under any Copyright now or hereafter owned by the Debtor or which the Debtor otherwise has the right to license, or granting to the Debtor the right to use any Copyright now or hereafter owned by any third party, including those listed in Part (b) of Schedule 2 hereto, and all rights of the Debtor under any such agreement.

“Copyrights” shall mean all of the following now owned or hereafter acquired by the Debtor: (i) all copyright rights in any work subject to the copyright laws of the United States, any state thereof or any other country or any political subdivision thereof, whether registered or unregistered and whether published or unpublished, whether as author, assignee, transferee or otherwise, including those listed in Part (a) of Schedule 2 hereto, and (ii) all registrations and applications for registration of any such copyright in the United States or any other country, including registrations, recordings, supplemental registrations and pending applications for registration in the United States Copyright Office or in any similar offices in any other country.

“Credit Agreement” shall have the meaning assigned to such term in paragraph A of the Recitals.

“Debtor” shall have the meaning assigned to such term in the first paragraph of this Agreement.

“Default Rate” shall have the meaning assigned to such term in Section 10.

“Event of Default” shall have the meaning assigned to such term in Section 11.

“GE” shall have the meaning assigned to such term in Section 4(e).

“GE Credit Agreement” shall have the meaning assigned to such term in Section 4(e).

“GE Financing Statement” shall have the meaning assigned to such term in Section 4(e).

“Intellectual Property” means the Copyrights, Copyright Licenses, Patents, Patent Licenses, Trademarks and Trademark Licenses of the Debtor, all goodwill associated therewith and all rights to sue for infringement thereof.

“License” means any Patent License, Trademark License, Copyright License or other license or sublicense agreement to which the Debtor is a party, including those listed on Schedules 2, 3 and 4 hereto.

“License Agreement” shall have the meaning assigned to such term in Section 4(c).

“Norseman” shall have the meaning assigned to such term in Section 4(c).

“Patent License” shall mean any written agreement, now or hereafter in effect, granting to any third party any right to make, use or sell any invention on which a Patent, now or hereafter owned by the Debtor or which the Debtor otherwise has the right to license, is in existence, or granting to the Debtor any right to make, use or sell any invention on which a Patent, now or hereafter owned by any third party, is in existence, including those listed in Part (b) of Schedule 3 hereto, and all rights of the Debtor under any such agreement.

“Patents” shall mean all of the following now owned or hereafter acquired by the Debtor: (i) all letters patent of the United States or any other country or any political subdivision thereof, all registrations and recordings thereof, including those listed in Part (a) of Schedule 3 hereto, (ii) all applications for letters patent of the United States or the equivalent thereof in any similar

offices in any other country, including registrations, recordings and pending applications in the United States Patent and Trademark Office or the equivalent thereof in any similar offices in any other country, and (iii) all reissues, continuations, divisions, continuations-in part, renewals or extensions thereof, and the inventions disclosed or claimed therein, including the right to make, use and/or sell the inventions disclosed or claimed therein.

“Permitted Liens” means: (i) Liens securing Taxes which are not delinquent or which remain payable without penalty (excluding any Liens imposed pursuant to any of the provisions of ERISA) or the validity or amount of which is being contested or appealed in good faith by appropriate proceedings, so long as (A) adequate reserves or other appropriate provision, as shall be required in conformity with GAAP, shall have been made therefor, and (B) such contest proceedings or other actions by the Debtor (including, without limitation, filing appeal bonds, lien release bonds, or other instruments, or obtaining a court order) operate to stay the sale of any portion of the Collateral to satisfy such Taxes; (ii) Liens imposed by law (such as mechanics’, processor’s, materialmen’s, carriers’, warehousemen’s and landlord’s liens) incurred in good faith in the ordinary course of business which are not delinquent or which remain payable without penalty or the validity or amount of which is being contested or appealed in good faith by appropriate proceedings, so long as (A) adequate reserves or other appropriate provision, as shall be required in conformity with GAAP, shall have been made therefor, and (B) such contest proceedings or other actions by the Debtor (including, without limitation, filing appeal bonds, lien release bonds, or other instruments, or obtaining a court order) operate to stay the sale of any portion of the Collateral to satisfy the obligation secured by such Lien; (iii) Liens arising in connection with worker’s compensation, unemployment insurance, old age pensions and social security benefits which are not delinquent or which remain payable without penalty or the validity or amount of which is being contested or appealed in good faith by appropriate proceedings, so long as (A) adequate reserves or other appropriate provision, as shall be required in conformity with GAAP, shall have been made therefor, and (B) such contest proceedings or other actions by the Debtor (including, without limitation, filing appeal bonds, lien release bonds, or other instruments, or obtaining a court order) operate to stay the sale of any portion of the Collateral to satisfy the obligation secured by such Lien; and (iv) customary rights of set off, revocation, refund or chargeback under deposit agreements or under the UCC in favor of banks where the Debtor maintains Deposit Accounts.

“Person” means any natural person, corporation, unincorporated organization, trust, joint stock company, joint venture, association, company, limited liability company, partnership or government, or any agency or political subdivision of any government.

“Pledged Collateral” shall have the meaning assigned to such term in Section 12(d).

“Rights to Payment” shall have the meaning assigned to such term in Section 8.

“Secured Obligations” means, collectively, the following indebtedness, liabilities and obligations:

- (i) all indebtedness, liabilities and obligations of Debtor to Secured Party now or hereafter existing, whether joint or several, direct or indirect, absolute or contingent or

due or to become due, howsoever evidenced, created, incurred or owing and whether or not evidenced by promissory notes or other evidences of indebtedness, arising under or in connection with the Credit Agreement, any other Loan Document or the transactions contemplated thereby and all modifications, renewals, extensions and rearrangements thereof and substitutions and replacements therefor;

(ii) all indebtedness, liabilities and obligations of Debtor to Secured Party now or hereafter existing, whether joint or several, direct or indirect, absolute or contingent or due or to become due, howsoever evidenced, created, incurred or owing and whether or not evidenced by promissory notes or other evidences of indebtedness, and all modifications, renewals, extensions and rearrangements thereof and substitutions and replacements therefor arising under or in connection with this Agreement or the transactions contemplated hereby; and

(iii) all accrued interest on any of the foregoing indebtedness, liabilities and obligations, whether accruing prior to or subsequent to the commencement of a bankruptcy or similar proceeding.

“Secured Party” shall have the meaning assigned to such term in the first paragraph of this Agreement.

“Trademark License” shall mean any written agreement, now or hereafter in effect, granting to any third party any right to use any Trademark now or hereafter owned by the Debtor or which the Debtor otherwise has the right to license, or granting to the Debtor any right to use any Trademark now or hereafter owned by any third party, including those listed in Part (b) of Schedule 4 hereto, and all rights of the Debtor under any such agreement.

“Trademarks” shall mean all of the following now owned or hereafter acquired by the Debtor: (i) all trademarks, service marks, trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all registration and recording applications filed in connection therewith, including registrations and pending applications in the United States Patent and Trademark Office, any State of the United States or any similar offices in any other country or any political subdivision thereof, and all extensions or renewals thereof, including those listed in Part (a) of Schedule 4 hereto, except for “Intent to Use” applications for trademark or service mark registrations filed pursuant to Section 1(b) of the Lanham Act, unless and until an Amendment to Allege Use or a Statement of Use under Section 1(c) and 1(d) of said Act has been filed, (ii) all goodwill associated therewith or symbolized thereby and (iii) all other assets, rights and interests that uniquely reflect or embody such goodwill.

“UCC” means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of Washington; provided, however, in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of the security interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of Washington, the term “UCC” shall mean the Uniform Commercial Code as in

effect in such other jurisdiction for purposes of the provisions hereof relating to such attachment, perfection or priority and for purposes of definitions related to such provisions.

(c) **Terms Defined in UCC.** Terms used in this Agreement that are defined in the UCC have the meanings given to them in the UCC, including, without limitation, the following which are capitalized herein: Accession, Account, As-Extracted Collateral, Chattel Paper, Commercial Tort Claim, Commodity Accounts, Commodity Contracts, Consumer Goods, Deposit Account, Document, Equipment, Farm Products, Financial Asset, Fixture, General Intangible, Instrument, Inventory, Investment Property, Letter-of-Credit Right, Manufactured Home, Payment Intangible, Proceeds, Products, Security, Security Entitlement, Securities Account and Securities Intermediary.

(d) **Interpretation.** Definitions given herein shall be equally applicable to both singular and plural forms of the terms therein defined and references herein to "he" or "it" shall be applicable to Persons whether masculine, feminine or neuter. References herein to any document including, without limitation, this Agreement shall be deemed a reference to such document as it now exists, and as, from time to time hereafter, the same may be amended. The term "including" is not limiting and means "including without limitation." References herein to any section, subsection, Schedule or Annex shall, unless otherwise indicated, be deemed a reference to sections and subsections within and Schedules and Annexes to this Agreement.

2. Security Interest.

(a) **Grant of Security Interest.** As security for the payment or performance, as the case may be, in full of the Secured Obligations, the Debtor hereby grants, assigns and pledges to the Secured Party, its successors and assigns, a security interest, in all right, title or interest of the Debtor in or to any and all of the following assets and properties now owned or at any time hereafter acquired by the Debtor or in which the Debtor now has or at any time in the future may acquire any right, title or interest (collectively, the "Collateral"):

- (i) all Accounts;
- (ii) all Chattel Paper;
- (iii) all Deposit Accounts;
- (iv) all Documents;
- (v) all Equipment;
- (vi) all Fixtures;
- (vii) all General Intangibles;
- (viii) all Instruments;
- (ix) all Inventory;

- (x) all Investment Property;
- (xi) all Letter-of-Credit Rights;
- (xii) all Intellectual Property;
- (xiii) specified Commercial Tort Claims, if any;
- (xiv) all books and records pertaining to the assets and properties described in this Section 2(a);
- (xv) all other goods and personal property of the Debtor whether tangible or intangible wherever located; and
- (xvi) to the extent not otherwise included, all Proceeds and Products of any and all of the foregoing.

(b) Debtor Remains Liable. Anything herein to the contrary notwithstanding, (i) the Debtor shall remain liable under any contracts, agreements and other documents included in the Collateral, to the extent set forth therein, to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (ii) the exercise by the Secured Party of the rights hereunder shall not release the Debtor from any of its duties or obligations under such contracts, agreements and other documents included in the Collateral, and (iii) the Secured Party shall have no obligation or liability under any contracts, agreements and other documents included in the Collateral by reason of this Agreement, nor shall the Secured Party be obligated to perform any of the obligations or duties of the Debtor thereunder or to take any action to collect or enforce any such contract, agreement or other document included in the Collateral hereunder.

(c) Continuing Security Interest. The Debtor acknowledges and agrees that the security interest of the Secured Party in the Collateral (i) constitutes continuing collateral security for all of the Secured Obligations and (ii) except as provided in Section 12, is not to be construed as an assignment of any Intellectual Property.

3. Financing Statements, Etc. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any relevant jurisdiction any initial financing statements (including fixture filings) and amendments thereto that contain the information required by Article 9 of the UCC of each applicable jurisdiction for the filing of any financing statement or amendment, including (i) whether the Debtor is an organization, the type of organization and any organizational identification number issued to the Debtor and (ii) in the case of a financing statement filed as a fixture filing or covering Collateral constituting As-Extracted Collateral or timber to be cut, a sufficient description of the real property to which such Collateral relates. The Debtor agrees to provide such information to the Secured Party promptly upon request. The Secured Party may file a financing statement describing the Collateral as "ALL ASSETS." The Debtor also ratifies its authorization for the Secured Party to file in any relevant jurisdiction any initial financing statements or amendments thereto if filed prior to the date hereof. The Debtor further authorizes the Secured Party to file with the United States Patent and Trademark Office or United States Copyright Office (or any successor office or

any similar office in any other country) such other documents as may be necessary or advisable for the purpose of perfecting, confirming, continuing, enforcing or protecting the security interest granted by the Debtor, without the signature of the Debtor, and naming the Debtor as debtor and the Secured Party as secured party; provided, however, that prior to filing any documents with the United States Patent and Trademark Office after the date of this Agreement, the Secured Party will provide the Debtor with a copy of such document at least fifteen (15) days prior to filing such document and refrain from filing such document if the Debtor's outside legal counsel provides within such fifteen (15) day period a legal opinion which indicates that filing such document will limit, cancel or call into question the validity of, or have a material adverse effect on, the value of the related patent.

4. Representations and Warranties. In addition to the representations and warranties of the Debtor set forth in the Credit Agreement, which are incorporated herein by this reference, the Debtor represents and warrants to the Secured Party that:

(a) **Legal Name; State of Incorporation.** The Debtor's chief executive office and chief place of business is located at 8800 Barney White Road, Port Orchard, WA 98637, and the Debtor keeps its books and records at such location. The Debtor's exact corporate name is SAFE Boats International L.L.C., the jurisdiction of its formation is the State of Washington and the identification number given by its jurisdiction of formation is 601-758-087.

(b) **Location of Tangible Collateral.** The location of all tangible Collateral owned by each Debtor is as shown in Schedule 1 hereto (as updated from time to time).

(c) **Ownership and Authority.** The Debtor is the sole legal and beneficial owner of the Collateral (or, in the case of after-acquired Collateral, at the time the Debtor acquires rights in such Collateral, will be the sole legal and beneficial owner thereof) and has the right, power and authority to grant to the Secured Party a security interest in such Collateral pursuant hereto and to execute, deliver and perform its obligations in accordance with the terms of this Agreement. Except for that certain Patent and Trademark License Agreement between Norseman Marine Products, Inc., a Washington corporation ("Norseman"), and the Debtor, dated September 1, 2000, as amended by Addendum A, dated April 1, 2005, and Addendum B, dated October 6, 2005 (as amended, the "License Agreement"), the Debtor is not a party to any material license or any material lease that contains legally enforceable restrictions on the granting of a security interest therein. Norseman has duly consented to the Debtor's grant of a security interest in the License Agreement to the Secured Party pursuant to this Agreement.

(d) **Validity of Security Interest.** The security interest granted by the Debtor pursuant to this Agreement constitutes (i) a legal and valid security interest which is enforceable against the Collateral in which the Debtor now has rights and will create a security interest which is enforceable against the Collateral in which the Debtor hereafter acquires rights at the time the Debtor acquires any such rights; and (ii) when properly perfected by filing or otherwise, such security interest shall constitute a valid perfected security interest in the Collateral, in which the Debtor now has rights, and will have a perfected security interest in the Collateral in which the Debtor hereafter acquires rights at the time the Debtor acquires any such rights, to the extent that a security interest may be perfected by filing or otherwise under the UCC or by filing an

appropriate notice with the United States Patent and Trademark Office or the United States Copyright Office, in each case securing the payment and performance of the Secured Obligations. The security interest of the Secured Party in the Collateral is and shall be prior to any other Lien on any of the Collateral, other than Permitted Liens.

(e) Absence of Other Liens. Except for that certain UCC financing statement #20012350358 (secured party: Deutsche Financial Services) filed with the Washington State Department of Licensing and amended by UCC financing statement amendments #200329484196 (secured party: GE Commercial Distribution Finance Corp.) and #2005515853331 (secured parties: Deutsche Financial Services and GE Commercial Distribution Finance Corp.) filed with the Washington State Department of Licensing (such UCC financing statement, as amended, the "GE Financing Statement"), the Debtor has not filed or consented to the filing of (i) any financing statement or analogous document under the UCC or any other applicable laws covering any Collateral, (ii) any assignment in which the Debtor assigns any Collateral or any security agreement or similar instrument covering any Collateral with the United States Patent and Trademark Office or the United States Copyright Office, or (iii) any assignment in which the Debtor assigns any Collateral or any security agreement or similar instrument covering any Collateral with any Governmental Authority, which financing statement or analogous document, assignment, security agreement or similar instrument is still in effect, other than, in each case, with respect to a Permitted Lien. The GE Financing Statement perfects a security interest obtained by GE Commercial Distribution Finance Corp. ("GE") in connection with financing provided by GE for the acquisition of Yamaha outboard engines, marine engines and Yamaha parts by the Debtor, and such security interest secures no more than Fifty Thousand Dollars (\$50,000) of indebtedness under the related credit instrument (the "GE Credit Agreement").

(f) Types of Collateral. None of the Collateral consists of, or is the Proceeds of, As-Extracted Collateral, timber to be cut, Consumer Goods, Farm Products or Manufactured Homes.

(g) Accounts. The Accounts arise in bona fide transactions in the ordinary course of business without impediment to enforcement or collection thereof and to the best of the Debtor's knowledge, there are no material offsets or counterclaims or defenses to payment which may be asserted against the Debtor by the Debtor's account debtors or payment obligors in respect of the Collateral.

(h) Inventory. No Inventory of the Debtor is stored with any bailee, warehouseman or similar Person or on any premises leased to the Debtor (other than the premises leased to the Debtor by the Port of Bremerton on the date of this Agreement), nor has any such Inventory been consigned to the Debtor or consigned by the Debtor to any Person or is held by the Debtor pursuant to a sale or return, sale on approval or similar arrangement.

(i) Equipment. None of the Equipment or other Collateral is affixed to real property, except for Collateral with respect to which the Debtor has supplied the Secured Party with all information and documentation necessary to make all fixture filings required to perfect and protect the priority of the security interest of the Secured Party in all such Collateral which may be fixtures as against all Persons having an interest in the premises to which such property

may be affixed. None of the Equipment is leased from or to any Person, except for non-material items.

(j) Consents. Except for (i) the filing or recording of UCC financing statements, (ii) the filing of appropriate notices with the United States Patent and Trademark Office and the United States Copyright Office or (iii) obtaining control to perfect the security interest granted by the Debtor pursuant hereto, no consent or authorization of, filing with, or other act by or in respect of, any arbitrator or Governmental Authority and no consent of any other Person (including any stockholder, member or creditor of the Debtor), is required (A) for the grant by the Debtor of the security interest in the Collateral pursuant hereto or for the execution, delivery or performance of this Agreement by the Debtor or (B) for the perfection of the security interest or the exercise by the Secured Party of the rights and remedies provided for in this Agreement.

(k) Intellectual Property.

(i) Schedules 2, 3 and 4 hereto include, respectively, all Copyrights, Patents and Trademarks owned by or licensed (pursuant to a written license) by or to the Debtor as of the date hereof that are material or necessary to the Debtor's conduct of its business.

(ii) All Intellectual Property of the Debtor is valid, subsisting, unexpired, enforceable and has not been abandoned, and the Debtor is legally entitled to use each of its tradenames.

(iii) Except for the Intellectual Property duly and validly licensed by Norseman to the Debtor pursuant to the License Agreement, none of the Intellectual Property of the Debtor is the subject of any licensing or franchise agreement.

(iv) Except for any limitations arising out of the pending re-examination of patent number 5,282,436 and the issued re-examinations of patent numbers 5,647,297 and 5,870,965, no holding, decision or judgment has been rendered by any Governmental Authority which would limit, cancel or question the validity of any Intellectual Property of the Debtor. Any limitations arising out of such pending re-examination and such issued re-examinations have not and will not have a material adverse effect on the value or utility of the related patents.

(v) Except for any limitations arising out of the pending re-examination of patent number 5,282,436 and the issued re-examinations of patent numbers 5,647,297 and 5,870,965, no action or proceeding is pending seeking to limit, cancel or question the validity of any Intellectual Property of the Debtor, or which, if adversely determined, would have a material adverse effect on the value of any such Intellectual Property. Any limitations arising out of such pending re-examination and such issued re-examinations have not and will not have a material adverse effect on the value or utility of the related patents.

(vi) All applications pertaining to the Intellectual Property of the Debtor have been duly and properly filed, and all registrations or letters patent pertaining to such Intellectual Property have been duly and properly issued and assigned to Debtor with

such assignments recorded, and all of such Intellectual Property is subsisting, valid and enforceable.

(vii) The Debtor has not made any assignment or agreement in conflict with the security interest of the Secured Party in Collateral consisting of Intellectual Property.

5. Covenants. In addition to the covenants of the Debtor set forth in the Credit Agreement, which are incorporated herein by this reference, until payment in full of the Loan and performance of all other obligations of Debtor under the Loan Documents, and so long as any Secured Obligations of the Debtor to the Secured Party shall be outstanding, the Debtor shall:

(a) **Defense of Collateral.** At its own cost and expense, take any and all actions necessary to defend title to the Collateral against all Persons and to defend the security interest of the Secured Party in the Collateral and the priority thereof against any Lien, other than Permitted Liens or Liens specifically permitted under the Credit Agreement to be prior to the security interest of the Secured Party in the Collateral.

(b) **Preservation of Collateral.** Maintain, preserve and protect the tangible Collateral in good working order and condition, ordinary wear and tear excepted; not use the Collateral in violation of the provisions of this Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable laws; and not permit any Collateral to be or become a Fixture to real property or an Accession to other personal property unless the Secured Party has a valid, perfected and first priority security interest in such real or personal property.

(c) **Change of Name, Identity or Structure.** Not change its name, its state of formation or entity structure, nor move the location of its chief executive office or its records concerning the Collateral unless the Debtor shall have given the Secured Party prior written notice of such move or change.

(d) **Location of Collateral.** Promptly notify the Secured Party in writing of any change in the location of any office or facility at which Collateral (other than real property and improvements and fixtures thereto) owned by it (including the establishment of any such new office or facility) with a book value in excess of \$25,000 is located. For the avoidance of doubt, the Debtor shall not be required to notify the Secured Party regarding the change in location of Inventory sold in the ordinary course of the Debtor's business.

(e) **Maintenance of Records; Inspection.** Maintain, at its own cost and expense, such complete and accurate records with respect to the Collateral owned by it as is consistent with its current practices and in accordance with such prudent and standard practices used in industries that are the same as or similar to those in which the Debtor is engaged, but in any event to include complete accounting records indicating all payments and proceeds received with respect to any part of the Collateral, mark its books and records to reflect the security interest of the Secured Party in such Collateral, and, at such time or times as the Secured Party may reasonably request, promptly provide the Secured Party with a duly certified listing in form and detail satisfactory to the Secured Party showing the identity, amount and location of any and

all Collateral. The Secured Party shall at all reasonable times have free access to the Debtor's ledgers, books of account and other written or electronic records evidencing or relating to the Collateral and the right to make and retain copies or memorandum of same, and shall after the occurrence and during the continuation of an Event of Default have the right to be present at the Debtor's place of business to receive all communications and remittances relating to the Collateral.

(f) Disposition of Collateral; No Liens. Not make or permit to be made any sale, transfer, license or other disposition of any of the Collateral or any right or interest therein and shall remain at all times in possession of the Collateral, except to the extent (i) permitted by the Credit Agreement, or (ii) that the Buyer is selling Inventory in the ordinary course of business. The Debtor shall not make or permit to be made an assignment, pledge or hypothecation of any of the Collateral or create or permit to exist any Lien upon or with respect to any of the Collateral, other than Permitted Liens. The Debtor shall not permit the indebtedness owed to GE under the GE Credit Agreement to exceed Fifty Thousand Dollars (\$50,000), and GE shall not at any time have a perfected security interest in the Collateral that exceeds Fifty Thousand Dollars (\$50,000).

(g) Taxes. Pay promptly when due all taxes and other governmental charges, all Liens and all other charges now or hereafter imposed upon, relating to or affecting any of the Collateral, except for taxes and other governmental charges the validity or amount of which is being contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof.

(h) Leased Premises. Upon the request of the Secured Party, obtain from each Person from whom the Debtor leases any office or facility at which Collateral (other than real property and improvements and fixtures thereto) with a book value in excess of \$25,000 is at any time present such subordination, waiver, consent and estoppel agreements as the Secured Party may require, in form and substance reasonably satisfactory to the Secured Party; provided, the Port of Bremerton has delivered a letter to the Secured Party dated May 31, 2006, pursuant to which the Port of Bremerton has waived certain rights and consented to certain actions with respect to the two leases to which the Debtor and the Port of Bremerton are parties as of the date of this Agreement, and the Debtor shall not be required to obtain any additional subordination, waiver, consent or estoppel agreements with respect to the premises leased from the Port of Bremerton as of the date of this Agreement.

(i) Collateral Held by Bailee, Etc. If any Collateral is at any time in the possession or control of a warehouseman, bailee or any agent or processor of the Debtor, (i) notify the Secured Party of such possession, (ii) notify such Person of the security interest of the Secured Party therein and (iii) obtain a written acknowledgment from such Person that it is holding such Collateral subject to the security interest of the Secured Party and the instructions of the Secured Party.

(j) Fixtures. Except for Collateral with respect to which the Debtor has supplied the Secured Party with all information and documentation necessary to make all fixture filings required to perfect and protect the priority of the security interest of the Secured Party in such Collateral, maintain all of the Collateral as personal property and not affix any of the

Collateral to any real property in a manner which would change its nature from personal property to real property or a Fixture.

(k) Insurance. Continuously maintain, or cause to be continuously maintained, insurance on all tangible Collateral against loss or damage by fire, theft and such other risks as are customarily insured against by persons and businesses similarly situated to the Debtor, in such amounts, with such insurers and under policies in such form, as shall be reasonably satisfactory to the Secured Party. The Secured Party shall be named as a loss payee on all such policies, and all such policies shall provide that they are not cancelable without forty-five (45) days' prior written notice to the Secured Party. At least thirty (30) days prior to the expiration of the term of any insurance policy, the Debtor shall furnish the Secured Party with written evidence of renewal or issuance of a satisfactory replacement policy. The Debtor shall, if requested by the Secured Party, obtain and deliver to the Secured Party, from time to time, satisfactory original or duplicate policies or certificates of insurance, including any endorsements, to evidence the Debtor's satisfaction of the insurance requirements hereunder. In the event of loss or damage with respect to any or all of the tangible Collateral, the Secured Party shall have the right to collect any and all insurance upon the tangible Collateral and to apply the same at its option to any of the Secured Obligations, whether or not matured, or to the restoration or repair of any or all of the tangible Collateral.

(l) Notices, Reports and Information. (i) Promptly notify the Secured Party of any material claim made or asserted against the Collateral by any Person and of any change in the composition of the Collateral or other event which could materially adversely affect the value of the Collateral or the security interest of the Secured Party therein; (ii) upon the request of the Secured Party promptly provide to the Secured Party such statements, listings and schedules further identifying and describing the Collateral and such other reports and other information in connection with the Collateral as the Secured Party may reasonably request, all in reasonable detail; and (iii) upon request of the Secured Party make such demands and requests for information and reports as the Debtor is entitled to make in respect of the Collateral.

(m) Copyrights.

(i) Employ for each material work subject to any Copyright such notice of copyright as may be required by law to secure copyright protection or give notice of the Copyright.

(ii) (A) Not do any act or knowingly omit to do any act whereby any Copyright may become invalidated and not do any act, or knowingly omit to do any act, whereby any material Copyright may become injected into the public domain; (B) promptly notify the Secured Party immediately if it knows, or has reason to know, that any Copyright could reasonably be expected to become injected into the public domain or of any adverse determination or development (including the institution of, or any such determination or development in, any proceeding in any court or tribunal in the United States or any other country) regarding the Debtor's ownership of any such Copyright or its validity; (C) take all commercially reasonable steps as it shall deem appropriate under the circumstances, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of each Copyright

owned by the Debtor, which the Debtor reasonably determines are necessary or desirable for the conduct of its business, including filing of applications for renewal where necessary; and (D) promptly notify the Debtor of any material infringement of any Copyright of the Debtor of which it becomes aware (with respect to Copyrights that the Debtor reasonably determines is necessary or desirable for the conduct of its business) and take such actions as it shall reasonably deem appropriate under the circumstances to protect such Copyright, including, where appropriate, the bringing of suit for infringement, seeking injunctive relief and seeking to recover any and all damages for such infringement.

(iii) Except for licenses to third parties in the ordinary course of business, not make any assignment or agreement in conflict with the security interest of the Secured Party in Collateral consisting of Copyrights.

(n) Patents and Trademarks.

(i) (A) Continue to use each Trademark, which the Debtor reasonably determines is necessary or desirable for the conduct of its business, in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (B) maintain as in the past the quality of products and services offered under such Trademark, (C) employ such Trademark with the appropriate notice of registration, (D) not adopt or use any trademark unless the Secured Party shall obtain a perfected security interest in such mark pursuant to this Agreement, and (E) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any such Trademark may become invalidated, abandoned, expired or cancelled.

(ii) Not do any act, or omit to do any act, whereby any Patent, which the Debtor reasonably determines is necessary or desirable for the conduct of its business, may become invalidated, abandoned, expired, unenforceable or dedicated to the public or disclaimed in part or whole.

(iii) Promptly notify the Secured Party if it knows, or has reason to know, that any application or registration relating to any Patent or Trademark may become invalid, abandoned, expired, unenforceable, cancelled or dedicated to the public or disclaimed in part or whole, or of any adverse determination or development (including, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office or any court or tribunal in any country) regarding the Debtor's ownership of any such Patent or Trademark or its right to register the same or to keep, maintain and use the same.

(iv) Take all reasonable and necessary steps, including, in any proceeding before the United States Patent and Trademark Office, or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application, to obtain the relevant registration and to maintain each registration of the Patents and Trademarks, which the Debtor reasonably determines is necessary or desirable for the conduct of its business, including filing of applications for renewal, affidavits of use and affidavits of incontestability.

(v) Promptly after learning thereof, notify the Secured Party that any Patent or Trademark included in the Collateral is infringed, misappropriated or diluted by a third party and, if such Patent or Trademark is necessary or desirable for the conduct of the Debtor's business, then promptly sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution, or take such other actions as it shall reasonably deem appropriate under the circumstances to protect such Patent or Trademark.

(vi) Except for licenses to third parties in the ordinary course of business, not make any assignment or agreement in conflict with the security interest of the Secured Party in Collateral consisting of Patents or Trademarks.

(o) **New Patents, Copyrights and Trademarks.** Whenever the Debtor, either by itself or through an agent, employee, licensee or designee, shall file an application for or seek the registration of (i) any Patent or Trademark with the United States Patent and Trademark Office or any similar office or agency in any other country or any political subdivision thereof or (ii) any Copyright with the United States Copyright Office or any similar office or agency in any country or any political subdivision thereof, the Debtor shall report such filing to the Secured Party within five (5) Business Days after the last day of the fiscal quarter in which such filing occurs. Any such applications and issued registrations or letters patent shall be subject to the terms and conditions of this Agreement, and upon request of the Secured Party, the Debtor shall execute and deliver any and all agreements, instruments, documents and papers as the Secured Party may request to evidence the Secured Party's security interest in any Patent, Trademark or Copyright and the goodwill and General Intangibles of the Debtor relating thereto or represented thereby.

6. Other Actions. In order to further ensure the attachment, perfection and priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in the Collateral, the Debtor agrees, in each case at its own expense, to take the following actions with respect to the following Collateral:

(a) **Deposit Accounts.** Upon the request of the Secured Party and after the occurrence of an Event of Default, for each Deposit Account that the Debtor at any time opens or maintains, cause the depository bank to agree to comply at any time with instructions from the Secured Party to such depository bank directing the disposition of funds from time to time credited to such Deposit Account, without further consent of the Debtor, pursuant to an agreement in a form satisfactory to the Secured Party; provided, however, that the provisions of this subsection (a) shall not apply to Deposit Accounts for which the Secured Party is the depository bank.

(b) **Documents, Instruments and Chattel Paper.** Upon the request of the Secured Party, deliver any Documents, Instruments and Chattel Paper held by the Debtor, appropriately endorsed or accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party reasonably may from time to time specify.

(c) **Securities Accounts.** Upon the request of the Secured Party, for each Securities Account in which the Debtor or its nominee holds any Securities, whether certificated or uncertificated, or other Investment Property, cause the Securities Intermediary in respect of each such Securities Account to agree to comply with entitlement orders or other instructions from the Secured Party to such Securities Intermediary as to such Securities or other Investment Property without further consent of the Debtor or such nominee; provided, however, that the provisions of this subsection (c) shall not apply to any Financial Assets credited to a Securities Account for which the Secured Party is the Securities Intermediary.

(d) **Letter of Credit Rights.** Upon the request of the Secured Party, for any letter of credit issued in favor of the Debtor in support of any Rights to Payment in excess of Fifty Thousand Dollars (\$50,000), at the option of the Secured Party and pursuant to an agreement in form and substance satisfactory to it, either (i) arrange for the issuer of such letter of credit to consent to an assignment to the Secured Party of the proceeds of any drawing under the letter of credit or (ii) arrange for the Secured Party to become the transferee beneficiary of the letter of credit, with the Secured Party agreeing, in each case, that the proceeds of any drawing under the letter of credit are to be paid to the Debtor unless an Event of Default has occurred and is continuing.

7. **Further Assurances.** The Debtor agrees, at its own expense, to execute, acknowledge, deliver and cause to be duly filed all such further instruments and documents (including, without limitation, vehicle title applications and registrations) and take all such actions as the Secured Party may from time to time request to better assure, preserve, protect and perfect the security interest of the Secured Party in the Collateral and the rights and remedies of the Secured Party hereunder, including, without limitation, the payment of any fees and taxes required in connection with the execution and delivery of this Agreement, the granting of such security interest and the filing of any financing statements (including, without limitation, fixture filings) or other documents in connection herewith or therewith. Without limiting the generality of the foregoing, the Debtor hereby authorizes the Secured Party, with prompt notice thereof to the Debtor, to supplement this Agreement by supplementing Schedules 2, 3 and 4 hereto or adding additional schedules hereto to specifically identify any asset or item that may constitute Copyrights, Licenses, Patents or Trademarks; provided, however, that the Debtor shall have the right, exercisable within ten (10) days after it has been notified by the Secured Party of the specific identification of such Collateral, to advise the Secured Party in writing of any inaccuracy of the representations and warranties made by the Debtor hereunder with respect to such Collateral.

8. **Collection of Accounts, Etc.** Until the Secured Party exercises its rights hereunder to collect Accounts, and any and all rights and claims to the payment or receipt of money or other forms of consideration of any kind in, to and under all Chattel Paper, Documents, General Intangibles, Payment Intangibles, Instruments and Proceeds (collectively, "Rights to Payment"), the Debtor shall endeavor in the first instance diligently to collect all amounts due or to become due on or with respect to the Rights to Payment. At the request of the Secured Party, upon the occurrence and during the continuation of any Event of Default, all remittances received by the Debtor shall be held in trust for the Secured Party and, in accordance with the Secured Party's instructions, remitted to the Secured Party or deposited to an account with the

Secured Party in the form received (appropriately endorsed or accompanied by necessary instruments of transfer).

9. Inspection and Verification. The Secured Party shall have the right, upon twenty-four hours prior written notice, at any reasonable time, and from time to time, to inspect the Collateral, all records related thereto (and make copies of and abstracts from such records) and the premises upon which any of the Collateral is located, to discuss the affairs, finances and accounts of the Debtor with any of its officers or directors and, upon the occurrence of an Event of Default, with the Debtor's independent accountants and to verify under reasonable procedures the validity, amount, quality, quantity, value, condition and status of, or any other matter relating to, the Collateral, including, in the case of Rights to Payment and other Collateral in the possession of any third person, by contacting the Debtor's account debtors or payment obligors in respect of the Collateral or the third person possessing such Collateral for the purpose of making such a verification.

10. Appointment of Secured Party. Until payment in full of the Loan and performance of all other obligations of Debtor under the Loan Documents, and so long as any Secured Obligations of the Debtor to the Secured Party shall be outstanding, the Debtor does hereby designate and appoint the Secured Party its true and lawful attorney coupled with an interest and with power irrevocable, after an Event of Default has occurred and is continuing, for the purpose of carrying out the provisions of this Agreement and taking any action and executing any instrument that the Secured Party may deem necessary or advisable to accomplish the purposes hereof, including, without limitation, all of the following: (i) take possession of and endorse any notes, acceptances, checks, drafts, money orders or other forms of payment or security and collect any Proceeds of any Collateral; (ii) sign and endorse any invoice or bill of lading relating to any of the Collateral, warehouse or storage receipts, drafts against customers or other obligors, assignments, notices of assignment, verifications and notices to customers or other obligors; (iii) receive, open and dispose of all mail addressed to the Debtor; (iv) send requests for verification of Rights to Payment to any of the Debtor's account debtors or payment obligors in respect of the Collateral; (v) notify, or to require the Debtor to notify, its account debtors or payment obligors to make all payments directly to the Secured Party; (vi) assert, adjust, sue for, compromise or release any claims under any policies of insurance; (vii) ask, demand, collect, receive and give acquittances and receipts for any and all Rights to Payment, enforce payment or any other rights in respect of the Rights to Payment and other Collateral, grant consents, agree to any amendments, modifications or waivers of the agreements and documents governing the Rights to Payment and other Collateral, and otherwise file any claims, take any action or institute, defend, settle or adjust any actions, suits or proceedings with respect to the Collateral, as the Secured Party may deem necessary or desirable to maintain, preserve and protect the Collateral, to collect the Collateral or to enforce the rights of the Secured Party with respect to the Collateral; (viii) execute any and all applications, documents, papers and instruments necessary for the Secured Party to use the Intellectual Property and grant or issue any exclusive or non-exclusive license or sublicense with respect to any Intellectual Property; (ix) execute any and all endorsements, assignments or other documents and instruments necessary to sell, lease, assign, convey or otherwise transfer title in or dispose of the Collateral; and (x) execute any and all such other documents and instruments, and do any and all acts and things for and on behalf of the Debtor, which the Secured Party may deem necessary or advisable to maintain, protect, realize upon and preserve the Collateral and the Secured Party's

security interest therein and to accomplish the purposes of this Agreement. The acceptance of this appointment by the Secured Party shall not obligate it to perform any duty, covenant or obligation required to be performed by the Debtor under or by virtue of the Collateral or to take any action in connection therewith. All expenses incurred by the Secured Party in connection with exercising any of its rights under this Section shall bear interest at a per annum rate equal to five percent (5%) above the Prime Rate (changing as such Prime Rate changes) (the "Default Rate") from the date incurred until repaid by the Debtor. All amounts described in this Section shall be repayable by the Debtor on demand and the Debtor's obligation to make such repayment shall constitute an additional Secured Obligation.

11. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default":

(a) an Event of Default as defined in the Credit Agreement shall have occurred and be continuing;

(b) any representation or warranty made or deemed made by the Debtor under or in connection with this Agreement shall prove to have been incorrect in any material respect when made or deemed made; or

(c) the Debtor shall have failed to comply with Section 5(k) of this Agreement; or

(d) the Debtor shall fail to perform or observe any other covenant, obligation or term of this Agreement and such failure shall continue unremedied for a period of thirty (30) days after the earlier of (i) the date upon which written notice thereof shall have been given to the Debtor by the Secured Party or (ii) the date upon which the Debtor knew or reasonably should have known of such failure.

12. Remedies.

(a) **General Remedies.** If an Event of Default shall occur, the Secured Party shall have, in addition to all other rights and remedies granted to it in this Agreement, the Credit Agreement or any other Loan Document, all rights and remedies of a secured party under the UCC and other applicable laws. Without limiting the generality of the foregoing, the Debtor agrees that the Secured Party may:

(i) require the Debtor to assemble all or any part of the Collateral and make it available to the Secured Party at any place and time designated by the Secured Party;

(ii) peaceably and without notice enter any premises of the Debtor, take possession of any of the Collateral, remove or dispose of all or part of the Collateral on any premises or elsewhere, and otherwise collect, receive, appropriate and realize upon all or any part of the Collateral, and demand, give receipt for, settle, renew, extend, exchange, compromise, adjust, or sue for all or any part of the Collateral, as the Secured Party may determine;

(iii) cause the security interest of the Secured Party with respect to any of the Collateral consisting of Intellectual Property to become an assignment, transfer and conveyance of any or all such Collateral by the Debtor to the Secured Party, or to license or sublicense, whether general, special or otherwise, and whether on an exclusive or non-exclusive basis, any such Collateral throughout the world on such terms and conditions and in such manner as the Secured Party shall determine (other than in violation of any then-existing licensing arrangements to the extent that waivers cannot be obtained);

(iv) secure the appointment of a receiver of the Collateral or any part thereof to the extent and in the manner provided by applicable laws;

(v) exercise dominion and control over, and refuse to permit further withdrawals from any Deposit Account, Securities Account or Commodities Account constituting part of the Collateral; and

(vi) sell, resell, lease, use, assign, transfer or otherwise dispose of any or all of the Collateral in its then condition or following any commercially reasonable preparation or processing (utilizing in connection therewith any of the Debtor's assets, without charge or liability to the Secured Party therefor) at public or private sale or at any broker's board or on any securities exchange, by one or more contracts, in one or more parcels, at the same or different times, for cash or credit, or for future delivery without assumption of any credit risk, all as the Secured Party deems advisable.

(b) Sale of Collateral. Each purchaser at any sale pursuant to this Agreement shall hold the property sold absolutely, free from any claim or right on the part of the Debtor, and the Debtor hereby waives, to the fullest extent permitted by applicable laws, all rights of redemption, stay and appraisal which the Debtor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. Neither the Secured Party's compliance with the UCC or any other applicable law, in the conduct of any sale made pursuant to this Agreement, nor its disclaimer of any warranties relating to the Collateral, shall be considered to adversely affect the commercial reasonableness of such sale. The Secured Party shall give the Debtor ten (10) days' written notice (which the Debtor agrees is reasonable notice within the meaning of Section 9A-612 of the UCC) of the Secured Party's intention to make any sale of Collateral. The Secured Party shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Secured Party 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 sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. To the fullest extent permitted by applicable laws, the Secured Party may bid for or purchase the Collateral or any part thereof offered for sale and may make payment on account thereof by using any claim then due and payable to the Secured Party from the Debtor as a credit against the purchase price and the Secured Party may, upon compliance with the terms of sale, hold, retain and dispose of such property without further accountability to the Debtor therefor. The Debtor agrees to pay any deficiency remaining after collection or realization by the Secured Party on the Collateral.

(c) **License.** For the purpose of enabling the Secured Party to exercise its rights and remedies under this Section or otherwise in connection with this Agreement, the Debtor hereby grants to the Secured Party an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to the Debtor) to use, license or sub-license any of the Collateral now owned or hereafter acquired by the Debtor, and wherever the same may be located.

(d) **Securities Remedies.** If an Event of Default shall occur and be continuing and if the Secured Party shall elect to exercise its right to sell or otherwise dispose of all or any part of the Collateral consisting of Investment Property, including, without limitation, all Securities, whether certificated or uncertificated, Security Entitlements, Securities Accounts, Commodity Contracts and Commodity Accounts (collectively, the "Pledged Collateral"), the Debtor recognizes that the Secured Party may be unable or may deem it unadvisable to effect a public sale of all or a part of the Pledged Collateral and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. The Debtor acknowledges that any such private sales may be at prices and on terms less favorable to the Secured Party than those of public sales, and agrees that such private sales shall be deemed to have been made in a commercially reasonable manner and that the Secured Party shall have no obligation to delay sale of any Pledged Collateral to permit the issuer thereof to register such Pledged Collateral for public sale under The Securities Act of 1933 as amended from time to time. The Debtor will promptly deliver to the Secured Party all written notices, and will promptly give the Secured Party written notice of any other notices, received by it with respect to the Pledged Collateral. Following the occurrence of an Event of Default and upon request of the Secured Party, the Debtor will deliver to the Secured Party irrevocable proxies with respect to the Pledged Collateral in form satisfactory to the Secured Party. Until receipt thereof, this Agreement shall constitute the Debtor's proxy to the Secured Party or its nominee to vote all shares or other ownership interests of the Pledged Collateral then registered in the Debtor's name after the occurrence of an Event of Default.

(e) **Retention of Collateral.** The Secured Party may, after providing the notices required by Section 9A-620(a) of the UCC or otherwise complying with any requirement of applicable law, accept or retain the Collateral or any part thereof in satisfaction of the Secured Obligations. Unless and until the Secured Party shall have provided such notices, however, the Secured Party shall not be deemed to have retained any Collateral in satisfaction of any Secured Obligations for any reason.

(f) **Duty of Care.** Except for the exercise of reasonable care in the custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Secured Party shall have no duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Secured Party accords its own property. Neither the Secured Party nor any of its Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact shall be liable for failure to demand, collect or realize upon all or any part of the Collateral or for any delay in

doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Debtor or otherwise.

(g) Application of Proceeds. The cash proceeds actually received from the sale or other disposition or collection of Collateral, and any other amounts received in respect of the Collateral the application of which is not otherwise provided for herein, shall be applied: first, to payment of any costs, expenses and fees, including, without limitation, attorneys' fees (including allocated costs of in-house counsel), incurred by the Secured Party in connection with sale or other disposition or collection of the Collateral; second, to payment of any all costs, expenses and fees, including, without limitation, attorneys' fees (including allocated costs of in-house counsel), payable to the Secured Party under this Agreement; third, to payment in full of the Secured Obligations (to the extent not included in clause first or second above) in accordance with the Credit Agreement; and fourth, the balance, if any, after all of the Secured Obligations have been indefeasibly paid in full, to the Debtor or as otherwise required by law. The Secured Party shall have absolute discretion as to the time of application of any such proceeds, moneys or balances in accordance with this Agreement. The Debtor shall remain liable to the Secured Party for any deficiency which exists after any sale or other disposition or collection of the Collateral.

13. Certain Waivers. The Debtor hereby consents to all terms and conditions of agreements heretofore or hereafter made between the Secured Party and Norseman (including without limitation the Security Agreement, dated as of June 16, 2006, by and between Norseman and Secured Party) and further consents that the Secured Party may without further consent or disclosure and without affecting or releasing the obligations of the Secured Party hereunder: (a) surrender, exchange, release, assign, or sell any collateral or waive, release, assign, sell, or subordinate any security interest, in whole or in part; (b) waive or delay the exercise of any rights or remedies of the Secured Party against Norseman; (c) waive or delay the exercise of any rights or remedies of the Secured Party against any guarantor or surety; (d) waive or delay the exercise of any rights or remedies of the Secured Party in respect of any collateral or security interest now or hereafter held; (e) release any guarantor or surety; (f) renew, extend, waive or modify the terms of any Secured Obligation or the obligations of any guarantor or surety, or any instrument or agreement evidencing the same; (g) renew, extend, waive or modify the terms of any deed of trust, mortgage, pledge, assignment, security agreement, hypothecation agreement or other security document; (h) apply payments received from Norseman, any guarantor or surety or from any collateral, to any indebtedness, liability, or obligations of Norseman or such guarantor or surety whether or not a Secured Obligation hereunder; and (i) realize on any security interest, judicially or nonjudicially, with or without preservation of a deficiency judgment. Without limiting the terms of the preceding sentence in this Section, the Debtor waives, to the fullest extent permitted by applicable laws, (i) any right of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of marshalling of the Collateral or other collateral or security for the Secured Obligations; (ii) any right to require the Secured Party (A) to proceed against any person, (B) to exhaust any other collateral or security for any of the Secured Obligations, (C) to pursue any remedy in the Secured Party's power, or (D) to make or give any presentments, demands for performance, notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any of the Collateral; and (iii) all claims, damages, and demands against the Secured Party arising out of the repossession, retention, sale or application of the proceeds of any sale of the Collateral.

14. Reinstatement of Obligations. In the event that all or any portion of the Secured Obligations are paid by the Debtor or Norseman, the obligation of the Debtor hereunder shall continue and remain in full force and effect or be reinstated, as the case may be, in the event that all or any part of such payment(s) are rescinded or recovered directly or indirectly from the Secured Party as a preference, fraudulent transfer or otherwise, and any such payments which are so rescinded or recovered shall constitute Secured Obligations for all purposes under this Agreement.

15. Expenses Incurred. The Secured Party is not required to, but may, at its option, pay any Tax, insurance premium, filing or recording fees, or other charges payable by the Debtor hereunder and any such amount shall bear interest at the Default Rate from the date of payment until repaid. The Debtor agrees to pay or reimburse the Secured Party on demand for all expenses including, without limitation, attorneys' fees (including allocated charges of internal legal counsel), incurred by the Secured Party in connection with (i) the custody or preservation of, or the sale of, collection from or other realization upon any of the Collateral (including, without limitation, all expenses of sales and collections of the Collateral), (ii) the exercise, enforcement or protection of any of the rights of the Secured Party under this Agreement (including, without limitation, all such costs and expenses incurred during any "workout" or restructuring in respect of the credit extended under the Credit Agreement and during any legal proceeding, including, without limitation, any proceeding under any applicable bankruptcy, insolvency or other similar debtor relief laws) or (iii) the failure of the Debtor to perform or observe any its obligations under this Agreement, and any such amount shall bear interest at the Default Rate from the date such expenditures are made by the Secured Party until repaid; provided that the Secured Party acknowledges that so long as no Event of Default has occurred and except with respect to amendments or modifications of the Agreement, the ongoing costs of administering and monitoring the Collateral shall be at the expense of the Secured Party. All amounts described in this Section shall be repayable by the Debtor on demand and the Debtor's obligation to make such repayment shall constitute an additional Secured Obligation.

16. Notices. All communications and notices hereunder shall (except as otherwise expressly permitted herein) be in writing and given as provided in Section 8.6 of the Credit Agreement.

17. No Waiver; Cumulative Remedies. No failure by the Secured Party to exercise, and no delay in exercising, any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise 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 exercise of any right, power, or remedy shall in no event constitute a cure or waiver of any Event of Default or prejudice the rights of the Secured Party in the exercise of any right hereunder. The rights and remedies provided herein are cumulative and not exclusive of any right or remedy provided by law.

18. Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective Successors and assigns, except that the Debtor may not assign or otherwise transfer all or any part of its rights or obligations hereunder without the prior written consent of the Secured Party, and any such assignment or transfer purported to be made without such consent shall be ineffective. The Secured Party may at any time assign or otherwise

transfer part of its interest under this Agreement (including assignments for security and sales of participations), and to the extent of any such assignment, the assignee shall have the same rights and benefits against the Debtor and otherwise under this Agreement (including, without limitation, the right of setoff) as if such assignee were the Secured Party.

19. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington (excluding its conflict of laws rules), except to the extent the perfection or priority of the security interest granted by the Debtor in the Collateral pursuant hereto, or the remedies provided for herein are governed by the laws of a jurisdiction other than the State of Washington.

20. Entire Agreement; Amendment, Etc. This Agreement and the other Loan Documents comprise the complete, final and integrated agreement of the parties hereto on the subject matter hereof and thereof and supersede all prior agreements, written or oral, on such subject matter. This Agreement may not be amended or modified except by written agreement of the Secured Party and the Debtor, and no provision of this Agreement may be waived except in writing and then only in the specific instance and for the specific purpose for which given.

21. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall as to such jurisdiction be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by applicable law, the parties waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.


22. No Inconsistent Requirements. The Debtor acknowledges that this Agreement and the other Loan Documents may contain covenants and other terms and provisions variously stated regarding the same or similar matters, and agrees that all such covenants, terms and provisions are cumulative and all shall be performed and satisfied in accordance with their respective terms.

23. Collateral Release. Upon payment in full of all Secured Obligations, the security interests granted pursuant to this Agreement shall terminate and all rights in the Collateral shall revert to the Debtor. Upon any such termination, the Secured Party will, at the Debtor's expense, promptly execute and deliver all release documents as the Debtor shall reasonably request to evidence such termination and reversion.

IN WITNESS WHEREOF, the Debtor has caused this Agreement to be executed by its officers or agents thereunto duly authorized as of the date first above written.

DEBTOR:

SAFE BOATS INTERNATIONAL L.L.C.,
a Washington limited liability company



William M. Hansen
Chief Executive Officer

SCHEDULE 1

LOCATION OF COLLATERAL

8800 SW Barney White Rd
Port Orchard, WA 98367

SCHEDULE 2

COPYRIGHTS AND COPYRIGHT LICENSES

Part (a). Copyrights.

None.

Part (b). Copyright Licenses.

None.

SCHEDULE 3

PATENTS AND PATENT LICENSES

Part (a). Patents.

File No.	Country	Status	Pat. No.	Issue Date	Appl. No.	Filing Date	Type
SABI-1-6167	United States	Re-Exam	5,282,436	1-Feb-94	07/821,979	15-Jan-92	Foam Stabilized Watercraft
SABI-1-6821	Canada	Pending			2,087,240	13-Jan-93	Foam Stabilized Watercraft
SABI-1-7804	United States	Re-Exam	5,647,297	15-Jul-97	08/283,582	1-Aug-94	Foam Stabilized Watercraft
SABI-1-10603	United States	Re-Exam	5,870,965	16-Feb-99	08/824,414	26-Mar-97	Foam Stabilized Watercraft
SABI-1-19820	United States	Re-Exam Pending			90/006,382	16-Sep-02	Foam Stabilized Watercraft
SABI-1-19821	United States	Re-Exam Issued			90/006,405	3-Oct-02	Foam Stabilized Watercraft
SABI-1-20045	United States	Re-Exam Issued			90/006,412	15-Oct-02	Foam Stabilized Watercraft
SABI-1-21209	United States	Pending			10/462,088	13-Jun-03	Method of Manufacturing Foam Core Boat Collars
SABI-1-21448	Australia	Pending			2002237853	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-21449	Canada	Pending			2,434,398	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-21450	European Union	Granted	1 349 772	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-21451	New Zealand	Issued	527361	10-Feb-05	527361	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-21715	United States	Issued	6,810,827	2-Nov-04	10/696,420	29-Oct-03	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-22727	United States	Pending			10/867,379	14-June-04	Method of Manufacturing Foam Core Boat Collars
SABI-1-23779	Belgium	Issued	1 349 772 BE	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23780	Denmark	Issued	1 349 772 DK	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23781	Finland	Issued	1 349 772 FI	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23782	France	Issued	1 349 772 FR	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23783	Germany	Issued	1 349 772 DE	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23784	Greece	Issued	1 349 772 GR	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23785	Italy	Issued	1 349 772 IT	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23786	Netherlands	Issued	1 349 772 NL	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23787	Portugal	Issued	1 349 772 PT	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23788	Spain	Issued	1 349 772 ES	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23789	Sweden	Issued	1 349 772 SE	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-23790	United Kingdom	Issued	1 349 772 GB	30-Mar-05	2704153.2	14-Jan-02	Rigid Hull Inflatable Boat with Foam Insert
SABI-1-26745	Australia	Pending			2004249718	14-Jun-04	Method of Manufacturing Foam Core Boat Collars
SABI-1-26746	Canada	Pending			2528066	14-Jun-04	Method of Manufacturing Foam Core Boat Collars

File No.	Country	Status	Pat. No.	Issue Date	Appl. No.	Filing Date	Type
SABI-1-26747	European Union	Pending			04755307.8	14-Jun-04	Method of Manufacturing Foam Core Boat Collars
SABI-1-26748	New Zealand	Pending			544358	14-Jun-04	Method of Manufacturing Foam Core Boat Collars

Part (b). Patent Licenses.

Patent and Trademark License Agreement between Norseman Marine Products, Inc. and Safe Boats International L.L.C., dated September 1, 2000, as amended by Addendum A, dated April 1, 2005, Addendum B, dated October 6, 2005.

SCHEDULE 4

TRADEMARKS AND TRADEMARK LICENSES

Part (a). Trademarks.

None.

Part (b). Trademark Licenses.

Patent and Trademark License Agreement between Norseman Marine Products, Inc. and Safe Boats International L.L.C., dated September 1, 2000, as amended by Addendum A, dated April 1, 2005, Addendum B, dated October 6, 2005.