

PATENT ASSIGNMENT

Electronic Version v1.1

Stylesheet Version v1.1

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|--|---|
| SUBMISSION TYPE:   | NEW ASSIGNMENT                                    |
| NATURE OF CONVEYANCE:  | SECURITY AGREEMENT                                |
| CONVEYING PARTY DATA   |   |
| Name   | Execution Date                                    |
| Diffraction, Ltd.  | 07/11/2006  |
| RECEIVING PARTY DATA   |   |
| Name:  | USB Capital Funding Corp.                         |
| Street Address:  | c/o U.S. Bank National Association                |
| Internal Address:  | One US Bank Plaza, 7th Street & Washington Avenue |
| City:  | St. Louis   |
| State/Country:   | MISSOURI  |
| Postal Code:   | 63101   |
| PROPERTY NUMBERS Total: 3  |   |
| Property Type  | Number  |
| Application Number:  | 10483753  |
| Application Number:  | 10483754  |
| Application Number:  | 60506076  |
| CORRESPONDENCE DATA  |   |
| Fax Number:  | (314)552-7000                                     |
| <i>Correspondence will be sent via US Mail when the fax attempt is unsuccessful.</i> |   |
| Phone:   | 314-552-6000                                      |
| Email:   | jmarkus@thompsoncoburn.com                        |
| Correspondent Name:  | Clyde L. Smith                                    |
| Address Line 1:  | One US Bank Plaza                                 |
| Address Line 4:  | St. Louis, MISSOURI 63101                         |
| ATTORNEY DOCKET NUMBER:  | 299-62524   |
| NAME OF SUBMITTER:   | Clyde L. Smith                                    |
| Total Attachments: 5   |   |

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**THIS PATENT SECURITY AGREEMENT IS SUBJECT TO THE SUBORDINATION AGREEMENT DATED JULY 11, 2006, EXECUTED BY USB CAPITAL FUNDING CORP. IN FAVOR OF U.S. BANK NATIONAL ASSOCIATION, AS THE SAME MAY FROM TIME TO TIME BE AMENDED, MODIFIED, EXTENDED, RENEWED OR RESTATED.**

THIS PATENT SECURITY AGREEMENT (this "Agreement") is entered into as of July 11, 2006, by and among by and between **DIFFRACTION, LTD.**, an Ohio corporation ("Debtor"), in favor of **USB CAPITAL FUNDING CORP.**, a Nevada corporation ( "Secured Party"), pursuant to the Subordinated Term Loan Promissory Note of even date herewith, executed by **THE O'GARA GROUP, INC.**, an Ohio corporation ("Borrower"), and payable to the order of Secured Party, in the original principal amount of \$2,000,000, as amended from time to time (the "Note").

W i t n e s s e t h:

WHEREAS, pursuant to the Note, Secured Party has agreed to make a senior subordinated term loan to Borrower subject to certain terms and subject to the conditions set forth therein; and

WHEREAS, Debtor is a party to a Guaranty of even date herewith in favor of Secured Party (the "Guaranty") and to secure Debtor's obligations under such Guaranty, a Security Agreement of even date herewith in favor of Secured Party (the "Security Agreement"), and Debtor is required to execute and deliver this Agreement pursuant to the Security Agreement and the Note.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein contained and to induce Secured Party to make the loans to Borrower, Debtor hereby agrees with Secured Party as follows:

**SECTION 1. Defined Terms.** Unless otherwise defined herein, terms defined in the Note or in the Security Agreement and used herein have the meaning given to them in the Note or the Security Agreement. As used herein, the following terms shall have the following meanings:

"Patent" means (a) all United States patents now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office, or in any similar office or agency of the United States or any State thereof, and all common-law rights related thereto, and (b) the right to obtain all renewals thereof.

"Patent License" means any agreement, whether written or oral, providing for the grant by or to Debtor of any right to any Patent.

**SECTION 2. Grant of Security Interest in Patent Collateral.** Debtor, as collateral security for the full, prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Obligations of Debtor, hereby sells, conveys, pledges, hypothecates and grants to Secured Party, its successors and assigns, a continuing and unconditional first priority security interest upon, in and to all of Debtor's right, title and interest in, to and under the following Collateral of Debtor wherever located, and now owned or hereafter acquired (the "Patent Collateral"):

(a) all of its Patents and Patent Licenses, to which it now or hereafter is a party, including, without limitation, those referred to on Schedule I hereto;

(b) all reissues, continuations, continuations-in-part, divisionals, renewals or extensions of the foregoing; and

(c) any consideration received when all or any part of the Patent Collateral is sold, transferred, exchanged, leased, collected or otherwise disposed of, or any value received as a consequence of possession thereof, including but not limited to, all products, proceeds (including all "Proceeds" as defined in Section 9

102(a)(64) of the Code), cash, negotiable instruments and other instruments for the payment of money, chattel paper, security agreements or other documents, or proceeds of other proceeds, now or hereafter due and/or payable under any Patent and with respect thereto, including, without limitation, all rights to sue and recover at law or in equity for any past, present and future infringement, violation or any other impairment thereof.

Upon the request of Secured Party, at no cost to Secured Party, Debtor agrees to execute an amendment to this Agreement or to execute an Amended and Restated Patent Security Agreement, containing such terms as Secured Party may reasonably required, in order to perfect such additional Patents and/or Patent Licenses that subsequent hereto Debtor may acquire an interest in.

**SECTION 3. Debtor Remains Liable.** It is expressly agreed by Debtor that, anything herein to the contrary notwithstanding, Debtor shall assume full and complete responsibility for the prosecution, defense, enforcement or any other necessary or desirable actions in connection with their Patents or Patent Licenses, and shall hold Secured Party harmless from any and all costs, damages, liabilities and expenses that may be incurred in connection with Secured Party's interest in such Patents or Patent Licenses or any other action or failure to act in connection with this Agreement, except to the extent that the same are caused by the gross negligence or willful misconduct of Secured Party. Debtor shall remain liable for any and all claims by any Person that the conduct of Debtor's business or products or processes of Debtor infringe any rights of such person.

**SECTION 4. Security Agreement.** The security interest granted pursuant to this Agreement is granted in conjunction with the security interest granted to Secured Party pursuant to the Security Agreement and Debtor hereby acknowledges and affirms that the rights and remedies of Secured Party with respect to the security interest in the Patent Collateral made and granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

**SECTION 5. Termination of Security Interest in Patent Collateral.** Upon payment and satisfaction in full of the Obligations and termination of all commitments relating thereto, Secured Party shall reassign, redeliver and release (or cause to be so reassigned, redelivered and released), without recourse upon or warranty by Secured Party, and at the sole expense of Debtor, to Debtor, against receipt therefor, such of the Patent Collateral (if any) as shall not have been sold or otherwise applied by Secured Party pursuant to the terms of the Security Agreement and not theretofore reassigned, redelivered and released to Debtor, together with appropriate instruments of reassignment and/or release.

**SECTION 6. Counterparts.** This s Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

**SECTION 7. APPLICABLE LAW.** THIS PATENT SECURITY AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF OHIO, WITHOUT GIVING EFFECT TO OHIO CHOICE OF LAW DOCTRINE.

IN WITNESS WHEREOF, Debtor and Secured Party have executed this Agreement as of the day and year first above written

(SIGNATURES ON FOLLOWING PAGE)

**SIGNATURE PAGE-  
PATENT SECURITY AGREEMENT**

Debtor:

**DIFFRACTION, LTD.**

By: Wilfred T. O'Gara

Printed Name: Wilfred T. O'Gara

Title: President

STATE OF OHIO                     )  
  ) ss.  
COUNTY OF HAMILTON         )

On July 11 2006, before me personally appeared WILFRED T. O'GARA, proved to me on the basis of satisfactory evidence to be the person who executed the foregoing instrument on behalf of **DIFFRACTION, LTD.**, an Ohio corporation, who being by me duly sworn did depose and say that he/she is an authorized officer of said corporation that the said instrument was signed on behalf of said corporation as authorized by its Board of Directors and that he/she acknowledged said instrument to be the free act and deed of said corporation.

Marla J. Fechenda  
Notary Public

**MARLA J. FECHENDA**  
Notary Public, State of Ohio  
My Commission Expires Feb. 28, 2011

Accepted by and agreed to as of July 11, 2006:

Secured Party:

**USB CAPITAL FUNDING CORP.**

By: \_\_\_\_\_  
Brian Harrer, Vice President

**SIGNATURE PAGE-  
PATENT SECURITY AGREEMENT**

Debtor:

**DIFFRACTION, LTD.**

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

Printed Name: \_\_\_\_\_

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

STATE OF OHIO                    )  
  ) ss.  
COUNTY OF HAMILTON        )

On July \_\_ 2006, before me personally appeared \_\_\_\_\_, proved to me on the basis of satisfactory evidence to be the person who executed the foregoing instrument on behalf of **DIFFRACTION, LTD.**, an Ohio corporation, who being by me duly sworn did depose and say that he/she is an authorized officer of said corporation that the said instrument was signed on behalf of said corporation as authorized by its Board of Directors and that he/she acknowledged said instrument to be the free act and deed of said corporation.

\_\_\_\_\_  
Notary Public

Accepted by and agreed to as of July \_\_, 2006:

Secured Party:

**USB CAPITAL FUNDING CORP.**

By: Brian Harrer  
Brian Harrer, Vice President

**SCHEDULE 1**

**To**

**Patent Security Agreement**

*Patent Registrations*

**A. PATENTS**

| <b>United States Patent Registrations</b><br><b><u>As of July 11 , 2006</u></b> |                      |              |                   |
|---|----------------------|--------------|-------------------|
| <u>PATENT TITLE</u>   | <u>PATENT NUMBER</u> | <u>OWNER</u> | <u>ISSUE DATE</u> |
| None  |                      |              |                   |

**B. PATENT APPLICATIONS**

| <b>United States Patent Applications</b><br><b><u>As of July 11, 2006</u></b> |                      |                   |                    |
|---|----------------------|-------------------|--------------------|
| <u>PATENT TITLE</u>   | <u>SERIAL NUMBER</u> | <u>OWNER</u>      | <u>FILING DATE</u> |
| Target Assignment<br>Projectile   | 10/483,753           | Diffraction, Ltd. | 09/27/2004         |
| Selective Emitting<br>Flare Nanosensors                                       | 10/483,754           | Diffraction, Ltd. | 09/27/2004         |
| Illuminating Filter and<br>Imaging System and<br>Method                       | 10/506,076           | Diffraction, Ltd. | 09/24/2003         |

**C. PATENT LICENSES**

None