

PATENT ASSIGNMENT

Electronic Version v1.1
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SUBMISSION TYPE:	NEW ASSIGNMENT
NATURE OF CONVEYANCE:	SECURITY AGREEMENT

CONVEYING PARTY DATA

Name	Execution Date
TRANSMODUS CORPORATION	06/26/2008

RECEIVING PARTY DATA

Name:	DAVID MALCOLM
Street Address:	3161 Michelson Drive
Internal Address:	Suite 1000
City:	Irvine
State/Country:	CALIFORNIA
Postal Code:	92612

Name:	DENNIS SCHMUCKER
Street Address:	3161 Michelson Drive
Internal Address:	Suite 1000
City:	Irvine
State/Country:	CALIFORNIA
Postal Code:	92612

PROPERTY NUMBERS Total: 1

Property Type	Number
Patent Number:	7185805

CORRESPONDENCE DATA

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CH \$40.00 7185805

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ATTORNEY DOCKET NUMBER:

TRANSMODUS

NAME OF SUBMITTER:

Angela Williams

Total Attachments: 19

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SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement"), dated as of June 26, 2008, is made between TRANSMODUS CORPORATION, a California corporation (the "Grantor"), and DAVID MALCOLM and DENNIS SCHMUCKER, individuals (together, the "Creditor").

In consideration of the covenants and agreements set forth herein, and for other good and valuable consideration, the value and receipt of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. DEFINITIONS; INTERPRETATION.

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

"Accounts" means any and all accounts of the Grantor, whether now existing or hereafter acquired or arising, and in any event includes all accounts receivable, contract rights, rights to payment and other obligations of any kind owed to the Grantor arising out of or in connection with the sale or lease of merchandise, goods or commodities or the rendering of services or arising from any other transaction, however evidenced, and whether or not earned by performance, all guaranties, indemnities and security with respect to the foregoing, and all letters of credit relating thereto, in each case whether now existing or hereafter acquired or arising.

"Books" means all books, records and other written, electronic or other documentation in whatever form maintained now or hereafter by or for the Grantor in connection with the ownership of its assets or the conduct of its business or evidencing or containing information relating to the Collateral, including: (i) ledgers; (ii) records indicating, summarizing, or evidencing the Grantor's assets (including Inventory and Rights to Payment), business operations or financial condition; (iii) computer programs and software; (iv) computer discs, tapes, files, manuals, spreadsheets; (v) computer printouts and output of whatever kind; (vi) any other computer prepared or electronically stored, collected or reported information and equipment of any kind; and (vii) any and all other rights now or hereafter arising out of any contract or agreement between the Grantor and any service bureau, computer or data processing company or other Person charged with preparing or maintaining any of the Grantor's books or records or with credit reporting, including with regard to the Grantor's Accounts.

"Bridge Loan Agreement" means that Agreement for a Secured Bridge Loan to and Warrant From Transmodus Corporation between the Grantor and the Creditor of even date with this Agreement.

"Chattel Paper" means all writings of whatever sort which evidence a monetary obligation and a security interest in or lease of specific goods, whether now existing or hereafter arising.

"Collateral" has the meaning specified in Section 2.

“Deposit Account” means any demand, time, savings, passbook or like account now or hereafter maintained by or for the benefit of the Grantor with a bank, savings and loan association, credit union or like organization and all funds and amounts therein, whether or not restricted or designated for a particular purpose.

“Documents” means any and all documents of title, bills of lading, dock warrants, dock receipts, warehouse receipts and other documents of the Grantor, whether or not negotiable, and includes all other documents which purport to be issued by a bailee or agent and purport to cover goods in any bailee’s or agent’s possession which are either identified or are fungible portions of an identified mass, including such documents of title made available to the Grantor for the purpose of ultimate sale or exchange of goods or for the purpose of loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with goods in a manner preliminary to their sale or exchange, in each case whether now existing or hereafter acquired or arising.

“Equipment” means all now existing or hereafter acquired equipment of the Grantor in all of its forms, wherever located, and in any event includes any and all machinery, furniture, equipment, furnishings and fixtures in which the Grantor now or hereafter acquires any right, and all other goods and tangible personal property (other than Inventory), including tools, parts and supplies, automobiles, trucks, tractors and other vehicles, computer and other electronic data processing equipment and other office equipment, computer programs and related data processing software, and all additions, substitutions, replacements, parts, accessories, and accessions to and for the foregoing, now owned or hereafter acquired, and including any of the foregoing which are or are to become fixtures on real property.

“Event of Default” means any failure by Grantor to pay any amount due under the Note on the date such payment is due (plus any applicable cure period) or any other breach of the terms of the Note or this Agreement which is not corrected within thirty (30) days after written notice of such breach from Creditor.

“Financing Statements” has the meaning specified in Section 3.

“General Intangibles” means all general intangibles of the Grantor, now existing or hereafter acquired or arising, and in any event includes: (i) all tax and other refunds, rebates or credits of every kind and nature to which the Grantor is now or hereafter may become entitled; (ii) all good will, choses in action and causes of action, whether legal or equitable, whether in contract or tort and however arising; (iii) all Intellectual Property Collateral; (iv) all uncertificated securities and interests in limited and general partnerships; (v) all rights of stoppage in transit, replevin and reclamation; (vi) all licenses, permits, consents, indulgences and rights of whatever kind issued in favor of or otherwise recognized as belonging to the Grantor by any Governmental Authority; and (vii) all indemnity agreements, guaranties, insurance policies and other contractual, equitable and legal rights of whatever kind or nature; in each case whether now existing or hereafter acquired or arising.

“Instruments” means any and all negotiable instruments, certificated securities and every other writing which evidences a right to the payment of money, in each case whether now existing or hereafter acquired.

“Intellectual Property Collateral” means the following properties and assets owned or held by the Grantor or in which the Grantor otherwise has any interest, now existing or hereafter acquired or arising:

(i) all patents and patent applications, domestic or foreign, all licenses relating to any of the foregoing and all income and royalties with respect to any licenses (including such patents, patent applications and patent licenses as described in Schedule 1), all rights to sue for past, present or future infringement thereof, all rights arising therefrom and pertaining thereto and all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof;

(ii) all copyrights and applications for copyright, domestic or foreign, together with the underlying works of authorship (including titles), whether or not the underlying works of authorship have been published and whether said copyrights are statutory or arise under the common law, and all other rights and works of authorship, all rights, claims and demands in any way relating to any such copyrights or works, including royalties and rights to sue for past, present or future infringement, and all rights of renewal and extension of copyright;

(iii) all state (including common law), federal and foreign trademarks, service marks and trade names, and applications for registration of such trademarks, service marks and trade names, all licenses relating to any of the foregoing and all income and royalties with respect to any licenses (including such marks, names, applications and licenses as described in Schedule 1), whether registered or unregistered and wherever registered, all rights to sue for past, present or future infringement or unconsented use thereof, all rights arising therefrom and pertaining thereto and all reissues, extensions and renewals thereof;

(iv) all trade secrets, confidential information, customer lists, license rights, advertising materials, operating manuals, methods, processes, know-how, sales literature, drawings, specifications, blue prints, descriptions, inventions, name plates and catalogs; and

(v) the entire goodwill of or associated with the businesses now or hereafter conducted by the Grantor connected with and symbolized by any of the aforementioned properties and assets.

“Inventory” means any and all of the Grantor’s inventory in all of its forms, wherever located, whether now owned or hereafter acquired, and in any event includes all goods (including goods in transit) which are held for sale, lease or other disposition, including those held for display or demonstration or out on lease or consignment or to be furnished under a contract of service, or which are raw materials, work in process, finished goods or materials used or consumed in the Grantor’s business, and the resulting product or mass, and all repossessed, returned, rejected, reclaimed and replevied goods, together with all parts, components, supplies, packing and other materials used or usable in connection with the manufacture, production, packing, shipping, advertising, selling or furnishing of such goods; and all other items hereafter acquired by the Grantor by way of substitution, replacement, return, repossession or otherwise, and all additions and accessions thereto, and any Document representing or relating to any of the foregoing at any time.

“Note” means that Secured Bridge Note of even date with this Agreement issued by Grantor to Creditor in the principal amount of \$744,681.

“Permitted Liens” means (i) liens, claims or encumbrances imposed by law, such as carriers’, warehousemen’s, materialmen’s and mechanics’ liens; (ii) minor liens, security deposits, encumbrances, or defects of title which do not, individually or in the aggregate, materially detract from the value of the property subject thereto or materially impair the operations of the Grantor; (iii) liens for taxes, fees, assessments or other governmental charges or levies; (iv) as to real property, all matters of survey, easements or reservations of, or rights of others for, rights of way, highway and railroad crossings, sewers, electric lines, telegraph and telephone lines; (v) equipment leases; (vi) liens on equipment acquired or held by Grantor in the ordinary course of Grantor’s business which are incurred for financing the acquisition of the equipment; (vii) liens existing on equipment acquired in the ordinary course of Grantor’s business, if the lien is confined to the property and improvements and the proceeds of the equipment; (viii) leases or subleases granted in the ordinary course of Grantor’s business, including in connection with Grantor’s leased premises or leased property, (ix) deposits to secure the performance of bids, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case, incurred in the ordinary course of business and not representing an obligation for borrowed money (x) liens to secure payment of workers’ compensation, employment insurance, old age pensions, social security or other like obligations incurred in the ordinary course of business; (xi) liens arising from judgments, decrees or attachments in circumstances not constituting an Event of Default hereunder; and (xii) such other liens as may be approved by Creditor (before or after the creation of such liens), such approval not to be unreasonably withheld or delayed if such lien is to be incurred in the ordinary course of business and will not materially adversely impact the value of the Collateral, taken as a whole.

“Proceeds” means whatever is receivable or received from or upon the sale, lease, license, collection, use, exchange or other disposition, whether voluntary or involuntary, of any Collateral or other assets of the Grantor, including “proceeds” as defined at UCC Section 9306, any and all proceeds of any insurance, indemnity, warranty or guaranty payable to or for the account of the Grantor from time to time with respect to any of the Collateral, any and all payments (in any form whatsoever) made or due and payable to the Grantor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Collateral by any Governmental Authority (or any Person acting under color of Governmental Authority), any and all other amounts from time to time paid or payable under or in connection with any of the Collateral or for or on account of any damage or injury to or conversion of any Collateral by any Person, any and all other tangible or intangible property received upon the sale or disposition of Collateral, and all proceeds of proceeds.

“Rights to Payment” means all 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, Instruments and Proceeds.

“Secured Obligations” means all obligations of the Grantor under the Note and all obligations of the Grantor existing under this Security Agreement.

“UCC” means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of California; 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 California, 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.

“Warrant” means that Warrant issued to Creditor by Grantor on the date of this Agreement.

(b) Terms Defined in UCC. Where applicable and except as otherwise defined herein, terms used in this Agreement shall have the meanings assigned to them in the UCC.

SECTION 2. SECURITY INTEREST.

(a) Grant of Security Interest. As security for the payment and performance of the Secured Obligations, the Grantor hereby pledges, assigns, transfers, hypothecates and sets over to the Creditor, and hereby grants to the Creditor for its benefit, a security interest in all of the Grantor’s right, title and interest in, to and under the following property, wherever located and whether now existing or owned or hereafter acquired or arising (collectively, the “Collateral”): (i) all Accounts; (ii) all Chattel Paper; (iii) all Deposit Accounts; (iv) all Documents; (v) all Equipment; (vi) all General Intangibles and Commercial Tort Claims; (vii) all Instruments; (viii) all Inventory; (ix) all Books; and (x) all products and Proceeds of any and all of the foregoing.

(b) Grantor Remains Liable. Anything herein to the contrary notwithstanding, (i) the Grantor 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 Creditor of any of the rights hereunder shall not release the Grantor from any of its duties or obligations under such contracts, agreements and other documents included in the Collateral, and (iii) Creditor shall not have any obligation or liability under any contracts, agreements and other documents included in the Collateral by reason of this Agreement, nor shall Creditor be obligated to perform any of the obligations or duties of the Grantor 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 Grantor agrees that this Agreement shall create a continuing security interest in the Collateral which shall remain in effect until terminated in accordance with Section 22.

SECTION 3. FINANCING STATEMENTS, ETC.

The Grantor shall execute and deliver to Creditor concurrently with the execution of this Agreement, and at any time and from time to time thereafter, all financing statements, continuation financing statements, termination statements, security agreements, chattel mortgages, assignments, patent, copyright and trademark collateral assignments, fixture filings,

warehouse receipts, documents of title, affidavits, reports, notices, schedules of account, letters of authority and all other documents and instruments, in form satisfactory to Creditor (the "Financing Statements"), and take all other action, as Creditor may reasonably request, to perfect and continue perfection, maintain the priority of or provide notice of Creditor's security interest in the Collateral and to accomplish the purposes of this Agreement. Creditor will provide Grantor with copies of each such filing within five (5) business days following such filing.

SECTION 4. COVENANTS.

So long as any of the Secured Obligations remain unsatisfied, the Grantor agrees that:

(a) Defense of Collateral. The Grantor shall appear in and defend any action, suit or proceeding which may affect to a material extent its title to, or right or interest in, or Creditor's right to or interest in, the Collateral.

(b) Preservation of Collateral. The Grantor will do and perform all reasonable acts that may be necessary and appropriate to maintain, preserve and protect the Collateral.

(c) Compliance with Laws, Etc. The Grantor will comply in all material respects with all laws, regulations and ordinances, and all policies of insurance, relating in a material way to the possession, operation, maintenance and control of the Collateral.

(d) Location of Books and Chief Executive Office. The Grantor will: (i) keep all Books pertaining to the Rights to Payment at the location set forth in Section 11 of this Agreement; and (ii) give at least 30 days' prior written notice to Creditor of (A) any changes in any such location where Books pertaining to the Rights to Payment are kept, including any change of name or address of any service bureau, computer or data processing company or other person preparing or maintaining any Books or collecting Rights to Payment for the Grantor or (B) any changes in the location of the Grantor's chief executive office or principal place of business.

(e) Location of Collateral. The Grantor will (i) keep the Collateral at the location set forth in Section 11 of this Agreement and not remove the Collateral from such location (other than disposals of Collateral permitted by subsection (h) except upon at least 30 days' prior written notice of any removal to Creditor; and (ii) give Creditor at least 30 days' prior written notice of any change in the locations set forth in Section 11.

(f) Change in Name, Identity or Structure. The Grantor will give at least 30 days' prior written notice of (i) any change in name, (ii) any changes in, additions to or other modifications of its trade names and trade styles set forth in Schedule 1, and (iii) any changes in its identity or structure in any manner which might make any Financing Statement filed hereunder incorrect or misleading.

(g) Maintenance of Records. The Grantor will keep separate, accurate and complete Books with respect to the Collateral, disclosing Creditor's security interest hereunder.

(h) Disposition of Collateral. The Grantor will not surrender or lose possession of (other than to Creditor), sell, lease, rent, or otherwise dispose of or transfer any of the Collateral or any right or interest therein, except in the ordinary course of business.

(i) Liens. Other than liens in favor of Creditor, the Grantor will keep the Collateral free of all liens and encumbrances of any kind except Permitted Liens.

(j) Expenses. The Grantor will pay all expenses of protecting, storing, warehousing, insuring, handling and shipping the Collateral.

(k) Documents, Etc. Upon the request of Creditor, the Grantor will (i) immediately deliver to Creditor, or an agent designated by it, appropriately endorsed or accompanied by appropriate instruments of transfer or assignment, all Documents, Instruments and Chattel Paper, and all other Rights to Payment at any time evidenced by promissory notes, trade acceptances or other instruments, and (ii) mark all Documents and Chattel Paper with such legends as Creditor shall reasonably specify.

(l) Inventory. The Grantor will:

(i) at such times as Creditor shall request, prepare and deliver to Creditor a report of all Inventory, in form and substance satisfactory to Creditor;

(ii) upon the request of Creditor, take a physical listing of the Inventory and promptly deliver a copy of such physical listing to Creditor; and

(iii) not store any Inventory with a bailee, warehouseman or similar person or on premises leased to the Grantor, nor dispose of any Inventory on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment or similar basis, nor acquire any Inventory from any person on any such basis, other than in the ordinary course of business and without in each case giving Creditor prior written notice thereof.

(m) Equipment. The Grantor will, upon Creditor's request, deliver to Creditor a report of each item of Equipment, in form and substance satisfactory to Creditor.

(n) Notices, Reports and Information. The Grantor will (i) notify Creditor 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 Creditor's security interest therein; (ii) furnish to Creditor such statements and schedules further identifying and describing the Collateral and such other reports and other information in connection with the Collateral as Creditor may reasonably request, all in reasonable detail; and (iii) upon request of Creditor make such demands and requests for information and reports as the Grantor is entitled to make in respect of the Collateral.

SECTION 5. COLLECTION OF RIGHTS TO PAYMENT.

Until Creditor exercises its rights hereunder to collect Rights to Payment, the Grantor 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 Creditor, upon and after the occurrence

of any Event of Default, all remittances received by the Grantor shall be held in trust for Creditor and, in accordance with Creditor's instructions, remitted to Creditor or deposited to an account with Creditor in the form received (with any necessary endorsements or instruments of assignment or transfer).

SECTION 6. AUTHORIZATION; AGENT APPOINTED ATTORNEY-IN-FACT.

Creditor shall have the right to, in the name of the Grantor, or in the name of Creditor or otherwise, without notice to or assent by the Grantor (other than as expressly provided herein), and the Grantor hereby constitutes and appoints Creditor (and any of Creditor's officers, employees or agents designated by Creditor) as the Grantor's true and lawful attorney-in-fact, with full power and authority to:

(i) sign any of the Financing Statements which must be executed or filed to perfect or continue perfected, maintain the priority of or provide notice of Creditor's security interest in the Collateral and file any such Financing Statements by electronic means with or without a signature as authorized or required by applicable law or filing procedures;

(ii) 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;

(iii) 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;

(iv) notify the Postal Service authorities to change the address for delivery of mail addressed to the Grantor to such address as Creditor may designate and, without limiting the generality of the foregoing, establish with any Person lockbox or similar arrangements for the payment of the Rights to Payment;

(v) send requests for verification of Rights to Payment to the customers or other obligors of the Grantor;

(vi) contact, or direct the Grantor to contact, all account debtors and other obligors on the Rights to Payment and instruct such account debtors and other obligors to make all payments directly to Creditor;

(vii) assert, adjust, sue for, compromise or release any claims under any policies of insurance;

(viii) exercise dominion and control over, and refuse to permit further withdrawals from, Deposit Accounts maintained with Creditor;

(ix) notify each Person maintaining lockbox or similar arrangements for the payment of the Rights to Payment to remit all amounts representing collections on the Rights to Payment directly to Creditor;

(x) 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 Creditor may deem necessary or desirable to maintain, preserve and protect the Collateral, to collect the Collateral or to enforce the rights of Creditor with respect to the Collateral;

(xi) execute any and all applications, documents, papers and instruments necessary for Creditor to use the Intellectual Property Collateral and grant or issue any exclusive or non-exclusive license or sublicense with respect to any Intellectual Property Collateral (to the extent permitted by the applicable license);

(xii) 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

(xiii) execute any and all such other documents and instruments, and do any and all acts and things for and on behalf of the Grantor, which Creditor may deem necessary or advisable to maintain, protect, realize upon and preserve the Collateral and Creditor's security interest therein and to accomplish the purposes of this Agreement.

Creditor agrees that, except upon and after the occurrence of an Event of Default, it shall not exercise the power of attorney, or any rights granted to Creditor, pursuant to clauses (ii) through (xiii). The foregoing power of attorney is coupled with an interest and irrevocable so long as any of the Secured Obligations have not been paid and performed in full. The Grantor hereby ratifies, to the extent permitted by law, all that Creditor shall lawfully and in good faith do or cause to be done by virtue of and in compliance with this Section 6.

The power of attorney granted in this Section 6 is confirmed by Grantor:

TRANSMODUS CORPORATION

By: 
Robert C. McShirley, Chief Executive Officer

SECTION 7. AGENT PERFORMANCE OF GRANTOR OBLIGATIONS.

Creditor may perform or pay any obligation which the Grantor has agreed to perform or pay under or in connection with this Agreement, and the Grantor shall reimburse Creditor on demand for any amounts paid by Creditor pursuant to this Section 7.

SECTION 8. CREDITOR'S DUTIES.

Notwithstanding any provision contained in this Agreement, Creditor shall have no duty to exercise any of the rights, privileges or powers afforded to it and shall not be responsible to

the Grantor or any other person for any failure to do so or delay in doing so. Beyond the exercise of reasonable care to assure the safe custody of Collateral in Creditor's possession and the accounting for moneys actually received by Creditor hereunder, Creditor shall have no duty or liability to exercise or preserve any rights, privileges or powers pertaining to the Collateral.

SECTION 9. REMEDIES.

(a) Remedies. Upon the occurrence of any Event of Default, Creditor shall have, in addition to all other rights and remedies granted to it in this Agreement, all rights and remedies of a secured party under the UCC and other applicable laws. Without limiting the generality of the foregoing, the Grantor agrees that Creditor may:

(i) 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 Creditor may determine;

(ii) require the Grantor to assemble all or any part of the Collateral and make it available to Creditor at any place and time designated by Creditor;

(iii) use or transfer any of the Grantor's rights and interests in any Intellectual Property Collateral, by license, by sublicense (to the extent permitted by an applicable license) or otherwise, on such conditions and in such manner as Creditor may determine;

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

(v) withdraw (or cause to be withdrawn) any and all funds from Deposit Accounts; 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 Grantor's assets, without charge or liability to Creditor therefor) at public or private sale, 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 Creditor deems advisable; provided, however, that the Grantor shall be credited with the net proceeds of sale only when such proceeds are finally collected by Creditor. Creditor shall have the right upon any such public sale, and, to the extent permitted by law, upon any such private sale, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption, which right or equity of redemption the Grantor hereby releases, to the extent permitted by law. The Grantor hereby agrees that the sending of notice by ordinary mail, postage prepaid, to the address of the Grantor set forth in Section 11 of this Agreement, of the place and time of any public sale or of the time after which any private sale or other intended disposition is to be made, shall be deemed reasonable notice thereof if such notice is sent thirty (30) days prior to the date of such sale or other disposition or the date on or after which such sale or other disposition may occur.

(b) License. Upon the occurrence of any Event of Default, for the purpose of enabling Creditor to exercise its rights and remedies under this Section 9 or otherwise in

connection with this Agreement, the Grantor hereby grants to Creditor (to the extent permitted by the applicable license) an irrevocable, non-exclusive and assignable license (exercisable without payment or royalty or other compensation to the Grantor) to use, license or sublicense any Intellectual Property Collateral until such time as the Secured Obligations have been paid in full.

(c) 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 (after payment of any amounts payable to Creditor pursuant to Section 7 or Section 13) in whole or in part by Creditor for its benefit against all or any part of the Secured Obligations in the following order: (i) first, to any fees, costs, or other expenses due under the Note and this Agreement; (ii) next, to any interest due under the Note; (iii) next, to any principal due under the Note; and (iv) then to any other Secured Obligations. Any surplus thereof which exists after payment and performance in full of the Secured Obligations shall be promptly paid over to the Grantor or otherwise disposed of in accordance with the UCC or other applicable law. The Grantor shall remain liable to Creditor for any deficiency which exists after any sale or other disposition or collection of Collateral.

SECTION 10. CERTAIN WAIVERS.

The Grantor waives, to the fullest extent permitted by law, (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 Creditor (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 Creditor'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 (other than as expressly provided herein); and (iii) all claims, damages, and demands against Creditor arising out of the repossession, retention, sale or application of the proceeds of any sale of the Collateral in accordance with the terms hereof. Notwithstanding anything to the contrary herein or in the California Commercial Code, Creditor may not accept the Collateral in satisfaction of the Secured Obligations without the written consent of the Grantor given after an Event of Default.

SECTION 11. NOTICES.

All notices, requests, permissions, waivers and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) five business days following sending by registered or certified mail, postage prepaid, (b) when delivered, if delivered personally to the intended recipient and (c) one business day following sending by overnight delivery via a national courier service and, in each case, addressed to a party at the following address for such party:

To the Grantor: transmodus Corporation
500 Esplanade Drive, Suite 700
Oxnard, California 93036
Attention: Chief Executive Officer

with a copy to: Greenberg Traurig, LLP
3161 Michelson Drive, Suite 1000
Irvine, California 92612
Fax No: 949.732.6501
Attention: John J. Giovannone, Esq.

To the Creditor: Mr. David Malcolm

Mr. Dennis Schmucker

SECTION 12. NO WAIVER; CUMULATIVE REMEDIES.

No failure on the part of Creditor to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights and remedies under this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges that may otherwise be available to Creditor.

SECTION 13. COSTS AND EXPENSES; INDEMNIFICATION; OTHER CHARGES.

(a) Costs and Expenses. The Grantor agrees to pay on demand the reasonable out-of-pocket costs and expenses of Creditor, including Creditor's reasonable attorney's fees and costs, in connection with any amendments, modifications or waivers of the terms thereof, and the custody of the Collateral; and with the enforcement or attempted enforcement of, and preservation of any rights or interests under, this Agreement, including in any out-of-court workout or other refinancing or restructuring or in any bankruptcy case, and the protection, sale or collection of, or other realization upon, any of the Collateral, including all expenses of taking, collecting, holding, sorting, handling, preparing for sale, selling, or the like, and other such expenses of sales and collections of Collateral, and any and all losses, costs and expenses sustained by Creditor as a result of any failure by the Grantor to perform or observe its obligations contained herein.

(b) Indemnification. The Grantor hereby agrees to indemnify Creditor and its respective directors, officers, employees, agents, counsel and other advisors (each an

“Indemnified Person”) against, and hold each of them harmless from, any and all liabilities, obligations, losses, claims, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever, including the reasonable fees and disbursements of counsel to an Indemnified Person (including allocated costs of internal counsel), which may be imposed on, incurred by, or asserted against any Indemnified Person, in any way relating to or arising out of this Agreement or the transactions contemplated hereby or any action taken or omitted to be taken by it hereunder (the “Indemnified Liabilities”); provided that the Grantor shall not be liable to any Indemnified Person for any portion of such Indemnified Liabilities to the extent they are found by a final decision of a court of competent jurisdiction to have resulted from such Indemnified Person’s gross negligence or willful misconduct. If and to the extent that the foregoing indemnification is for any reason held unenforceable, the Grantor agrees to make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law.

(c) Other Charges. The Grantor agrees to indemnify Creditor against and hold it harmless from any and all present and future stamp, transfer, documentary and other such taxes, levies, fees, assessments and other charges made by any jurisdiction by reason of the execution, delivery, performance and enforcement of this Agreement.

(d) Interest. Any amounts payable to Creditor under this Section 13 or otherwise under this Agreement if not paid upon demand shall bear interest from the date of such demand until paid in full at the Default Rate of interest set forth in the Note.

SECTION 14. BINDING EFFECT.

This Agreement shall be binding upon, inure to the benefit of and be enforceable by the Grantor, Creditor and their respective successors and assigns.

SECTION 15. GOVERNING LAW.

THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA, EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW AND TO THE EXTENT THE VALIDITY OR PERFECTION OF THE SECURITY INTERESTS HEREUNDER, OR THE REMEDIES HEREUNDER, IN RESPECT OF ANY COLLATERAL ARE GOVERNED BY THE LAW OF A JURISDICTION OTHER THAN CALIFORNIA, PROVIDED THAT CREDITOR SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

SECTION 16. FORUM SELECTION AND CONSENT TO JURISDICTION.

ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF CALIFORNIA OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF CALIFORNIA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH OF THE GRANTOR AND CREDITOR CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. EACH OF THE GRANTOR AND CREDITOR IRREVOCABLY WAIVES ANY

OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF THIS AGREEMENT OR ANY DOCUMENT RELATED HERETO. THE GRANTOR AND CREDITOR EACH WAIVE PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY CALIFORNIA LAW.

SECTION 17. WAIVER OF JURY TRIAL.

THE GRANTOR AND CREDITOR EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR ANY AGENT-RELATED PERSON, PARTICIPANT OR ASSIGNEE, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. THE GRANTOR AND CREDITOR EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

SECTION 18. ENTIRE AGREEMENT; AMENDMENT.

This Agreement, the Note, Warrant and the Bridge Loan Agreement contain the entire agreement of the parties with respect to the subject matter hereof and shall not be amended except by the written agreement of the parties hereto.

SECTION 19. SEVERABILITY.

Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under all applicable laws and regulations. If, however, any provision of this Agreement shall be prohibited by or invalid under any such law or regulation in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such law or regulation, or, if for any reason it is not deemed so modified, it shall be ineffective and invalid only to the extent of such prohibition or invalidity without affecting the remaining provisions of this Agreement, or the validity or effectiveness of such provision in any other jurisdiction.

SECTION 20. COUNTERPARTS.

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

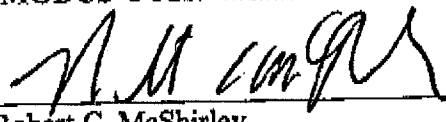
SECTION 21. TERMINATION.

Upon payment in full of the Obligations, the security interests granted under this Agreement shall terminate and Creditor shall promptly execute and deliver to the Grantor such documents and instruments reasonably requested by the Grantor as shall be necessary to evidence termination of all security interests given by the Grantor to Creditor hereunder; provided, however, that the obligations of the Grantor under Section 13 of this Agreement shall survive such termination.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, as of the date first above written.

THE GRANTOR

TRANSMODUS CORPORATION

By: 
Robert C. McShirley
Chief Executive Officer

THE CREDITOR:

DAVID MALCOLM

DENNIS SCHMUCKER

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Robert C. McShirley
Chief Executive Officer

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DENNIS SCHMUCKER

Schedule 1
Patents, Patent Applications and Patent Licenses

United States Patent Number 7185805