



To the Honorable Commissioner

102142900

ached original documents or copy thereof.

1. Name and address of conveying party(ies): 6-24-02  
 Name: U.S. Textile Corp.  
 Street Address: Chesterfield Ave., RD SC 903, AIKIA 1792  
Silkies Blvd.  
 City: Lancaster  
 State: South Carolina ZIP: 92721

Additional name(s) of conveying party(ies) attached?  Yes  No

2. Name and address of receiving party(ies):  
 Name: Deutsche Bank Trust Company Americas  
 Internal Address: \_\_\_\_\_  
 Internal Address: \_\_\_\_\_  
 Street Address: 130 Liberty Street  
 City: New York  
 State: New York ZIP: \_\_\_\_\_

Additional name(s) and address(es) attached?  Yes  No

3. Nature of Conveyance:  
 Assignment  Merger  
 Security Agreement  Change of Name  
 Other \_\_\_\_\_  
 Execution Date: June 4, 2002

4. Application number(s) or registration numbers:  
*If being submitted with New Application, execution date of application is:*

A. Trademark Application Attached  
 No (s)

Additional numbers attached?  Yes  No

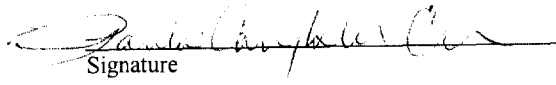
B. Trademark Registration  
 No.(s) 1,470,720

5. Name and address of party to whom correspondence concerning document should be mailed:  
 Name: Paula Campbell Evans  
 Internal Address: Palmer & Dodge LLP  
 Street Address: One Beacon Street  
 City: Boston State: MA ZIP: 02108

6. Total number of application and patents involved: 1  
 7. Total fee (37 CFR 3.41) ..... \$ 40.00  
 Enclosed  
 Authorized to charge deficiencies to deposit account  
 8. Deposit account number: 16-0085 Ref. 17079/5  
 (Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

9. Statement and signature.  
 To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.

Paula Campbell Evans   
 Name of Person Signing Signature

June 17, 2002  
 Date

Total number of pages comprising cover sheet attachment and document: 33

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

07/02/2002 6TOM11 00000189 1470720

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**SECOND AMENDED AND RESTATED SUBSIDIARY  
GUARANTOR SECURITY AGREEMENT**

**SECOND AMENDED AND RESTATED SUBSIDIARY GUARANTOR SECURITY AGREEMENT**, dated as of June 4, 2002 (as amended, modified or supplemented from time to time, this "Security Agreement") among THE STONEBURY GROUP INCORPORATED, a Nevada corporation ("Stonebury" and an "Assignor"), U.S. TEXTILE CORP., a North Carolina corporation ("U.S. Textile" and an "Assignor"), HOSIERY CORPORATION INTERNATIONAL, a Delaware corporation ("HCI", an "Assignor" and together with Stonebury and U.S. Textile, the "Assignors") and DEUTSCHE BANK TRUST COMPANY AMERICAS (formerly known as Bankers Trust Company), as collateral agent (the "Collateral Agent") for the Secured Creditors (as defined below).

**W I T N E S S E S:**

**WHEREAS**, HCI Direct, Inc., a Delaware corporation (the "Borrower"), the financial institutions from time to time party thereto (the "Banks") and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company) as agent (the "Agent") have entered into that certain Second Amended and Restated Credit Agreement, dated as of June 4, 2002 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), providing for among other things the making of Loans, and the issuance of, and participation in, Letters of Credit as contemplated therein (the Banks from time to time party to the Credit Agreement and the Agent are referred to herein as the "Secured Creditors");

**WHEREAS**, each Assignor and the Collateral Agent have heretofore entered into that certain Amendment and Restatement, dated as of November 20, 1997, to Security Agreement, dated as of October 17, 1994 (as amended, supplemented or otherwise modified from time to time, the "Existing Security Agreement");

**WHEREAS**, it is a condition precedent to the making of Loans and the issuance of, and participation in, Letters of Credit under the Credit Agreement that each Assignor shall have executed and delivered to the Collateral Agent this Security Agreement which shall amend and restate the Existing Security Agreement in its entirety; and

**WHEREAS**, each Assignor desires to execute this Security Agreement to satisfy the conditions described in the preceding paragraph.

**NOW, THEREFORE**, in consideration of the benefit accruing to each Assignor and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, each Assignor hereby makes the following representations and warranties and hereby covenants and agrees as follows:

**ARTICLE I.  
SECURITY INTERESTS**

**SECTION 1.1** Grant of Security Interests. (a) As security for the prompt and complete payment and performance when due of all of the Secured Obligations, each Assignor does hereby sell, assign and transfer unto the Collateral Agent, and does hereby grant to the

Collateral Agent for the benefit of the Secured Creditors a continuing security interest of first priority in, all of the right, title and interest of such Assignor in, to and under all of such Assignor's personal property, whether now existing or hereafter from time to time acquired including, without limitation, the following: (i) each and every Receivable, (ii) all Contracts, together with all Contract Rights arising thereunder, (iii) all Inventory, (iv) all Equipment, (v) all Marks, together with the registrations and right to all renewals thereof, and the goodwill of the business of such Assignor symbolized by the Marks, (vi) the Cash Collateral Account established for such Assignor and all monies, securities and instruments deposited or required to be deposited in such Cash Collateral Account, (vii) all Patents and Copyrights and all reissues, renewals or extensions thereof, (viii) all computer programs of such Assignor and all intellectual property rights therein and all other proprietary information of such Assignor, including, but not limited to, Trade Secrets, (ix) all other Goods, General Intangibles, Chattel Paper, Documents and Instruments, (x) all deposit accounts, investment property, financial assets, commercial tort claims (as such terms are defined in the Uniform Commercial Code in effect in the State of New York on the date hereof) and money and (xi) all Proceeds and products of any and all of the foregoing (all of the above collectively, the "Collateral").

(b) The security interest of the Collateral Agent under this Security Agreement extends to all Collateral of the kind which is the subject of this Security Agreement which any Assignor may acquire at any time during the continuation of this Security Agreement.

(c) Notwithstanding anything herein to the contrary (but subject to Section 2.11), in no event shall the security interest granted hereunder attach to (a) any lease, license, contract, property rights or agreement to which any Assignor is a party or any of its rights or interests thereunder (each an "Assignor Agreement") if and for so long as (and solely to the extent that) the grant of such security interest shall constitute or result in (i) the abandonment, invalidation or unenforceability of any right, title or interest of such Assignor therein or (ii) in a breach or termination pursuant to the terms of, or a default under, such Assignor Agreement (any Assignor Agreement to which clause (i) or (ii) hereof applies is referred to as a "Restricted Agreement"), provided however that such security interest shall attach immediately at such time as the condition causing such abandonment, invalidation or unenforceability shall be remedied and to the extent severable, shall attach immediately to any portion of such Restricted Agreement that does not result in any of the consequences specified in (i) or (ii) above; provided further that such attachment shall be deemed to have occurred on the date of this Security Agreement.

SECTION 1.2 Power of Attorney. Each Assignor hereby constitutes and appoints the Collateral Agent its true and lawful attorney, irrevocably, with full power after the occurrence of and during the continuance of an Event of Default (in the name of such Assignor or otherwise) to act, require, demand, receive, compound and give acquittance for any and all monies and claims for monies due or to become due to such Assignor under or arising out of the Collateral, to endorse any checks or other instruments or orders in connection therewith and to file any claims or take any action or institute any proceedings which the Collateral Agent may deem to be necessary or advisable in the premises, which appointment as attorney is coupled with an interest.

SECTION 1.3 Definitions. Capitalized terms used herein shall have the meanings specified in Article IX or, if not defined therein, as specified in the Credit Agreement.

**ARTICLE II.  
GENERAL REPRESENTATIONS, WARRANTIES AND COVENANTS**

Each Assignor represents, warrants and covenants, which representations, warranties and covenants shall survive execution and delivery of this Security Agreement, as follows:

SECTION 2.1 Necessary Filings. Except with respect to foreign Copyrights, Marks and Patents, all filings, registrations and recordings necessary or appropriate to create, preserve, protect and perfect the security interest granted by such Assignor to the Collateral Agent hereby in respect of the Collateral have been accomplished and the security interest granted to the Collateral Agent pursuant to this Security Agreement in and to the Collateral constitutes a perfected security interest therein superior and prior to the rights of all other Persons therein and subject to no other Liens (other than Liens permitted under Section 8.03 of the Credit Agreement) and is entitled to all the rights, priorities and benefits afforded by the Confirmation Order and the Uniform Commercial Code or other relevant law to perfected security interests.

SECTION 2.2 No Liens. The Assignors are, and as to Collateral acquired by them from time to time after the date hereof the Assignors will be, the owners of all Collateral free from any Lien, security interest, encumbrance or other right, title or interest of any Person (other than Liens created hereby or permitted under Section 8.03 of the Credit Agreement), and the Assignors shall defend the Collateral against all claims and demands of all Persons at any time claiming the same or any interest therein adverse to the Collateral Agent.

SECTION 2.3 Other Financing Statement. There is no financing statement (or similar statement or instrument of registration under the law of any jurisdiction) covering or purporting to cover any interest of any kind in the Collateral except as disclosed in Annex A hereto and so long as the Total Revolving Commitment has not been terminated or any Letter of Credit remains outstanding or any of the Secured Obligations remain unpaid, such Assignor will not execute or authorize to be filed in any public office any financing statement (or similar statement or instrument of registration under the law of any jurisdiction) or statements relating to the Collateral, except financing statements filed or to be filed in respect of and covering the security interests granted hereby by such Assignor or as permitted by the Credit Agreement.

SECTION 2.4 Chief Executive Office; Records. The chief executive office of such Assignor is located at the location shown on Annex B. Such Assignor will not move its chief executive office except to such new location as the Assignor may establish in accordance with the last sentence of this Section 2.4. The originals of all documents evidencing all Receivables and Contract Rights and Trade Secrets of such Assignor and the only original books of account and records of such Assignor relating thereto are, and will continue to be, kept at such chief executive office and/or one or more of the locations shown on Annex B, or at such new locations as such Assignor may establish in accordance with the last sentence of this Section 2.4. All Receivables and Contract Rights and Trade Secrets of such Assignor are, and will continue to be, maintained at, and controlled and directed (including, without limitation, for general accounting purposes) from, the office locations described above, or such new locations as such Assignor may establish in accordance with the last sentence of this Section 2.4. Such Assignor shall give two weeks prior written notice to the Collateral Agent of any new location for such

offices clearly describing such new location and providing such other information in connection therewith as the Collateral Agent may reasonably request.

**SECTION 2.5**     Location of Inventory and Equipment. All Inventory and Equipment held on the date hereof by such Assignor is located at one of the locations shown on Annex C attached hereto. Such Assignor agrees that all Inventory and Equipment now held or subsequently acquired by it shall be kept at (or shall be in transport to or from) any one of the locations shown on Annex C hereto, or such new location as such Assignor may establish in accordance with the last sentence of this Section 2.5, provided that Equipment may be removed from any such location so long as (x) such Equipment is returned to such location within 30 days after such removal and (y) the replacement value of all of such Equipment which has been removed from one of the locations shown on Annex C, or from a new location established in accordance with the last sentence of this Section 2.5, and has not been returned to any such location, does not exceed \$100,000 in the aggregate at any one time. Such Assignor may establish a new location for Inventory and Equipment (a) other than a third party location so long as the Assignor gives the Collateral Agent prompt notice of such new location and (b) which is a third party location only if (i) it shall have given to the Collateral Agent not less than 30 days prior written notice of its intention so to do, clearly describing such new location and providing such other information in connection therewith as the Collateral Agent may reasonably request, and (ii) with respect to such new location, it shall have taken all action reasonably satisfactory to the Collateral Agent to maintain the security interest of the Collateral Agent in the Collateral intended to be granted hereby at all times fully perfected and in full force and effect. Except as otherwise specified above, all Inventory and Equipment held by such Assignor on the date hereof is under the exclusive possession and control of such Assignor.

**SECTION 2.6**     Trade Names: Change of Name. Such Assignor does not have or operate in any jurisdiction under, or in the preceding 12 months has not had or has not operated in any jurisdiction under, any trade names, fictitious names or other names (including, without limitation, any names of divisions or operations) except its legal name and such other trade, fictitious or other names as are listed on Annex D hereto. Such Assignor has only operated under each name set forth in Annex D in the jurisdiction or jurisdictions set forth opposite each such name on Annex D. Such Assignor shall not change its legal name or assume or operate in any jurisdiction under any trade, fictitious or other name except those names listed on Annex D hereto in the jurisdictions listed with respect to such names and new names (including, without limitation, any names of divisions or operations) and/or jurisdictions established in accordance with the last sentence of this Section 2.6. Such Assignor shall not assume or operate in any jurisdiction under any new trade, fictitious or other name or operate under any existing name in any additional jurisdiction until (i) it shall have given to the Collateral Agent not less than 30 days' prior written notice of its intention so to do, clearly describing such new name and/or jurisdiction and, in the case of a new name, the jurisdictions in which such new name shall be used and providing such other information in connection therewith as the Collateral Agent may reasonably request, and (ii) with respect to such new name and/or new jurisdiction, such Assignor shall have taken all action to maintain the security interest of the Collateral Agent in the Collateral intended to be granted hereby at all times fully perfected and in full force and effect.

SECTION 2.7 Recourse. This Agreement is made with full recourse to such Assignor and pursuant to and upon all the warranties, representations, covenants, and agreements on the part of such Assignor contained herein and otherwise in writing in connection herewith.

SECTION 2.8 Restrictions and Disposition. None of the Collateral of such Assignor is subject to contractual obligations that may restrict or inhibit the Collateral Agent's rights or ability to sell or dispose of a material portion of such Collateral or any material part thereof after the occurrence of an Event of Default.

SECTION 2.9 Commercial Tort Claims. As of the date hereof, such Assignor holds no commercial tort claim which it reasonably anticipates could result in a recovery in excess of \$100,000.

SECTION 2.10 Name and Formation.

(a) Stonebury represents, warrants and covenants that its exact, correct legal name as specified in its articles of incorporation on file with the Secretary of State of Nevada is The Stonebury Group Incorporated and Stonebury was formed under the laws of the State of Nevada.

(b) U.S. Textile represents, warrants and covenants that its exact, correct legal name as specified in its certificate of incorporation on file with the Secretary of State of North Carolina is U.S. Textile Corp. and U.S. Textile was formed under the laws of the State of North Carolina.

(c) HCI represents, warrants and covenants that its exact, correct legal name as specified in its certificate of incorporation on file with the Secretary of State of Delaware is Hosiery Corporation International and HCI was formed under the laws of the State of Delaware.

SECTION 2.11 Restricted Agreements. The Restricted Agreements do not, in the aggregate, constitute a material portion of the Assignor Agreements.

**ARTICLE III.  
SPECIAL PROVISIONS CONCERNING  
RECEIVABLES; CONTRACT RIGHTS; INSTRUMENTS**

SECTION 3.1 Additional Representations and Warranties. As of the time when each of its accounts receivable arises, each Assignor shall be deemed to have represented and warranted that such receivable, and all records, papers and documents relating thereto (if any) are genuine and are in all respects what they purport to be.

SECTION 3.2 Maintenance of Records. Each Assignor will keep and maintain at its own cost and expense satisfactory and complete records of its Receivables and Contracts, including, but not limited to, the originals of all documentation (including each Contract) with respect thereto, records of all payments received, all credits granted thereon, all merchandise returned and all other dealings therewith, and such Assignor will make the same available to the Collateral Agent for inspection, at such Assignor's own cost and expense, at any and all reasonable times upon demand. Each Assignor shall, at its own cost and expense, deliver all tangible evidence of its Receivables and Contract Rights (including, without limitation, copies

of all documents evidencing the Receivables and all Contracts, such copies, if requested by the Collateral Agent while an Event of Default is in existence, to be certified as true and complete by an appropriate officer of such Assignor) and such books and records to the Collateral Agent or to its representatives (copies of which evidence and books and records may be retained by such Assignor) at any time upon its demand. If the Collateral Agent so directs, each Assignor shall legend, in form and manner reasonably satisfactory to the Collateral Agent, its Receivables and Contracts, as well as books, records and documents of such Assignor evidencing or pertaining to the Receivables with an appropriate reference to the fact that such Receivables and Contracts have been assigned to the Collateral Agent and that the Collateral Agent has a security interest therein.

SECTION 3.3 Modification of Terms; Etc. No Assignor shall rescind or cancel any indebtedness evidenced by any Receivable or under any Contract, or modify any term thereof or make any adjustment with respect thereto, or extend or renew the same, or compromise or settle any material dispute, claim, suit or legal proceeding relating thereto, or sell any such Receivable or Contract, or interest therein, without the prior written consent of the Collateral Agent, except (i) as permitted by Section 3.4 hereof and (ii) so long as no Event of Default is then in existence in respect of which the Collateral Agent has given notice that this exception is no longer applicable, such Assignor may modify, make adjustments with respect to, extend or renew any such Contracts in the ordinary course of business. Each Assignor will duly fulfill all obligations on its part to be fulfilled under or in connection with such Receivables and Contracts and will do nothing to impair the rights of the Collateral Agent in such Receivables or Contracts.

SECTION 3.4 Collection. Each Assignor shall endeavor to cause to be collected from the account debtor named in each of its Receivables or obligor under any Contract, as and when due (including, without limitation, amounts which are delinquent, such amounts to be collected in accordance with generally accepted lawful collection procedures) any and all amounts owing under or on account of such Receivable or Contract, and apply forthwith upon receipt thereof all such amounts as are so collected to the outstanding balance of such Receivable or under such Contract, except that, so long as no Event of Default is then in existence in respect of which the Collateral Agent has given notice that this exception is no longer applicable, such Assignor may allow in the ordinary course of business as adjustments to amounts owing under its Receivables and Contracts (i) an extension or renewal of the time or times of payment, or settlement for less than the total unpaid balance, which such Assignor finds appropriate in accordance with sound business judgment and (ii) a refund or credit due as a result of returned or damaged merchandise or improperly performed services. The costs and expenses (including, without limitation, attorneys' fees) of collection, whether incurred by an Assignor or the Collateral Agent, shall be borne by the Assignors.

SECTION 3.5 Direction to Account Debtors; Etc. Upon the occurrence and during the continuance of an Event of Default, and if the Collateral Agent so directs the Assignors, to the extent permitted by applicable law, each Assignor agrees (x) to cause all payments on account of the Receivables and Contracts of such Assignor to be made directly to the Cash Collateral Account of such Assignor, (y) that the Collateral Agent may, at its option, directly notify the obligors with respect to any such Receivables and/or any such Contracts to make payments with respect thereto as provided in preceding clause (x) and (z) that the Collateral Agent may enforce collection of any such Receivables and/or any such Contracts and

may adjust, settle or compromise the amount of payment thereof. The Collateral Agent may apply any or all amounts then in, or thereafter deposited in, the Cash Collateral Account of such Assignor in the manner provided in Section 7.4 of this Security Agreement. The costs and expenses (including attorneys' fees) of collection, whether incurred by the Assignors or the Collateral Agent, shall be borne by the Assignors.

SECTION 3.6 Instruments. If any Assignor owns or acquires any Instrument, such Assignor will within 10 days notify the Collateral Agent thereof, and upon request by the Collateral Agent promptly deliver such Instrument to the Collateral Agent appropriately endorsed to the order of the Collateral Agent as further security hereunder.

SECTION 3.7 Further Actions. Each Assignor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other assurances or instruments and take such further steps relating to its Receivables, Contracts, Instruments and other property or rights covered by the security interest hereby granted, as the Collateral Agent may reasonably require to give effect to the purposes of this Security Agreement.

#### **ARTICLE IV. SPECIAL PROVISIONS CONCERNING TRADEMARKS**

SECTION 4.1 Additional Representations and Warranties. Each Assignor represents and warrants that it is the true and lawful owner of the Marks, and is the exclusive licensee of all other trademarks and service marks, listed in Annex E attached hereto and that said listed Marks (and other said trademarks and service marks) constitute all the Marks (and other said trademarks and service marks) registered in the United States Patent and Trademark Office that such Assignor now owns or exclusively licenses. Each Assignor represents and warrants that it truly owns or is duly licensed to use all trademarks (and other trademarks and service marks) that it uses. Each Assignor further warrants that it is aware of no third party claim that any aspect of such Assignor's present or contemplated business operations infringes or will infringe any trademark or service mark in a manner which could have a material effect on the financial condition, business or property of such Assignor.

SECTION 4.2 Licenses and Assignments. Each Assignor hereby agrees not to divest itself of any right under a Mark other than in the ordinary course of business absent prior written approval of the Collateral Agent.

SECTION 4.3 Infringements. Each Assignor agrees, promptly upon learning thereof, to notify the Collateral Agent in writing of the name and address of, and to furnish such pertinent information that may be available with respect to, any party who may be infringing or otherwise violating any of such Assignor's rights in and to any significant Mark, or with respect to any party claiming that such Assignor's use of any significant Mark violates any property right of that party, to the extent that such infringement or violation could have a material effect on the financial condition, business or property of such Assignor. Each Assignor further agrees, unless otherwise directed by the Collateral Agent, diligently to prosecute any person infringing any significant Mark in a manner consistent with its past practice and in the ordinary course of business.



SECTION 4.4 Preservation of Marks. Each Assignor agrees to use its significant Marks in interstate commerce during the time in which this Security Agreement is in effect, sufficiently to preserve such Marks as trademarks or service marks registered under the laws of the United States.

SECTION 4.5 Maintenance of Registration. Each Assignor shall, at its own expense, diligently process all documents required by the Trademark Act of 1946, 15 U.S.C. §§ 1051 et seq. to maintain trademark registration which could have a material effect on the financial condition, business or property of such Assignor, including but not limited to affidavits of use and applications for renewals of registration in the United States Patent and Trademark Office for all of its Marks pursuant to 15 U.S.C. §§ 1058(a), 1059 and 1065, and shall pay all fees and disbursements in connection therewith, and shall not abandon any such filing of affidavit of use or any such application of renewal prior to the exhaustion of all administrative and judicial remedies without prior written consent of the Collateral Agent. Each Assignor agrees to notify the Collateral Agent one (1) month prior to the dates on which the affidavits of use or the applications for renewal registration are due that the affidavit of use or the renewal is being processed.

SECTION 4.6 Future Registered Marks. If any mark registration issues hereafter to any Assignor as a result of any application now or hereafter pending before the United States Patent and Trademark Office, within thirty (30) days of receipt of such certificate such Assignor shall deliver a copy of such certificate, and a grant of security in such Mark to the Collateral Agent, confirming the grant thereof hereunder, the form of such confirmatory grant to be substantially the same as the form hereof.

SECTION 4.7 Remedies. If an Event of Default shall occur and be continuing, the Collateral Agent may, by written notice to the Assignors, take any or all of the following actions: (i) declare the entire right, title and interest of the Assignors in and to each of the Marks, together with all trademark rights and rights of protection to the same, vested, in which event such rights, title and interest shall immediately vest, in the Collateral Agent for the benefit of the Secured Creditors, in which case the Assignors agree to execute an assignment in form and substance satisfactory to the Collateral Agent, of all their rights, title and interest in and to the Marks to the Collateral Agent for the benefit of the Secured Creditors; (ii) take and use or sell the Marks and the goodwill of each Assignor's businesses symbolized by the Marks and the right to carry on the business and use the assets of such Assignor in connection with which the Marks have been used; and (iii) direct the Assignors to refrain, in which event the Assignors shall refrain, from using the Marks in any manner whatsoever, directly or indirectly, and, if requested by the Collateral Agent, change any Assignor's corporate name to eliminate therefrom any use of any Mark and execute such other and further documents that the Collateral Agent may request to further confirm this and to transfer ownership of the Marks and registrations and any pending trademark application in the United States Patent and Trademark Office to the Collateral Agent.

**ARTICLE V.**  
**SPECIAL PROVISIONS CONCERNING**  
**PATENTS AND COPYRIGHTS**

SECTION 5.1 Additional Representations and Warranties. Each Assignor represents and warrants that (a) it is the true and lawful owner of all rights in the Patents, and is the exclusive licensee of all other patents, listed in Annex F attached hereto and (b) it is the true and lawful owner of all rights in the Copyrights, and is the exclusive licensee of all other copyrights, listed in Annex G attached hereto, (c) said Patents (and other said patents) constitute all the United States patents and applications for United States patents that such Assignor now owns or uses and (d) said Copyrights (and other said copyrights) constitute all the registered United States copyrights that such Assignor now owns or exclusively licenses. Each Assignor represents and warrants that it truly owns or is licensed to practice under all patents and copyrights that it now owns, uses or practices under. Each Assignor further warrants that it is aware of no third party claim that any aspect of such Assignor's present or contemplated business operations infringes or will infringe any patent or any copyright in a manner which could have a material effect on the financial condition, business or property of such Assignor.

SECTION 5.2 Licenses and Assignments. Each Assignor hereby agrees not to divest itself of any right under a Patent or Copyright other than in the ordinary course of business absent prior written approval of the Collateral Agent.

SECTION 5.3 Infringements. Each Assignor agrees, promptly upon learning thereof, to furnish the Collateral Agent in writing with all pertinent information available to such Assignor with respect to any infringement or other violation of such Assignor's rights in any significant Patent or Copyright, or with respect to any claim that practice of any significant Patent or Copyright violates any property right of that party, to the extent that such infringement or violation could have a material effect on the financial condition, business or property of such Assignor. Each Assignor further agrees, absent direction of the Collateral Agent to the contrary, diligently to prosecute any person infringing any significant Patent or Copyright in a manner consistent with its past practice and in the ordinary course of business.

SECTION 5.4 Maintenance of Patents. At its own expense, each Assignor shall make timely payment of all post-issuance fees required pursuant to 35 U.S.C. § 41 to maintain in force its rights under each Patent.

SECTION 5.5 Prosecution of Patent Application. At its own expense, each Assignor shall diligently prosecute all applications for United States patents listed on Annex F hereto, and shall not abandon any such application prior to exhaustion of all administrative and judicial remedies, absent written consent of the Collateral Agent.

SECTION 5.6 Other Patents and Copyrights. Within thirty (30) days of acquisition of a United States Patent or Copyright registration by any Assignor, or of filing of an application for a United States Patent or Copyright by any Assignor, such Assignor shall deliver to the Collateral Agent a copy of said Patent, Patent application, certificate of Copyright registration or Copyright application, as the case may be, with a grant of security as to such Patent or Copyright, as the case may be, confirming the grant thereof hereunder, the form of such confirmatory grant to be substantially the same as the form hereof.

SECTION 5.7 Remedies. If an Event of Default shall occur and be continuing, the Collateral Agent may by written notice to the Assignors take any or all of the following actions: (i) declare the entire right, title and interest of the Assignors in each of the Patents and Copyrights vested, in which event such right, title and interest shall immediately vest in the Collateral Agent for the benefit of the Secured Creditors, in which case the Assignors agree to execute an assignment in form and substance satisfactory to the Collateral Agent of all its right, title, and interest to such Patents and Copyrights to the Collateral Agent for the benefit of the Secured Creditors; (ii) take and practice or sell the Patents and Copyrights; (iii) direct the Assignors to refrain, in which event the Assignors shall refrain, from practicing the Patents and Copyrights directly or indirectly, and the Assignors shall execute such other and further documents as the Collateral Agent may request further to confirm this and to transfer ownership of the Patents and Copyrights to the Collateral Agent for the benefit of the Secured Creditors.

## ARTICLE VI. PROVISIONS CONCERNING ALL COLLATERAL

SECTION 6.1 Protection of Collateral Agent's Security. No Assignor will do anything to impair the rights of the Collateral Agent in the Collateral. Each Assignor will at all times keep its Inventory and Equipment insured in favor of the Collateral Agent, at its own expense, to the extent required by the Credit Agreement against fire, theft and all other risks to which such Collateral may be subject; all policies or certificates with respect to such insurance shall be endorsed to the Collateral Agent's satisfaction for the benefit of the Collateral Agent (including, without limitation, by naming the Collateral Agent as loss payee) and deposited with the Collateral Agent. If any Assignor shall fail to insure its Inventory to the extent required by the Credit Agreement, or if any Assignor shall fail to so endorse and deposit all policies or certificates with respect thereto, the Collateral Agent shall have the right (but shall be under no obligation) to procure such insurance and the Assignors agree to reimburse the Collateral Agent for all costs and expenses of procuring such insurance. The Collateral Agent may apply any proceeds of such insurance in accordance with Section 7.4. Each Assignor assumes all liability and responsibility in connection with the Collateral acquired by it and the Secured Obligations shall in no way be affected or diminished by reason of the fact that such Collateral may be lost, destroyed, stolen, damaged or for any reason whatsoever unavailable to such Assignor.

SECTION 6.2 Warehouse Receipts Non-negotiable. Each Assignor agrees that if any warehouse receipt or receipt in the nature of a warehouse receipt is issued with respect to any of its Inventory, such warehouse receipt or receipt in the nature thereof shall not be "negotiable" (as such term is used in Section 7-104 of the Uniform Commercial Code as in effect in any relevant jurisdiction or under other relevant law).

SECTION 6.3 Further Actions. Each Assignor will, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such lists, descriptions and designations of its Collateral, warehouse receipts, receipts in the nature of warehouse receipts, bills of lading, documents of title, vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, reports and other assurances or instruments and take such further steps relating to the Collateral and other property or rights covered by the security interest hereby granted, which the Collateral Agent deems reasonably appropriate or advisable to perfect, preserve or protect its security interest in the Collateral.

SECTION 6.4 Financing Statements. With respect to the grant of the security interest hereunder, each Assignor hereby authorizes the Collateral Agent to file one or more record or records, including, without limitation, financing statements, continuation statements, “in lieu” statements and amendments thereto, relative to all or any part of the Collateral and without the signature of such Assignor where permitted by law, in all United States jurisdictions and with all United States filing offices as the Collateral Agent may determine, in its sole discretion, are necessary or advisable to perfect or maintain perfection of the security interest granted to the Collateral Agent under the Credit Agreement, this Security Agreement or any of the other Credit Documents. Such financing statements may describe the Collateral in the same manner as described in this Security Agreement or any other Credit Document or may contain an indication or description of collateral that describes such property in any other manner as the Collateral Agent may determine, in its sole discretion, is necessary, advisable or prudent to ensure the perfection of the security interest in such Collateral granted to the Collateral Agent under this Security Agreement or any other Credit Document, including, without limitation, describing such property as “all assets” or “all personal property.” A carbon, photogenic or other reproduction of this Security Agreement or any financing statement, continuation statement, “in lieu” statement or amendment thereto covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. The Assignors shall pay any applicable filing fees and related expenses.

## ARTICLE VII. REMEDIES UPON OCCURRENCE OF EVENT OF DEFAULT

SECTION 7.1 Remedies. (a) Obtaining the Collateral Upon Default. Each Assignor agrees that, if any Event of Default shall have occurred and be continuing, then and in every such case, subject to any mandatory requirements of applicable law then in effect, the Collateral Agent, in addition to any rights now or hereafter existing under applicable law, shall have all rights as a secured creditor under the Uniform Commercial Code in all relevant jurisdictions and may:

- (i) personally, or by agents or attorneys, immediately retake possession of the Collateral or any part thereof, from such Assignor or any other Person who then has possession of any part thereof with or without notice or process of law, and for that purpose may enter upon such Assignor’s premises where any of such Collateral is located and remove the same and use in connection with such removal any and all services, supplies, aids and other facilities of such Assignor;
- (ii) instruct the obligor or obligors on any agreement, instrument or other obligation (including, without limitation, the Receivables) constituting Collateral to make any payment required by the terms of such instrument or agreement directly to the Collateral Agent;
- (iii) withdraw all moneys, securities and other instruments in any Cash Collateral Account for application to the Secured Obligations in accordance with Section 7.4 hereof;
- (iv) sell, assign or otherwise liquidate, or direct such Assignor to sell, assign or otherwise liquidate, any or all of the Collateral or any part thereof in

accordance with Section 7.2 hereof, and take possession of the proceeds of any such sale or liquidation; and

(v) take possession of the Collateral or any part thereof, by directing such Assignor in writing to deliver the same to the Collateral Agent at any place or places designated by the Collateral Agent, in which event such Assignor shall at its own expense:

(A) forthwith cause the same to be moved to the place or places so designated by the Collateral Agent and there delivered to the Collateral Agent,

(B) store and keep any such Collateral so delivered to the Collateral Agent at such place or places pending further action by the Collateral Agent as provided in Section 7.2, and

(C) while such Collateral shall be so stored and kept, provide such guards and maintenance services as shall be necessary to protect the same and to preserve and maintain them in good condition;

(vi) license or sublicense whether on an exclusive or nonexclusive basis, any Marks, Patents or Copyrights included in the Collateral for such term and on such conditions and in such manner as the Collateral Agent shall in its sole judgment determine.

(b) Each Assignor agrees that its obligation to deliver its Collateral as set forth in clause (a) above, is of the essence of this Security Agreement and that, accordingly, upon application to a court of equity having jurisdiction, the Collateral Agent shall be entitled to a decree requiring specific performance by such Assignor of said obligation.

**SECTION 7.2 Remedies; Disposition of the Collateral.** Upon the occurrence and continuance of an Event of Default, any Collateral repossessed by the Collateral Agent under or pursuant to Section 7.1 and any other Collateral whether or not so repossessed by the Collateral Agent, may be sold, assigned, leased or otherwise disposed of under one or more contracts or as an entirety, and without the necessity of gathering at the place of sale the property to be sold, and in general in such manner, at such time or times, at such place or places and on such terms as the Collateral Agent may, in compliance with any mandatory requirements of applicable law, determine to be commercially reasonable. Any of the Collateral may be sold, leased or otherwise disposed of, in the condition in which the same existed when taken by the Collateral Agent or after any overhaul or repair which the Collateral Agent shall determine to be commercially reasonable. Any such disposition which shall be a private sale or other private proceedings permitted by such requirements shall be made upon not less than ten (10) days' written notice to the applicable Assignor specifying the time at which such disposition is to be made and the intended sale price or other consideration therefor, and shall be subject, for the ten (10) days after the giving of such notice, to the right of the applicable Assignor or any nominee of such Assignor to acquire such Collateral involved at a price or for such other consideration at least equal to the intended sale price or other consideration so specified. Any such disposition which shall be a public sale permitted by such requirements shall be made upon not less than ten (10) days' written notice to the Assignor of such Collateral specifying the time and place of such

sale and, in the absence of applicable requirements of law, shall be by public auction (which may, at the Collateral Agent's option, be subject to reserve), after publication of notice of such auction not less than ten (10) days prior thereto in two newspapers in general circulation in the City of New York. To the extent permitted by any such requirement of law, the Collateral Agent on behalf of the Secured Creditors (or certain of them) may bid for and become the purchaser (by bidding on Secured Obligations or otherwise) of the Collateral or any item thereof, offered for sale in accordance with this Section without accountability to the Assignor of such Collateral (except to the extent of surplus money received as provided in Section 7.4). If, under mandatory requirements of applicable law, the Collateral Agent shall be required to make disposition of the Collateral within a period of time which does not permit the giving of notice to the applicable Assignor as hereinabove specified, the Collateral Agent need give such Assignor only such notice of disposition as shall be reasonably practicable in view of such mandatory requirements of applicable law. Each Assignor agrees to do or cause to be done all such other acts and things as may be reasonably necessary to make such sale or sales of all or any portion of the Collateral valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrations or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Assignors' expense.

SECTION 7.3 Waiver of Claims. Except as otherwise provided in this Security Agreement, EACH ASSIGNOR HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, NOTICE AND JUDICIAL HEARING IN CONNECTION WITH THE COLLATERAL AGENT'S TAKING POSSESSION OR THE COLLATERAL AGENT'S DISPOSITION OF ANY OF THE COLLATERAL OF THE ASSIGNORS, INCLUDING, WITHOUT LIMITATION, ANY AND ALL PRIOR NOTICE AND HEARING FOR ANY PREJUDGMENT REMEDY OR REMEDIES AND ANY SUCH RIGHT WHICH THE ASSIGNORS WOULD OTHERWISE HAVE UNDER THE CONSTITUTION OR ANY STATUTE OF THE UNITED STATES OR OF ANY STATE, and each of the Assignors hereby further waives, to the extent permitted by law:

- (i) all damages occasioned by such taking of possession except any damages which are the direct result of the Collateral Agent's gross negligence or wilful misconduct;
- (ii) all other requirements as to the time, place and terms of sale or other requirements with respect to the enforcement of the Collateral Agent's rights hereunder; and
- (iii) all rights of redemption, appraisalment, valuation, stay, extension or moratorium now or hereafter in force under any applicable law in order to prevent or delay the enforcement of this Security Agreement or the absolute sale of the Collateral of such Assignor or any portion thereof, and such Assignor, for itself and all who may claim under it, insofar as it or they now or hereafter lawfully may, hereby waives the benefit of all such laws.

Any sale of, or the grant of options to purchase, or any other realization upon, any Collateral shall operate to divest all right, title, interest, claim and demand, either at law or in equity, of the applicable Assignor therein and thereto, and shall be a perpetual bar both at law

and in equity against such Assignor and against any and all Persons claiming or attempting to claim the Collateral so sold, optioned or realized upon, or any part thereof, from, through and under such Assignor.

SECTION 7.4 Application of Proceeds. (a) The proceeds of any Collateral obtained pursuant to Section 7.1 or disposed of pursuant to Section 7.2 shall be applied as follows:

(i) first, to the payment of all Obligations to the Collateral Agent of the type described in clauses (ii) and (iii) of the definition of "Secured Obligations";

(ii) second, to the extent proceeds remain after the application pursuant to preceding clause (i), an amount equal to the outstanding Secured Obligations shall be paid to the Secured Creditors on a pro rata basis, first, to the payment of interest in respect of the unpaid principal amount of Loans outstanding, second, to the payment of principal of Loans outstanding, third, to cash collateralize any outstanding Letters of Credit in an amount equal to 103% of the aggregate Stated Amount of all outstanding Letters of Credit, and fourth, to the other remaining Secured Obligations; and

(iii) third, to the extent remaining after the application pursuant to the preceding clauses (i) and (ii) and following the termination of this Security Agreement pursuant to Section 10.9 hereof, to the Assignors or to whomever may be lawfully entitled to receive such payment.

(b) All payments required to be made to the Secured Creditors hereunder shall be made to the Agent for the account of the respective Secured Creditors.

(c) For purposes of applying payments received in accordance with this Section 7.4, the Collateral Agent shall be entitled to rely upon its own determination of the outstanding Secured Obligations. Unless it has actual knowledge (including by way of written notice from a Secured Creditor) to the contrary, the Collateral Agent, in acting hereunder, shall be entitled to assume that no Secured Obligations other than principal, interest and regularly accruing fees are owing to any Secured Creditor or are in existence.

(d) It is understood that each Assignor shall remain liable to the extent of any deficiency between the amount of the proceeds of the Collateral and the amount of the sum referred to in clause (a) of this Section with respect to such Assignor.

SECTION 7.5 Remedies Cumulative. Each and every right, power and remedy hereby specifically given to the Collateral Agent shall be in addition to every other right, power and remedy specifically given under this Security Agreement or the other Credit Documents or now or hereafter existing at law or in equity, or by statute and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time or simultaneously and as often and in such order as may be deemed expedient by the Collateral Agent. All such rights, powers and remedies shall be cumulative and the exercise or the beginning of exercise of one shall not be deemed a waiver of the right to exercise of any other or others. No delay or omission of the Collateral Agent in the exercise of

any such right, power or remedy and no renewal or extension of any of the Secured Obligations shall impair any such right, power or remedy or shall be construed to be a waiver of any Default or Event of Default or an acquiescence therein. In the event that the Collateral Agent shall bring any suit to enforce any of its rights hereunder and shall be entitled to judgment, then in such suit the Collateral Agent may recover reasonable expenses, including attorneys' fees, and the amounts thereof shall be included in such judgment.

SECTION 7.6 Discontinuance of Proceedings. In case the Collateral Agent shall have instituted any proceeding to enforce any right, power or remedy under this Security Agreement by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Collateral Agent, then and in every such case each Assignor, the Collateral Agent and each holder of any of the Secured Obligations shall be restored to their former positions and rights hereunder with respect to the Collateral subject to the security interest created under this Security Agreement, and all rights, remedies and powers of the Collateral Agent shall continue as if no such proceeding had been instituted.

## ARTICLE VIII. INDEMNITY

SECTION 8.1 Indemnity. (a) Each Assignor agrees jointly and severally to indemnify, reimburse and hold the Collateral Agent, each Secured Creditor and its respective successors, assigns, employees, agents and servants (hereinafter in this Section 8.1 referred to individually as "Indemnitee," and collectively as "Indemnitees") harmless from any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, suits, judgments and any and all costs and expenses (including reasonable attorneys' fees and expenses) (for the purposes of this Section 8.1 the foregoing are collectively called "expenses") of whatsoever kind and nature imposed on, asserted against or incurred by any of the Indemnitees in any way relating to or arising out of this Security Agreement, any other Credit Document or the documents executed in connection herewith and therewith or in any other way connected with the enforcement of any of the terms of, or the preservation of any rights under any thereof, or in any way relating to or arising out of the manufacture, ownership, ordering, purchase, delivery, control, acceptance, lease, financing, possession, operation, condition, sale, return or other disposition, or use of the Collateral (including, without limitation; latent or other defects, whether or not discoverable), the violation of the laws of any country, state or other governmental body or unit, any tort (including, without limitation, claims arising or imposed under the doctrine of strict liability, or for or on account of injury to or the death of any Person (including any Indemnitee), or property damage), or contract claim; provided that no Indemnitee shall be indemnified pursuant to this Section 8.1(a) for losses, damages or liabilities to the extent caused by the gross negligence or wilful misconduct of such Indemnitee. Each Assignor agrees that upon written notice by any Indemnitee of the assertion of such a liability, obligation, loss, damage, penalty, claim, demand, action, judgment or suit, the Assignors shall assume full responsibility for the defense thereof. Each Indemnitee agrees to use its best efforts to promptly notify the Assignors of any such assertion of which such Indemnitee has knowledge.

(b) Without, limiting the application of Section 8.1(a), each Assignor jointly and severally agrees to pay, or reimburse the Collateral Agent for (if the Collateral Agent shall have incurred fees, costs or expenses because such Assignor shall have failed to comply with its



obligations under this Security Agreement or any Credit Document), any and all fees, costs and expenses of whatever kind or nature incurred in connection with the creation, preservation or protection of the Collateral Agent's Liens on, and security interest in, the Collateral, including, without limitation, all fees and taxes in connection with the recording or filing of instruments and documents in public offices, payment or discharge of any taxes or Liens upon or in respect of such Collateral, premiums for insurance with respect to such Collateral and all other fees, costs and expenses in connection with protecting, maintaining or preserving such Collateral and the Collateral Agent's interest therein, whether through judicial proceedings or otherwise, or in defending or prosecuting any actions, suits or proceedings arising out of or relating to such Collateral.

(c) Without limiting the application of Section 8.1(a) or (b), each Assignor jointly and severally agrees to pay, indemnify and hold each Indemnitee harmless from and against any loss, costs, damages and expenses which such Indemnitee may suffer, expend or incur in consequence of or growing out of any misrepresentation by the Assignors in this Security Agreement or any other Credit Document or in any statement or writing contemplated by or made or delivered pursuant to or in connection with this Security Agreement or any other Credit Document.

(d) If and to the extent that the obligations of any Assignor under this Section 8.1 are unenforceable for any reason, such Assignor hereby agrees to make the maximum contribution to the payment and satisfaction of such obligations which is permissible under applicable law.

**SECTION 8.2** Indemnity Obligations Secured by Collateral; Survival. Any amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement shall constitute Secured Obligations secured by the Collateral. The indemnity obligations of each Assignor contained in this Article VIII shall be joint and several and shall continue in full force and effect notwithstanding the full payment of all the Loans made under the Credit Agreement and all of the other Secured Obligations and notwithstanding the discharge thereof.

## **ARTICLE IX. DEFINITIONS**

The following terms shall have the meanings herein specified unless the context otherwise requires. Such definitions shall be equally applicable to the singular and plural forms of the terms defined.

“Assignor” shall have the meaning specified in the preamble to this Security Agreement.

“Assignor Agreement” shall have the meaning specified in Section 1.1(c).

“Cash Collateral Account” shall mean a non-interest bearing cash collateral account of an Assignor maintained with, and in the sole dominion and control of, the Collateral Agent for the benefit of the Secured Creditors.

“Chattel Paper” shall have the meaning assigned that term under the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Collateral” shall have the meaning specified in Section 1.1(a).

“Collateral Agent” shall have the meaning specified in the preamble to this Security Agreement.

“Contract Rights” shall mean all rights (including, without limitation, all rights to payment) under each Contract.

“Contracts” shall mean all contracts between any Assignor and one or more additional parties.

“Copyrights” shall mean any copyright to which any Assignor now or hereafter has title, as well as any application for a copyright hereafter made by such Assignor.

“Credit Agreement” shall have the meaning specified in the first recital to this Security Agreement.

“Documents” shall have the meaning assigned that term under the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Equipment” shall mean any “equipment,” as such term is defined in the Uniform Commercial Code as in effect on the date hereof in the State of New York, now or hereafter owned by any Assignor and, in any event, shall include, but shall not be limited to, all machinery, equipment, furnishings, fixtures and vehicles now or hereafter owned by such Assignor and any and all additions, substitutions and replacements of any of the foregoing, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto.

“General Intangibles” shall have the meaning assigned that term under the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Goods” shall have the meaning assigned that term under the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Indemnitee” shall have the meaning specified in Section 8.1.

“Instrument” shall have the meaning assigned that term under the Uniform Commercial Code as in effect on the date hereof in the State of New York.

“Inventory” shall mean merchandise, inventory and goods, and all additions, substitutions and replacements thereof, wherever located, together with all goods, supplies, incidentals, packaging materials, labels, materials and any other items used or usable in manufacturing, processing, packaging or shipping same; in all stages of production (from raw materials through work-in-process to finished goods) and all products and proceeds of whatever sort and wherever located and any portion thereof which may be returned, rejected, reclaimed or repossessed by the Collateral Agent from any Assignor’s customers, and shall specifically include all “inventory” as such term is defined in the Uniform Commercial Code as in effect on the date hereof in the State of New York, now or hereafter owned by any Assignor.

“Marks” shall mean any trademarks and service marks now held or hereafter acquired by any Assignor, which are registered in the United States Patent and Trademark Office, as well as any unregistered marks owned by any Assignor in the United States or elsewhere and trade dress including logos and/or designs in connection with which any of these registered or unregistered marks are used.

“Patents” shall mean any patent to which any Assignor now or hereafter has title, as well as any application for a patent now or hereafter made by such Assignor.

“Proceeds” shall have the meaning assigned that term under the Uniform Commercial Code as in effect in the State of New York on the date hereof or under other relevant law and, in any event, shall include, but not be limited to, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to the Collateral Agent or any Assignor from time to time with respect to any of the Collateral, (ii) any and all payments (in any form whatsoever) made or due and payable to any Assignor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of such Collateral by any governmental authority (or any person acting under color of governmental authority) and (iii) any and all other amounts from time to time paid or payable under or in connection with any of such Collateral.

“Receivables” shall mean any “account” as such term is defined in the Uniform Commercial Code as in effect on the date hereof in the State of New York, now or hereafter owned by any Assignor and, in any event, shall include, but shall not be limited to, all of such Assignor’s rights to payment for goods sold or leased or services performed by such Assignor, whether now in existence or arising from time to time hereafter, including, without limitation, rights evidenced by an account, note, contract, security agreement, chattel paper, or other evidence of indebtedness or security, together with (a) all security pledged, assigned, hypothecated or granted to or held by such Assignor to secure the foregoing, (b) all of such Assignor’s right, title and interest in and to any goods, the date of which gave rise thereto, (c) all guarantees, endorsements and indemnifications on, or of, any of the foregoing, (d) all powers of attorney for the execution of any evidence of indebtedness or security or other writing in connection therewith, (e) all books, records, ledger cards, and invoices relating thereto, (f) all notices to other creditors or secured parties, and certificates from filing or other registration officers, (g) all credit information, reports and memoranda relating thereto, and (h) all other writings related in any way to the foregoing.

“Restricted Agreement” shall have the meaning specified in Section 1.1(c).

“Secured Creditor” shall have the meaning specified in the first recital of this Security Agreement.

“Secured Obligations” shall mean all Obligations (as defined in the Credit Agreement) including, without limitation, (i) the full and prompt payment when due (whether at stated maturity, by acceleration or otherwise) of (x) the principal of and interest on the Notes issued by, and the Loans made to, the Borrower under the Credit Agreement, (y) all reimbursement obligations and Unpaid Drawings with respect to Letters of Credit issued under the Credit Agreement and (z) all other obligations and indebtedness (including, without limitation, indemnities, Fees and interest thereon) of the Borrower and the Assignors, now existing or hereafter incurred under, arising out of or in connection with the Credit Agreement

and the other Credit Documents and the due performance of and compliance with the terms of the Credit Documents; (ii) any and all sums advanced by the Collateral Agent in order to preserve the Collateral or preserve its security interest in the Collateral; (iii) in the event of any proceeding for the collection of the Secured Obligations or the enforcement of this Security Agreement, after an Event of Default shall have occurred and be continuing, the reasonable expenses of re-taking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by the Collateral Agent of its rights hereunder, together with reasonable attorneys' fees and court costs; and (iv) all amounts paid by any Indemnitee as to which such Indemnitee has the right to reimbursement under Section 8.1 of this Security Agreement.

"Trade Secrets" shall mean any secretly held existing engineering and other data, information, production procedures and other know-how relating to the design, manufacture, assembly, installation, use, operation, marketing, sale and servicing of any products or business of any Assignor worldwide whether written or not written.

## ARTICLE X. MISCELLANEOUS

SECTION 10.1 Notices. Except as otherwise specified herein, all notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been duly given or made when delivered to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Security Agreement, addressed to such party at its address set forth in the Credit Agreement, or at such other address as any of the parties hereto may hereafter notify the others in writing.

SECTION 10.2 Waiver Amendment. (a) None of the terms and conditions of this Security Agreement may be changed, waived, modified or varied in any manner whatsoever unless in writing duly signed by each Assignor and the Collateral Agent (with the consent of the Required Banks or, to the extent required by Section 12.11 of the Credit Agreement, all of the Banks), provided, however that no such change, waiver, modification or variance shall be made to Section 7.4 hereof or this Section 10 without the consent of each Secured Creditor adversely affected thereby.

(b) No delay on the part of the Collateral Agent in exercising any of its rights, remedies, powers and privileges hereunder or partial or single exercise thereof, shall constitute a waiver thereof. No notice to or demand on any Assignor in any case shall entitle it to any other or further notice or demand in similar or other circumstances or constitute a waiver of any of the rights of the Collateral Agent to any other or further action in any circumstances without notice or demand.

SECTION 10.3 Secured Obligations Absolute. The obligations of each Assignor hereunder shall remain in full force and effect without regard to, and shall not be impaired by, (a) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or the like of the Borrower or any Assignor; (b) any exercise or non-exercise, or any waiver of, any right, remedy, power or privilege under or in respect of this Security Agreement or any other Credit Document except as specifically set forth in a waiver granted pursuant to the restrictions of Section 10.2 hereof; or (c) any amendment to or modification of any Credit Document or any security for any of the Secured Obligations;

whether or not the Assignors shall have notice or knowledge of any of the foregoing. The rights and remedies of the Collateral Agent herein provided are cumulative and not exclusive of any rights or remedies which the Collateral Agent would otherwise have.

SECTION 10.4 Successors and Assigns. This Agreement shall be binding upon each Assignor and its successors and assigns and shall inure to the benefit of the Collateral Agent and its successors and assigns, provided that no Assignor may transfer or assign any or all of its rights or obligations hereunder without the written consent of the Collateral Agent. All agreements, statements, representations and warranties made by any Assignor herein or in any certificate or other instrument delivered by any Assignor or on its behalf under this Security Agreement shall be considered to have been relied upon by the Secured Creditors and shall survive the execution and delivery of this Security Agreement and the other Credit Documents regardless of any investigation made by the Secured Creditors on their behalf.

SECTION 10.5 Headings Descriptive. The headings of the several sections of this Security Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Security Agreement.

SECTION 10.6 Severability. Any provision of this Security 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, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 10.7 GOVERNING LAW. THIS SECURITY AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK (WITHOUT REGARD TO NEW YORK CONFLICTS OF LAWS PRINCIPLES) (GIVING EFFECT TO SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 10.8 Assignors' Duties. It is expressly agreed, anything herein contained to the contrary notwithstanding, that each Assignor shall remain liable to perform all of the obligations, if any, assumed by it with respect to the Collateral and the Collateral Agent shall not have any obligations or liabilities with respect to any Collateral by reason of or arising out of this Security Agreement, nor shall the Collateral Agent be required or obligated in any manner to perform or fulfill any of the obligations of such Assignor under or with respect to any Collateral. Notwithstanding the foregoing, if any Assignor fails to perform any agreement contained herein within a reasonable time (but after the occurrence and continuance of an Event of Default, at any time), the Collateral Agent may itself perform, or cause performance of such agreement, and the expenses of the Collateral Agent incurred in connection therewith shall be payable by the Assignors and shall constitute Secured Obligations secured by this Agreement.

SECTION 10.9 Termination, Release. (a) After the termination of the Total Revolving Commitment, when no Note or Letter of Credit is outstanding and when all Loans and other Secured Obligations have been paid in full, this Security Agreement shall terminate, and the Collateral Agent, at the request and expense of the Assignors, will deliver to the Assignors a proper instrument or instruments (including Uniform Commercial Code termination statements) acknowledging the satisfaction and termination of this Security Agreement, and will duly assign,

transfer and deliver to the Assignors (without recourse and without any representation or warranty) such of the Collateral as may be in the possession of the Collateral Agent and as has not theretofore been sold or otherwise applied or released pursuant to this Security Agreement.

(b) So long as no payment default on any of the Secured Obligations is in existence or would exist after the application of proceeds as provided below, the Collateral Agent shall, at the request of the Assignors, release any or all of the Collateral, provided that (x) such release is permitted by the terms of the Credit Agreement (it being agreed for such purposes that a release will be deemed "permitted by the terms of the Credit Agreement" if the proposed transaction constitutes an exception to Section 8.02 of the Credit Agreement) or otherwise has been approved in writing by the Required Banks (or all the Banks if required by Section 12.11 of the Credit Agreement) and (y) the proceeds of such Collateral are applied as required pursuant to the Credit Agreement or any consent or waiver with respect thereto.

(c) At any time that the Assignors desire that the Collateral Agent take any action to give effect to any release of Collateral pursuant to the foregoing Section 10.9(a) or (b), they shall deliver to the Collateral Agent a certificate signed by a principal executive officer stating that the release of the respective Collateral is permitted pursuant to Section 10.9(a) or (b). In the event that any part of the Collateral is released as provided in the preceding paragraph (b), the Collateral Agent, at the request and expense of the Assignors, will duly assign, transfer and deliver to the Assignors (without recourse and without any representation or warranty) such of the Collateral as is then being (or has been) so sold and as may be in the possession of the Collateral Agent and has not theretofore been released pursuant to this Security Agreement. The Collateral Agent shall have no liability whatsoever to any Secured Creditor as the result of any release of any such Collateral by it as permitted by this Section 10.9. Upon any release of any such Collateral pursuant to Section 10.9(a) or (b), none of the Secured Creditors shall have any continuing right or interest in such Collateral, or the proceeds thereof.

SECTION 10.10 Collateral Agent. By accepting the benefits of this Security Agreement, each Secured Creditor acknowledges and agrees that the rights and obligations of the Collateral Agent shall be as set forth in Section 11 of the Credit Agreement. Notwithstanding anything to the contrary contained in Section 10.2 of this Security Agreement or Section 12.11 of the Credit Agreement, this Section 10.10, and the duties and obligations of the Collateral Agent set forth in this Section 10.10, may not be amended or modified without the consent of the Agent.

SECTION 10.11 Reinstatement. To the extent permitted by law, this Security Agreement shall continue to be effective or be reinstated if at any time any amount received by the Collateral Agent or the Secured Parties in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by the Collateral Agent or the Secured Parties upon the occurrence or during the pendency of any bankruptcy, reorganization or other similar proceeding applicable to any Assignor, or upon or during the occurrence of any dissolution, liquidation or winding up of such Assignor, all as though such payments had not been made.

SECTION 10.12 Counterparts; Telecopier. This Security Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. This Security Agreement may be

executed and delivered by telecopier or other facsimile transmission all with the same force and effect as if the same was a fully executed and delivered original manual counterpart.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

**ASSIGNOR:**

3100 Mill Street  
Suite 214  
Reno, Nevada 89502  
Attention: President

THE STONEBURY GROUP INCORPORATED

By: William C. Burmange  
Name:  
Title:

Chesterfield Avenue  
RD SC 903  
AIKIA 1792 Silkies Blvd.  
Lancaster, South Carolina 92721  
Attention: President

U.S. TEXTILE CORP.

By: William C. Burmange  
Name:  
Title:

3369 Progress Drive  
Bensalem, Pennsylvania 19020  
Attention: President

HOSIERY CORPORATION INTERNATIONAL

By: William C. Burmange  
Name:  
Title:

**COLLATERAL AGENT:**

DEUTSCHE BANK TRUST COMPANY  
AMERICAS

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



IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

**ASSIGNOR:**

3100 Mill Street  
Suite 214  
Reno, Nevada 89502  
Attention: President

THE STONEBURY GROUP INCORPORATED

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

Chesterfield Avenue  
RD SC 903  
AIKIA 1792 Silkies Blvd.  
Lancaster, South Carolina 92721  
Attention: President

U.S. TEXTILE CORP.

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

3369 Progress Drive  
Bensalem, Pennsylvania 19020  
Attention: President

HOSIERY CORPORATION INTERNATIONAL

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

**COLLATERAL AGENT:**

DEUTSCHE BANK TRUST COMPANY  
AMERICAS

By: Robert M. Wood, Jr.  
Name: Robert M. Wood, Jr.  
Title: Director

ANNEX A  
to  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

FINANCING STATEMENTS

ANNEX B  
TO  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

CHIEF EXECUTIVE OFFICE

<u>Assignor</u>	<u>Address of Chief Executive Office</u>
The Stonebury Group Incorporated	3100 Mill Street Suite 214 Reno, NV 89502
U.S. Textile Corp.	1792 Silkies Blvd. Lancaster, SC 29721
Hosiery Corporation International	3369 Progress Drive Bensalem, PA 19020

SCHEDULE OF RECORD LOCATIONS

<u>Assignor</u>	<u>Record Locations</u>
The Stonebury Group, Incorporated	3100 Mill Street Suite 214 Reno, NV
U.S. Textile Corp.	1792 Silkies Blvd. Lancaster, SC
Hosiery Corporation International	3369 Progress Drive Bensalem
The Stonebury Group, Incorporated	800 S. Northwest Highway Suite 102A Barrington
U.S. Textile Corp.	155 Rowland Avenue Heath Springs
U.S. Textile Corp.	Shady Street Newland
Hosiery Corporation International	Suite 4 South Harrington Bldg. 182 Sefton Street Liverpool England

ANNEX C  
TO  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

SCHEDULE OF EQUIPMENT  
AND INVENTORY LOCATIONS

<u>Assignor</u>	<u>Location</u>
The Stonebury Group, Incorporated	3100 Mill Street Suite 214 Reno, NV
U.S. Textile Corp.	1792 Silkies Blvd. Lancaster, SC
Hosiery Corporation International	3369 Progress Drive Bensalem
The Stonebury Group, Incorporated	800 S. Northwest Highway Suite 102A Barrington
U.S. Textile Corp.	155 Rowland Avenue Heath Springs
U.S. Textile Corp.	Shady Street Newland
Hosiery Corporation International	Suite 4 South Harrington Bldg. 182 Sefton Street Liverpool England
U.S. Textile Corp	545 Amity Park Rd. Spruce Pine, NC

ANNEX D  
TO  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

LIST OF TRADE AND FICTITIOUS NAMES

None.

ANNEX E  
TO  
SUBSIDIARY SECURITY AGREEMENT

SCHEDULE OF MARKS

<u>Mark</u>	<u>Reg. No. (Appl. Serial No.)</u>	<u>Reg. Date (Appl. Date)</u>	<u>Record Owner/Liens</u>
L'AMERA	1,470,720 (73-642,989)	12/29/1987 (2/5/1987)	U. S. Textile Corporation (North Carolina Corporation); Security Interest granted to Bankers Trust Company, recorded 3/5/1998 at Reel/Frame 1699/0607

ANNEX F  
TO  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

SCHEDULE OF PATENTS AND APPLICATIONS

<u>Title</u>	<u>Patent No.</u> <u>(App. No.)</u>	<u>Patent Date</u> <u>(App. Date)</u>	<u>Record Owner/Liens</u>
Ultraviolet-detectable marking yarn and a textile fabric product therewith	5,573,851 (243,456)	11/12/1996 (5/16/1994)	U.S. Textiles Corporation

ANNEX G  
To  
SECOND AMENDED AND RESTATED  
SUBSIDIARY SECURITY AGREEMENT

LIST OF COPYRIGHTS AND APPLICATIONS

None.



## CERTIFICATE

The undersigned hereby certifies that she is an authorized representative of Deutsche Bank Trust Company Americas, and that the attached document pertaining to a grant of security interest from HCI Direct, Inc. to Deutsche Bank Trust Company Americas dated June 4, 2002 is a true and correct copy of the original document.

Date: June 13, 2002



Paula Campbell Evans, Notary Public as  
Authorized Representative  
of Deutsche Bank Trust Company Americas

PAULA CAMPBELL EVANS, NOTARY PUBLIC  
MY COMMISSION EXPIRES DECEMBER 22, 2006