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06-15-1998

U.S. Patent & TM Office Mail Receipt (U.S. #1)



05-26-1998

ECO



HEET

To the Honorable Commissioner of Patents and Trademarks

100738906

original documents or copy thereof.

1. Name of conveying party(ies):

The L.A. Studios, Inc.

- Individual(s)
- General Partnership
- Corporation - State of Oregon
- Other: _____
- Association
- Limited Partnership

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

2. Name and address of receiving party(ies)

Name: American Capital Strategies, Ltd.

Street Address: 3 Bethesda Metro Center
Suite 860

City: Bethesda State: MD Zip: 20814

- Individual(s)
- Association
- General Partnership
- Limited Partnership
- Corporation - State of Delaware
- Other: _____

If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
(Designations must be a different document from assignments)
Additional name(s) & address(es) attached? Yes No

3. Nature of Conveyance:

- Assignment
- Security Agreement
- Other: _____
- Merger
- Change of Name

Execution Date: April 3, 1998

4. Application number(s) or registration number(s):

If this document is being filed together with a new application, the execution date of the application is: _____

A. Trademark Application No.(s)

B. Registration No.(s)

1,802,351; 1,782,979; 1,862,853

Additional numbers attached? Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: Chris Wilson

Internal Address: _____

Street Address: Arnold & Porter

555 Twelfth Street N.W.

City: Washington State: DC ZIP: 20004-1202

6. Total number of applications and registrations involved: 3

7. Total fee (37 CFR 3.41).....\$ 90.00

- Enclosed
- Authorized to be charged to deposit account

E

8. Deposit account number:

01-2510

(Attach duplicate copy of this page if paying by deposit account)

06/12/1998

DNGUYEN 00000104 012510 1002351

DO NOT USE THIS SPACE

01 FC:481
02 FC:482

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.

James T. Walsh, Esq.

Name of Person Signing

James T. Walsh
Signature

May 22, 1998

Date

Total number of pages including cover sheet, attachments, and document:

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

SECURITY AGREEMENT

THIS SECURITY AGREEMENT, is entered into as of April 3, 1998 (as from time to time amended, modified, restated, supplemented, and in effect, this "Security Agreement"), by and between THE L.A. STUDIOS, INC., an Oregon corporation (the "Grantor"), in favor of AMERICAN CAPITAL STRATEGIES, LTD., a Delaware corporation (the "Secured Party").

RECITALS

A. The Secured Party has advanced to the Grantor on even date herewith the sum of Three Million, Two Hundred Fifty Thousand Dollars (\$3,250,000) (the "Loan") as evidenced by a Secured Promissory Note (the "Note") of even date herewith.

B. In order to induce the Secured Party to make the Loan and in consideration therefor, the Grantor has agreed to grant to the Secured Party a perfected lien on and security interest in all of the Grantor's assets and properties, whether now or hereafter existing, owned, or acquired in order to secure (i) the due and punctual payment of (A) the principal and interest (including interest accruing during the pendency of any bankruptcy, insolvency, receivership, or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Note, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and (B) all other monetary obligations, including but not limited to, fees, costs, expenses, and indemnities, whether primary, secondary, direct, contingent, fixed, or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership, or other similar proceeding regardless of whether allowed or allowable in such proceeding), of the Grantor under the Note, this Security Agreement, that certain Note and Warrant Purchase Agreement dated the date hereof between Grantor and Secured Party (the "Purchase Agreement"), that certain Warrant issued the date hereof by Grantor to the Secured Party (the "Warrant"), that certain Conditional Warrant Agreement dated the date hereof (the "Conditional Warrant Agreement"), that certain Voting Trust Agreement, dated the date hereof (the "Voting Agreement"), or otherwise, and (ii) the due and punctual performance of all covenants, agreements, obligations, and liabilities of the Grantor under or pursuant to the Note or this Security Agreement or the Purchase Agreement or the Warrant, the Conditional Warrant Agreement, or the Voting Agreement (collectively, the "Obligations").

C. It is a condition precedent to the making of the Loan of the Securities that the Grantor execute and deliver this Security Agreement.

#13196.V4

TRADEMARK
REEL: 1739 FRAME: 0918

AGREEMENT

NOW THEREFORE, for and in consideration of the covenants and provisions set forth herein, and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE A

DEFINITIONS

Terms used herein with initial capital letters and not otherwise defined herein shall have the meanings assigned to such terms in the Purchase Agreement.

ARTICLE 1

SECURITY INTEREST

SECTION 1.1. Grant of Security Interest. As security for the Obligations, the Grantor hereby sells, conveys, assigns, pledges, and grants a continuing and unconditional security interest to the Secured Party, its successors and assigns, in and to:

(a) all equipment (including all "Equipment" as that term is defined in Section 9-109(2) of the Uniform Commercial Code as in effect from time to time in the State of Maryland (such code, together with any other successor or applicable adoption of the Uniform Commercial Code in any applicable jurisdiction, shall be referred to herein as the ("Code")), machinery, vehicles, fixtures, improvements, supplies, art, antiques, office furniture, fixed assets, all as now owned or hereafter acquired by the Grantor or in which the Grantor has or hereafter acquires any interest, and any items substituted therefor as replacements and any additions or accessions thereto;

(b) all goods (including all "Goods" as defined in Section 9-105 of the Code) and all inventory (including all "Inventory" as defined in Section 9-109(4) of the Code) of the Grantor, now owned or hereafter acquired by the Grantor or in which the Grantor has or hereafter acquires any interest, including but not limited to, raw materials, scrap inventory, work in process, products, packaging materials, finished goods, all documents of title, chattel paper, and other instruments covering the same and all substitutions therefor and additions thereto (all of the property described in this clause (b) being hereinafter collectively referred to as "Inventory");

(c) all present and future accounts in which the Grantor has or hereafter acquires any interest (including all "Accounts" as defined in Section 9-106 of the Code), contract rights (including all rights to receive payments and other rights under all equipment and other leasing contracts) and rights to payment and rights or accounts receivable evidencing or representing indebtedness due or to become due the Grantor on account of goods sold or leased or services rendered, claims, instruments, and other general intangibles (including tax refunds, royalties, and all other rights to the payment of

money of every nature and description), including but not limited to, any such right evidenced by chattel paper, and all liens, securities, guaranties, remedies, security interests, and privileges pertaining thereto (all of the property described in this clause (c) being hereinafter collectively referred to as "Accounts");

(d) all investment property now owned or hereafter acquired by the Grantor, including, without limitation, all securities (certificated and uncertificated), securities accounts, securities entitlements, commodity contracts, and commodity accounts;

(e) all general intangibles now owned or hereafter acquired by the Grantor or in which the Grantor has or hereafter acquires any interest, (including all "General Intangibles" as defined in Section 9-106 of the Code) including but not limited to, chooses in action and causes of action and all licenses and permits (to the extent the collateral assignment of such licenses and permits is not prohibited by applicable law), registrations, franchises, corporate or other business records, systems, designs, software, goodwill, logos, indicia, business identifiers, inventions, processes, production methods, proprietary information, know-how and trade-secrets of the Grantor, and all trade-names, copyrights, patents, trademarks (including service marks) or patent or trademark applications, contract rights (including but not limited to all rights to receive payments and other rights under all equipment and other leasing contracts, instruments, and documents owned or used by the Grantor, and any goodwill relating thereto);

(f) all other property owned by the Grantor or in which the Grantor has or hereafter acquires any interest, wherever located, and of whatever kind or nature, tangible or intangible;

(g) all insurance policies of any kind maintained in effect by the Grantor, now existing or hereafter acquired, under which any of the property referred to in clauses (a) through (f) above is insured, including but not limited to, any proceeds payable to the Grantor pursuant to such policies;

(h) all moneys, cash collateral, chattel paper, checks, notes, bills of exchange, documents of title, money orders, negotiable instruments, commercial paper, and other securities, instruments, documents, deposit accounts, deposits, and credits from time to time whether or not in the possession of or under the control of any of the Secured Party;

(i) any consideration received when all or any part of the property referred to in clauses (a) through (h) above is sold, transferred, exchanged, leased, collected, or otherwise disposed of, or any value received as a consequence of possession thereof, including but not limited to, all products, proceeds (including all "Proceeds" as defined in Section 9-306(l) the Code), cash, negotiable instruments, and other instruments for the payment of money, chattel paper, security agreements, or other documents, insurance proceeds or proceeds of other proceeds now or hereafter owned by the Grantor or in which the Grantor has an interest;

(j) all of Grantor's present and future United States registered copyrights and copyright registrations, including, without limitation, the registered copyrights listed in

Schedule A to this Agreement (and including all of the exclusive rights afforded a copyright registrant in the United States under 17 U.S.C. §106 and any exclusive rights which may in the future arise by act of Congress or otherwise) and all of Grantor's present and future applications for copyright registrations (including applications for copyright registrations of derivative works and compilations) (collectively, the "Registered Copyrights"), and any and all royalties, payments, and other amounts payable to Grantor in connection with the Registered Copyrights, together with all renewals and extensions of the Registered Copyrights, the right to recover for all past, present, and future infringements of the Registered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes, and all tangible property embodying or incorporating the Registered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto;

(k) all of Grantor's present and future copyrights which are not registered in the United States Copyright Office (the "Unregistered Copyrights"), whether now owned or hereafter acquired, including without limitation the Unregistered Copyrights listed in Schedule B to this Agreement, and any and all royalties, payments, and other amounts payable to Grantor in connection with the Unregistered Copyrights, together with all renewals and extensions of the Unregistered Copyrights, the right to recover for all past, present, and future infringements of the Unregistered Copyrights, and all computer programs, computer databases, computer program flow diagrams, source codes, object codes, and all tangible property embodying or incorporating the Unregistered Copyrights, and all other rights of every kind whatsoever accruing thereunder or pertaining thereto.

The property set forth in clauses (a) through (k) of the preceding sentence, together with property of a similar nature which the Grantor hereafter owns or in which the Grantor hereafter acquires any interest, is referred to herein as the "Collateral."

ARTICLE 2

REPRESENTATIONS AND WARRANTIES

SECTION 2.1. Representations and Warranties. The Grantor represents, warrants, and agrees that:

(a) the Grantor has and shall have absolute, good, and exclusive title to all the Collateral, wherever and whenever acquired, free and clear of any lien except as permitted by the Secured Party, and the Grantor has not filed a financing statement under the Code (or similar statement or instrument of registration under the law of any jurisdiction) covering any Collateral, except pursuant to the Senior Debt Facility;

(b) the Grantor has paid or will pay when due all taxes, fees, assessments and other charges now or hereafter imposed upon the Collateral except for any tax, fee, assessment, or other charge the validity of which is being contested in good faith by appropriate proceedings and which may not result in any material impairment of the Lien of the Secured Party on such Collateral;

(c) as a result of the execution and delivery of this Security Agreement and the filing of any financing statements or other documents necessary to assure, preserve, and perfect the security interest created hereby, the Secured Party shall have a valid, perfected, enforceable lien on, and a continuing security interest in, the Collateral, enforceable and superior as such as against creditors and purchasers (other than purchasers of Inventory in the ordinary course of business) and as against any owner of real property where any of the equipment or Inventory is located and as against any purchaser of such real property and any present or future creditor obtaining a mortgage or other lien on such real property, and such lien shall be superior and prior to all other Liens, in each case with the exception of the lien granted by the Grantor to the holder of the Senior Debt Facility;

(d) the amount that has been and that shall be represented by the Grantor to the Secured Party from time to time owing by all obligors (such obligors being hereinafter referred to as the "Account Debtors") in the aggregate with respect to Accounts has not and will not materially deviate from the correct amount actually and unconditionally owing at such time by such Account Debtors; all Accounts represented (or, if Accounts created in the future, shall represent when created) bona fide transactions completed in accordance with the terms and provisions contained in the invoices and other documents evidencing the same; there are and shall be no material setoffs, counterclaims, or disputes existing or asserted with respect to Accounts and the Grantor has not made and shall not make any agreement with any Account Debtor for any material deduction therefrom; all Account Debtors have and shall have the capacity to contract and are solvent; the goods giving rise to Accounts are not and shall not be subject to any lien, claim, or encumbrance, except in favor of the Secured Party and except for as permitted by the Purchase Agreement; and the Grantor has no knowledge of any fact or circumstances that would impair the validity or collectability of Accounts; if Grantor becomes aware of any such facts or circumstances, Grantor will give Secured Party prompt written notice thereof; and

(e) none of the Collateral is held by a third party in any location as assignee, trustee, bailee, consignee, or in any similar capacity.

SECTION 2.2. Survival. All representations, warranties, and agreements of the Grantor contained in this Security Agreement shall survive the execution, delivery, and performance of this Security Agreement until the termination of this Security Agreement pursuant to Section 5.5 hereof.

ARTICLE 3

COVENANTS

SECTION 3.1. Covenants. The Grantor hereby covenants and agrees with the Secured Party that so long as this Security Agreement shall remain in effect or any Obligations shall remain unpaid or unperformed:

- (a) Grantor shall promptly give written notice to the Secured Party of any levy or attachment, execution, or other process against any of the Collateral;
- (b) At its own cost and expense, Grantor shall take any and all actions reasonably necessary or desirable to defend the Collateral against the claims and demands of all Persons other than the Secured Party and holders of adverse Liens permitted by the Purchase Agreement and to defend the security interest of the Secured Party in the Collateral and the priority thereof against any adverse Lien that is not permitted by the Purchase Agreement;
- (c) Grantor shall keep all tangible Collateral properly insured and in good order and repair and immediately notify the Secured Party of any event causing any material loss, damage, or depreciation in value of the Collateral and of the extent of such loss, damage, or depreciation;
- (d) Grantor shall mark any Collateral which is chattel paper with a legend showing the Secured Party's lien and security interest therein;
- (e) Grantor shall promptly give written notice to the Secured Party of any change in the Intellectual Property Rights material to its business; and
- (f) Grantor shall not: amend or terminate any contract or other document or instrument constituting part of the Collateral, except for transactions in the ordinary course of business substantially consistent with past practice; voluntarily or involuntarily exchange, lease, sell, transfer, or otherwise dispose of any Collateral, except as permitted by the Purchase Agreement; make any compromise, settlement, discharge, or adjustment or grant any extension of time for payment with respect to any Account or any Lien, Guaranty, or remedy pertaining thereto, except for transactions in the ordinary course of business substantially consistent with past practice; change its name or use any fictitious or trade name other than those presently used; change the location of its chief executive office; or permit any of the Collateral (other than Collateral which constitutes goods which are mobile and which are of a type normally used in more than one jurisdiction) to be removed from or located in any place not identified to the Secured Party as the location of such Collateral, as the case may be, except after written notice to and with written consent of the Secured Party and compliance with such procedures as the Secured Party may reasonably impose to prevent any interruptions or discontinuity in the security interest granted pursuant to this Security Agreement.

ARTICLE 4

REMEDIAL MATTERS

SECTION 4.1. Powers of Attorney. (a) The Grantor hereby irrevocably appoints the Secured Party (and any officer or agent of the Secured Party) as its true and lawful attorney-in-fact, with power of substitution for and in the name of the Secured Party or otherwise, for the use and benefit of the Secured Party, effective upon the occurrence and during the continuance of an Event of Default: (i) to receive, endorse the

name of the Grantor upon, and deliver any notes, acceptances, checks, drafts, money orders, or other evidences of payment that may come into the possession of the Secured Party with respect to the Collateral; (ii) to cause the Grantor's mail to be transferred to the Secured Party's own offices and to receive and open all mail addressed to the Grantor for the purposes of removing any notes, acceptances, checks, drafts, money orders, or other evidences of payment; (iii) to demand, collect, and receive payment in respect of the Collateral and to apply any such payments directly to the payment of the Obligations in accordance with Section 4.5 hereof; (iv) to receive and give discharges and releases of all or any of the Collateral; (v) to commence and prosecute any and all suits, actions, or proceedings at law or in equity in any court of competent jurisdiction, to collect or otherwise realize on all or any part of the Collateral, and to enforce any rights in respect thereof; (vi) to sign the name of the Grantor on any invoice or bill of lading relating to any of the Collateral; (vii) to send verification of any Accounts to any Account Debtor or customer; (viii) to notify any Account Debtor or other obligor of the Grantor with respect to any Collateral to make payment to the Secured Party; (ix) to settle, compromise, compound, adjust, or defend any actions, suits, or proceedings relating or pertaining to all or any of the Collateral; (x) to take any action for purposes of carrying out of the terms of this Security Agreement; (xi) to enforce all of the Grantor's rights and powers under and pursuant to any and all agreements with respect to the Collateral; and (xii) generally to sell, assign, transfer, pledge, make any agreement with respect to, or otherwise deal with all or any of the Collateral, and to do all other acts and things necessary to carry out this Security Agreement, as fully and completely as though the Secured Party were the absolute owner of the Collateral for all purposes; provided, however, that nothing herein contained shall be construed as requiring or obligating the Secured Party to make any commitment or to make any inquiry as to the nature or sufficiency of any payment received by the Secured Party, or to present or file any claim or notice, or to take any action with respect to the Collateral or any part thereof or the moneys due or to become due in respect thereof or any property covered thereby, and no action taken by the Secured Party or omitted to be taken with respect to the Collateral or any part thereof shall give rise to any defense, counterclaim, or offset in favor of the Grantor or to any claim or action against the Secured Party. It is understood and agreed that the power of attorney granted to the Secured Party for the purposes set forth above in this Section 4.1 is coupled with an interest and is irrevocable and the Grantor hereby ratifies all actions taken by its attorney-in-fact by virtue hereof. The provisions of this Section 4.1 shall in no event relieve the Grantor of any of its obligations hereunder or under any of the other Security Documents with respect to the Collateral or any part thereof or impose any obligation on the Secured Party to proceed in any particular manner with respect to the Collateral or any part thereof, or in any way limit the exercise by the Secured Party of any other or further right that it may have on the date of this Security Agreement or hereafter, whether hereunder, under any of the other Security Documents, by law, or otherwise.

(b) The Secured Party shall not, under any circumstance or in any event whatsoever, have any liability for any shortage, damage, loss, or destruction of any part of the Collateral, nor shall the Secured Party have any liability for any error or omission or delivery of any kind incurred in the good faith settlement, collection, or payment of any of the Collateral or any monies received in payment therefor or for any damages

resulting therefrom, nor shall this Security Agreement impose upon the Secured Party any obligation to perform any obligation with respect to the Collateral. The costs of collection, notification, and enforcement, including but not limited to, attorneys' fees and out-of-pocket expenses, shall be borne solely by the Grantor, whether the same are incurred by the Grantor or the Secured Party. The Grantor agrees to indemnify and hold the Secured Party harmless from and against any and all other claims, demands, losses, judgments, and liabilities (including but not limited to, liabilities for penalties) of any nature, and to reimburse the Secured Party for all reasonable costs and expenses, including but not limited to attorneys' fees and expenses, arising from this Security Agreement or the exercise of any right or remedy granted to the Secured Party hereunder other than those incurred solely as a result of the gross negligence and willful misconduct of the Secured Party. In no event shall the Secured Party be liable for any matter or thing in connection with this Security Agreement other than to account for moneys actually received by the Secured Party in accordance with the terms hereof, and matters arising out of the gross negligence or willful misconduct of the Secured Party.

SECTION 4.2. Collections. Upon the occurrence and during the continuance of an Event of Default, the Secured Party may, in its sole discretion, in its name or in the name of the Grantor, or otherwise, (a) demand, sue for, collect, or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable with respect to, any of the Collateral, but shall be under no obligation to do so, or (b) extend the time of payment, arrange for payment in installments, or otherwise modify the term of, or release any of the Collateral, without thereby incurring responsibility to, or discharging or otherwise affecting any liability of, the Grantor, other than to discharge the Grantor in so doing with respect to liabilities of the Grantor to the extent that the liabilities are paid or repaid. After the occurrence and during the continuance of an Event of Default, any money, checks, notes, bills, drafts, or commercial paper received by the Grantor shall be held in trust for the Secured Party and any other secured party having rights thereto senior to the Secured Party and shall be promptly turned over to the Secured Party or any other secured party having rights thereto senior to the Secured Party as their interests shall appear. The Secured Party may make such payments and take such actions as the Secured Party, in its sole discretion, deems necessary to protect its security interest in the Collateral or the value thereof, and the Secured Party is hereby unconditionally and irrevocably authorized (without limiting the general nature of the authority hereinabove conferred) to pay, purchase, contest, or compromise any Liens that in the judgment of the Secured Party appear to be equal to, prior to, or superior to its security interest in the Collateral and any Liens not expressly permitted by this Security Agreement or the other Security Documents.

SECTION 4.3. Possession; Sale of Collateral.

(a) Upon the occurrence and during the continuance of an Event of Default, the Secured Party may, subject to the rights of any other secured party having rights senior to the rights of the Secured Party (i) require the Grantor to assemble the tangible assets that comprise part of the Collateral and make them available to the Secured Party at any place or places reasonably designated by the Secured Party, (ii) with or without

notice or demand for performance and without liability for trespass, enter any premises where the Collateral may be located and take possession of the same, and may demand and receive such possession from any person who has possession thereof, and may take such measures as it may deem necessary or proper for the care or protection thereof, including but not limited to, the right to remove all or any portion of the Collateral, and (iii) with or without taking such possession may sell or cause to be sold, in one or more sales or parcels, for cash, on credit, or for future delivery, without assumption of any credit risk, all or any portion of the Collateral, at public or private sale or at any broker's board or any securities exchange, without demand of performance or notice of intention to sell or of time or place of sale, except ten (10) days' written notice to the Grantor of the time and place of such sale or sales (and such other notices as may be required by applicable statute, if any, and that cannot be waived), which the Grantor hereby expressly acknowledges is commercially reasonable. The Collateral may be sold or disposed of for cash, upon credit, or for future delivery as the Secured Party shall deem appropriate. Each such purchaser at any such sale shall hold the property sold absolutely, free from any claim or right on the part of the Grantor, and the Grantor hereby waives (to the extent permitted by law) all rights of redemption, stay, and appraisal that the Grantor now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. At any such sale, the Collateral, or portion thereof, to be sold may be sold in one lot as an entirety or in separate parcels, as the Secured Party may (in its sole and absolute discretion) determine. The Secured Party shall not be obligated to make any sale of any Collateral if it shall determine not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. The Secured Party may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. In case any sale or all or any part of the Collateral is made on credit or for future delivery, the Collateral so sold may be retained by the Secured Party until the sale price is paid by the purchaser or purchasers thereof, but the Secured Party shall not incur any liability for the failure to collect or realize upon any or all of the Collateral or for any delay in doing so and, in case of any such failure, shall not be under any obligation to take any action with respect thereto; provided, however, that such Collateral may be sold again upon like notice. At any public sale made pursuant to this Section 4.3, the Secured Party may bid for or purchase, free from any right of redemption, stay, or appraisal and all rights of marshalling, all or any part of the Collateral or any other security for the Obligations or otherwise on the part of the Grantor (all said rights being also hereby waived and released by the Grantor to the fullest extent permitted by law), and may make payment on account thereof by using any claim then due and payable to the Secured Party from the Grantor as a credit against the purchase price, and the Secured Party may, upon compliance with the terms of sale, hold, retain, and dispose of such property without further accountability to the Grantor therefor. For purposes hereof, a written agreement to purchase the Collateral or any portion thereof shall be treated as a sale thereof; the Secured Party shall be free to carry out such sale pursuant to such agreement, and the Grantor shall not be entitled to the return of the Collateral or any portion thereof subject thereto, notwithstanding the fact that after the Secured Party shall have entered into such an agreement, all Events of Default shall have been remedied and any

obligations to the Secured Party shall have been paid in full. As an alternative to exercising the power of sale herein conferred upon it, the Secured Party may proceed by a suit or suits at law or in equity to foreclose this Security Agreement and to sell the Collateral or any portion thereof pursuant to a judgment or decree of a court or courts having competent jurisdiction or pursuant to a proceeding by a court-appointed receiver. In any action hereunder, the Secured Party shall be entitled to the appointment of a receiver without notice, to take possession of all or any portion of the Collateral and to exercise such powers as the court shall confer upon the receiver. Notwithstanding the foregoing, if an Event of Default shall occur and be continuing, the Secured Party shall be entitled to apply to payment of the Obligations, without notice to the Grantor, any cash or cash items constituting Collateral in Secured Party's possession.

(b) If an Event of Default shall occur and be continuing, the Secured Party shall, in addition to exercising any and all rights and remedies afforded to it hereunder, have all the rights and remedies of a secured party under all applicable provisions of law, including but not limited to, the Code.

(c) The Grantor agrees that notwithstanding anything to the contrary contained in this Security Agreement, the Grantor shall remain liable under each contract or other agreement giving rise to Accounts and general intangibles and all other contracts or agreements constituting part of the Collateral and the Secured Party shall not have any obligation or liability in respect thereof.

(d) After the occurrence and during the continuance of an Event of Default, upon the Secured Party's request, but subject to the rights of any other secured party having rights senior to the Secured Party, the Grantor shall deliver to the Secured Party all original and other documents, evidencing and relating to the sale and delivery of Inventory or Accounts, including but not limited to, all original orders, invoices, and shipping receipts. The Grantor shall also furnish to the Secured Party, promptly upon the request of the Secured Party, such reports, reconciliations, and aging balances regarding Accounts as the Secured Party may request from time to time.

SECTION 4.4. Event of Default. An "Event of Default" shall exist hereunder (a) if the Grantor shall fail to pay any interest or principal or other amounts when due under the Note, whether due upon demand, acceleration, or otherwise, (b) upon the filing of a voluntary or involuntary petition for bankruptcy, insolvency, receivership, or similar event involving the Grantor, (c) if the Grantor shall breach in any material respect any representation, warranty, or agreement contained herein or otherwise default in any material respect in the observance or performance of any of the covenants, terms, conditions or agreements on the part of the Grantor contained in this Security Agreement and, with respect to nonmonetary covenants, terms, conditions, or agreements, such nonobservance or nonperformance continues for a period of thirty (30) days after the earlier of (i) written notice from the Secured Party of such default or (ii) actual knowledge of the Grantor of such default; or (d) if there exists an Event of Default under the Purchase Agreement.

SECTION 4.5. Application of Proceeds. Unless the Secured Party otherwise directs pursuant to the Purchase Agreement, the proceeds of any sale of Collateral pursuant to this Security Agreement or otherwise, as any Collateral consisting of cash shall be applied after receipt by the Secured Party as follows, subject to the rights of any other secured party having rights senior to the Secured Party:

First, to the payment of all reasonable costs, fees, and expenses of the Secured Party and its agents, representatives, and attorneys incurred in connection with such sale or with the retaking, holding, handling, preparing for sale (or other disposition) of the Collateral or otherwise in connection with the Note, this Security Agreement or any of the Obligations, including but not limited to, the reasonable fees and expenses of the Secured Party's agents and attorneys and court costs (whether at trial, appellate, or administrative levels), if any, incurred by the Secured Party in so doing;

Second, to the payment of the outstanding principal balance and accrued interest and fees on the Obligations;

Third, to pay all other amounts payable by the Grantor under the Notes;
and

Fourth, to the Grantor or to such other Person as a court may direct.

SECTION 4.6. Authority of Secured Party. The Secured Party shall have and be entitled to exercise all such powers hereunder as are specifically delegated to the Secured Party by the terms hereof, together with such powers as are reasonably incidental thereto. The Secured Party may execute any of its duties hereunder by or through its agents or employees and shall be entitled to retain counsel and to act in reliance upon the advice of such counsel concerning all matters pertaining to Secured Party's duties hereunder.

SECTION 4.7. Certain Waivers; Grantor Not Discharged. The Grantor expressly and irrevocably waives (to the extent permitted by applicable law) presentment, demand of payment, and protest of nonpayment in respect of its Obligations under this Security Agreement. The obligations and duties of the Grantor hereunder are irrevocable, absolute, and unconditional, and shall not be discharged, impaired, or otherwise affected by (a) the failure of the Secured Party to assert any claim or demand or to enforce any right or remedy against the Grantor or any grantee under the provisions of this Security Agreement or any other Security Document or any grantee under the provisions of this Security Agreement or any other Security Document or any waiver, consent, extension, indulgence, or other action or inaction in respect thereof, (b) any extension or renewal of any part of the Obligations, (c) any rescission, waiver, amendment, or modification of any of the terms or provisions of the Purchase Agreement or any Security Document or of any agreement related thereto, (d) the release of any liens on or security interests in any part of the Collateral or the release, sale, or exchange of or failure to foreclose against any security held by or for the benefit of the Secured Party for payment or performance of the Obligations, (e) the bankruptcy, insolvency, or reorganization of the

Grantor or any other Persons, (f) the invalidity or unenforceability of the Purchase Agreement or the Security Documents, (g) any change, restructure, or termination of the corporate structure or existence of the Grantor or any restructuring or refinancing of all or any portion of the Obligations, or (h) any other event which under law would discharge the obligations of a surety.

SECTION 4.8. Transfer of Security Interest. The Secured Party may transfer to any other Person all or any part of the liens and security interests granted hereby, and all or any part of the Collateral which may be in the Secured Party's possession after the occurrence and during the continuance of an Event of Default or, if to a successor Secured Party in accordance with the Purchase Agreement, at any time. Upon such transfer, the transferee shall be vested with all the rights and powers of the Secured Party hereunder with respect to such of the Collateral as is so transferred, but, with respect to any of the Collateral not so transferred, the Secured Party shall retain all of its rights and powers (whether given to it in this Security Agreement, or otherwise). The Secured Party may, at any time, subject to and in accordance with the Purchase Agreement, assign its rights as the secured party hereunder to any Person, in the Secured Party's discretion, and upon notice to the Grantor, but without any requirement for consent or approval by or from Grantor, except as required by the Purchase Agreement, and any such assignment shall be valid and binding upon the Grantor, as fully as it had expressly approved the same. Any transfer by the Secured Party of a portion of any Note shall constitute the transfer of a prorata interest in Secured Party's interest in the Collateral, subject to and in accordance with the Purchase Agreement.

ARTICLE 5

SECURED PARTY'S INTERESTS

SECTION 5.1. Pro Rata Interests. The security interests and other rights granted or reserved to the Secured Party and its successors and assigns (the "Note Holders") under this Security Agreement (the "Contractual Rights") and the other rights available to the Note Holders under applicable law by reason of the existence of this Security Agreement and the attachment and perfection of the security interests created under this Security Agreement (the "Statutory Rights") are for the pro rata benefit of the Note Holders according to the outstanding principal amount of Notes held by each Note Holder, respectively, expressed as a percentage of the aggregate outstanding principal amount of all Notes, and shall be held by the Note Holders in such percentages, *pari passu*, regardless of the time or order of the attachment or perfection of their respective security interests or the time or manner of filing of their respective financing statements or assignments thereof and regardless of which Note Holder may hold possession of Collateral. Any Note Holder holding Collateral shall hold such Collateral as the agent for all other Note Holders. All contractual rights and statutory rights shall be exercised from time to time as shall be determined by Note Holders representing a majority of the outstanding principal amount of the Notes (the "Majority Holders"). No waiver of any contractual rights or statutory rights shall be binding upon a Note Holder unless set forth in a written document signed by such Note Holder or signed by the Majority Holders. All recoveries attributable to enforcement of contractual rights or statutory rights, or both,

shall be shared ratably by the Note Holders according to their respective pro rata interests as provided in this Security Agreement. All reasonable expenses incurred by any Note Holder in the enforcement of contractual rights or statutory rights, or both, on behalf of or for the benefit of the Note Holders shall be shared ratably by the Note Holders according to their respective pro rata interests as provided in this Security Agreement.

SECTION 5.2. Grantor Obligation. The provisions of this Article 5 are for the purpose of defining the relative rights of the Note Holders with respect to the Collateral and the exercise of contractual rights and statutory rights. Nothing herein shall impair the obligations of the Grantor, which are absolute and unconditional, to pay and perform the Obligations as and when due. No provision of this Security Agreement shall be construed to prevent any Note Holder from exercising remedies that may otherwise be available to it.

SECTION 5.3. Power of Attorney. As may be necessary for the proper enforcement of the contractual rights and statutory rights on behalf of the Note Holders, each Note Holder hereby constitutes and appoints as its agent and attorney-in-fact such Person as shall be designated or appointed to act by, or be otherwise acting at the direction of, the Majority Holders.

ARTICLE 6

MISCELLANEOUS

SECTION 6.1. Further Assurances. The Grantor agrees, at its expense, to do such further things, to execute, acknowledge, deliver, and cause to be duly filed all such further instruments and documents and take all such actions as the Secured Party may from time to time reasonably request for the better assuming and preserving of the security interests and the rights and remedies created hereby, including but not limited to, the execution and delivery of such additional conveyances, assignments, agreements and instruments, the payment of any fees and taxes required in connection with the execution and delivery of this Security Agreement, the granting of the security interests created hereby and the execution, filing, and recordation of any financing statements (including fixture filings) or other documents as the Secured Party may deem reasonably necessary or desirable for the perfection of the security interests granted hereunder. The Grantor hereby authorizes the Secured Party, as a secured party under the code, to file financing statements or continuation statements signed only by the Secured Party, and agrees to pay all expenses in connection with any such filing. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any promissory note or other instrument, such note or instrument shall be immediately pledged and delivered to the Secured Party, duly endorsed in a manner satisfactory to the Secured Party, subject to the rights of any other secured party having rights senior to the Secured Party. If at any time the Grantor shall take and perfect a security interest in any property to secure payment and performance of an Account, the Grantor, upon the request of the Secured Party, shall promptly assign such security interest to the Secured Party, subject to the rights of any other secured party having rights senior to the Secured Party. The

Grantor agrees to notify the Secured Party in writing thirty (30) days prior to any change (a) in its corporate name, (b) in the location of its chief executive office, (c) in its chief place of business, (d) where it conducts business, or (e) in the office or offices where it keeps its records relating to the Collateral. The Grantor agrees that, after the occurrence and during the continuance of an Event of Default, it shall upon request of the Secured Party take any and all actions, to the extent permitted by applicable law, at its own expense, to obtain the approval of any governmental authority for any action or transaction contemplated by this Security Agreement which is then required by law, and specifically, without limitation, upon request of the Secured Party, to prepare, sign, and file with any governmental authority the Grantor's portion of any application or applications for consent to the assignment of licenses held by the Grantor, or for consent to the possession and sale of any of the Collateral by or on behalf of the Secured Party. The Grantor further agrees that it shall at all times, at its own expense and cost, keep accurate and complete records with respect to the Collateral, including but not limited to, a record of all payments and proceeds received in connection therewith or as a result of the sale thereof and of all credits granted, and agrees that the Secured Party or its representatives shall have the right at any reasonable time and from time to time to call at the Grantor's place or places of business to inspect the Collateral and to examine or cause to be examined all of the books, records, journals, and other data relating to the Collateral and to make such extracts therefrom or copies thereof as are reasonably requested.

SECTION 6.2. Effectiveness. This Security Agreement shall take effect immediately upon execution by the Grantor and the Secured Party.

SECTION 6.3. Indemnity; Reimbursement of Secured Party; Deficiency. In connection with the Collateral, this Security Agreement and the administration and enforcement or exercise of any right or remedy granted to the Secured Party hereunder or under the other Security Documents, the Grantor agrees (a) to indemnify and hold harmless the Secured Party from and against any and all claims, demands, losses, judgments, and liabilities (including but not limited to, liabilities for penalties) of whatever nature, relating thereto or resulting therefrom, and (b) to reimburse the Secured Party for all costs and expenses, including but not limited to, the fees and disbursements of attorneys, relating thereto or resulting therefrom, other than such costs and expenses resulting directly from the gross negligence or wilfull misconduct of Secured Party. The foregoing indemnity agreement includes any and all costs incurred by the Secured Party in connection with any litigation relating to the collateral whether or not the Secured Party shall be a party to such litigation, including but not limited to, the fees and disbursements of attorneys for the Secured Party, and any out-of-pocket costs incurred by any of the Secured Party in appearing as a witness or in otherwise complying with legal process served upon it. In no event shall the Secured Party be liable, in the absence of gross negligence or willful misconduct on its part, for any matter or thing in connection with this Security Agreement other than to account for moneys actually received by it in accordance with the terms hereof, and the Grantor hereby releases the Secured Party from any and all claims, causes of action, and demands at any time arising out of or with respect to this Security Agreement, any other Security Document, or the Collateral. All indemnities contained in this Section 6.3 and elsewhere in this Security Agreement shall survive the expiration or earlier termination of this Security Agreement. After

application of the proceeds by the Secured Party pursuant to Section 4.5 hereof, the Grantor shall remain liable to the Secured Party for any deficiency.

SECTION 6.4. Continuing Lien. It is the intent of the parties hereto that (a) this Security Agreement shall constitute a continuing agreement as to any and all future, as well as existing, transactions between the Grantor and the Secured Party under or in connection with the Note, and (b) the security interest provided for herein shall attach to after-acquired as well as existing Collateral and the Obligations covered by this Security Agreement shall include any future advances under or in connection with the Purchase Agreement.

SECTION 6.5. Termination. Upon payment in full of all Obligations and termination of all commitments relating thereto, the Secured Party shall reassign and redeliver (or cause to be so reassigned and redelivered), without recourse upon or warranty by the Secured Party, and at the sole expense of the Grantor, to the Grantor, against receipt therefor, such of the Collateral (if any) as shall not have been sold or otherwise applied by the Secured Party pursuant to the terms hereof and not theretofore reassigned and redelivered to the Grantor, together with appropriate instruments of reassignment and release.

SECTION 6.6. Notices. All notices and other communications given to or made upon any party hereto in connection with this Security Agreement shall, except as otherwise expressly herein provided, be in writing (including telecopy, telexed, or telegraphic communication) and mailed via certified mail, telexed, telegraphed, or delivered to the respective parties, as follows:

to the Grantor:

L.A. Studios, Inc.
3453 Cahuenga West
Hollywood, California 90068
Attn: Barbara Ainley, CEO

Telecopier: (213) 851-0137

To the Secured Party:

American Capital Strategies, Ltd.
3 Bethesda Metro Center, Suite 860
Bethesda, Maryland 20814
Attn: President

Telecopier: (301) 654-6714

SECTION 6.7. Successors and Assigns. Whenever in this Security Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party, and all covenants, promises, and agreements by or on behalf of the Secured Party that are contained in this Security

Agreement shall bind and inure to the benefit of its respective successors and permitted assigns. The Grantor may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Secured Party.

SECTION 6.8. APPLICABLE LAW. THIS SECURITY AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF MARYLAND, WITHOUT GIVING EFFECT TO MARYLAND CHOICE OF LAW DOCTRINE.

SECTION 6.9. JURISDICTION; CONSENT TO SERVICE OF PROCESS.

(a) GRANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF ANY MARYLAND STATE COURT OR FEDERAL COURT OF THE UNITED STATES OF AMERICA SITTING IN THE STATE OF MARYLAND, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT, THE NOTES, OR ANY OTHER TRANSACTION DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY AGREES THAT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH MARYLAND OR, TO THE EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS SECURITY AGREEMENT SHALL AFFECT ANY RIGHT THAT THE SECURED PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS SECURITY AGREEMENT, THE NOTES, OR ANY OTHER TRANSACTION DOCUMENT AGAINST THE GRANTOR OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(b) GRANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION, OR PROCEEDING ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT, THE NOTES, OR ANY OTHER TRANSACTION DOCUMENT IN ANY MARYLAND OR FEDERAL COURT. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(c) EACH PARTY TO THIS SECURITY AGREEMENT IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 6.6 HEREOF. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY TO THIS SECURITY AGREEMENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

SECTION 6.10. Waivers. No failure or delay of the Secured Party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or future exercise thereof or the exercise of any other right or power. The rights and remedies of the Secured Party hereunder are cumulative and not exclusive of any rights or remedies which it would otherwise have. No waiver of any provision of this Security Agreement or consent to any departure by the Grantor therefrom shall in any event be effective unless the same shall be authorized as provided in Section 5.1 or Section 6.10, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Grantor in any case shall entitle the Grantor to any other or further notice or demand in similar or other circumstances.

SECTION 6.11. Amendments. Neither this Security Agreement nor any provision hereof may be amended or modified except pursuant to an agreement or agreements in writing entered into by the Grantor and the Secured Party.

SECTION 6.12. Severability. In the event any one or more of the provisions contained in this Security Agreement should be held invalid, illegal, or unenforceable in any respect, the validity, legality, and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby.

SECTION 6.13. Counterparts. This Security Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which when taken together shall constitute but one contract, and shall become effective when copies hereof that, when taken together, bear the signatures of each of the parties hereto, shall be delivered or mailed to the Secured Party.

SECTION 6.14. Headings. Article and Section headings used herein are for convenience of reference only and are not to affect the construction of, or to be taken into consideration in interpreting, this Security Agreement.

SECTION 6.15. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHT, POWER, OR REMEDY UNDER OR IN CONNECTION WITH THIS SECURITY AGREEMENT AND AGREE THAT ANY SUCH ACTION SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THE TERMS AND PROVISIONS OF THIS SECTION CONSTITUTE A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THIS SECURITY AGREEMENT.

IN WITNESS WHEREOF, the Secured Party and the Grantor have executed this Security Agreement as of the date first above written.

L. A. STUDIOS, INC.

By: *Barbara Ainley*

Barbara Ainley, CEO

And: *Roland Cline*
instit, Secretary

AMERICAN CAPITAL STRATEGIES, LTD.

By: _____

Roland Cline

IN WITNESS WHEREOF, the Secured Party and the Grantor have executed this Security Agreement as of the date first above written.

THE L. A. STUDIOS, INC.

By: _____

Barbara Ainley, CEO

And: _____

_____, Secretary

AMERICAN CAPITAL STRATEGIES, LTD.

By:  _____

Roland Cline

SCHEDULES TO SECURITY AGREEMENT

- A. List of Registered Copyrights
- B. List of Unregistered Copyrights.

SCHEDULES TO SECURITY AGREEMENT

A. List of Registered Copyrights

None

SCHEDULES TO SECURITY AGREEMENT

B. List of Unregistered Copyrights.

None