

03-22-1999

U.S. DEPARTMENT OF COMMERCE
Patent and Trademark Office

MRD
3-16-99

RE



100989311

To the Honorable Commissioner of Patents and Trademarks

original document or copy thereof.

1. Name of Party(ies) conveying an interest:

Del Lago Partners L.P.

2. Name and Address of Party(ies) receiving an interest:

Citicorp USA, Inc.
153 East 53rd Street
19th Floor
New York, New York 10043

- Individual(s)
- General Partnership
- Corporation
- Other
- Association
- Limited Partnership- Texas

- Individual
- General Partnership
- Corporation - Delaware
- Other
- Citizenship
- Association
- Limited Partnership

3. Interest Conveyed:

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

If not domiciled in the United States, a domestic representative designation is attached:

- Yes
- No

Execution Date: August 14, 1997

4. Application number(s) or registration number(s). Additional sheet attached? Yes No

A. Trademark Application No.(s)

B. Trademark Registration No.(s) 1,555,292

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

Name: Matthew C. Lucas, Esq.
Baker & Botts, L.L.P.
Street Address: 1600 San Jacinto Center
98 San Jacinto Boulevard
City: Austin
State: Texas Zip: 78701-4039

6. Number of applications and registrations involved: One (1)

7. Amount of fee enclosed or authorized to be charged: \$40.00

8. Deposit account number (Attach duplicate copy of this form 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.

Matthew C. Lucas

March 12, 1999

Name of Person Signing

Signature

Date

Total number of pages including cover sheet 45

OMB No. 0651-0011 (exp.4/94)

Do not detach this portion

Mail documents to be recorded with required cover sheet information:

Commissioner of Patent and Trademarks
Box Assignments
Washington, D.C. 20231

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TRADEMARK

REEL: 1871 FRAME: 0198

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SECURITY AGREEMENT

This Security Agreement, dated as of August 14, 1997 (as the same from time to time may be modified, supplemented, amended, renewed, extended or restated, this "Agreement"), is made by DEL LAGO PARTNERS L.P., a Texas limited partnership (together with its successors and assigns, the "Grantor"), to CITICORP USA, INC., a Delaware corporation (together with its successors and assigns, as Agent for the benefit of itself and Citibank, N.A. and their respective successors and assigns, the "Secured Party").

WITNESSETH:

WHEREAS, Citicorp USA, Inc. ("Lender") has entered into that certain Term Loan Agreement, dated as of August 14, 1997, with Grantor (said Term Loan Agreement, as it may hereafter be modified, supplemented, amended, extended, renewed, refunded, replaced, increased in amount, refinanced or restated, in each case from time to time and whether in whole or in part, the "Loan Agreement"); and

WHEREAS, it is a condition precedent to the effectiveness of the Loan Agreement that Grantor shall have executed and delivered this Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained herein and for other good and valuable consideration, the adequacy, receipt and sufficiency of which are hereby acknowledged, and in order to induce Lender to make the Advance under the Loan Agreement, Grantor hereby agrees as follows:

SECTION 1. Defined Terms and Related Matters.

(a) Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

(b) The following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Copyrights" means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to (i) all copyrights in all works, whether published or unpublished, fixed in any tangible medium of expression, now existing or hereafter created or acquired, including, without limitation, those listed on Schedule 2 attached hereto and made a part hereof, (ii) all registrations and recordings thereof and applications for registration or recording of any such copyright, including, without limitation, registrations, recordings, supplemental registrations

and applications in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, and (iii) any and all renewals thereof.

“Copyright License” means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to any written agreement granting any right to any third party under any Copyright of such Person or granting any right to such Person under any Copyright of any other Person.

“Intellectual Property” means collectively, with respect to any Person, all Patents, Trademarks, Copyrights and Licenses of such Person.

“Licenses” means collectively, with respect to any Person, all Patent Licenses, Copyright Licenses, Trademark Licenses and other licenses of Intellectual Property to which such Person is now or hereafter a party or in which such Person now or hereafter has any rights.

“Patent License” means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to any written agreement granting to any third party any right to practice any invention on which a Patent of such Person is in existence or granting to such Person any right to practice any invention on which a Patent of any third party is in existence, including, without limitation, the agreements referred to in Schedule 2.

“Patents” means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to (i) all letters patent of the United States or any other country or any political subdivision thereof, all registrations and recordings thereof, and all applications for letters patent of the United States or any other country or any political subdivision thereof, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof, including, without limitation, any referred to in Schedule 2, and (ii) all reissues, continuations, divisions, continuations-in-part, extensions and renewals thereof, and the inventions disclosed therein, including, without limitation, the right to make, use and/or sell the inventions disclosed therein.

“Trademark License” means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by

ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to any written agreement granting to any third party any right to use any Trademark or Trademark registration of Grantor or granting to Grantor any right to use any Trademark or Trademark registration of any third party, including, without limitation, the agreements referred to in Schedule 2.

“Trademarks” means, with respect to any Person, all of such Person's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, security interest, claim or otherwise) and whether now existing or hereafter acquired) in and to (i) all trademarks, trade names, trade secrets, corporate names, company names, business names, fictitious business names, trade styles, trade dress, service marks, service names, logos, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and General Intangibles (as hereinafter defined) of like nature, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Patent and Trademark Office, or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, or otherwise, including, without limitation, any referred to in Schedule 2, (ii) all goodwill associated therewith, and (iii) all reissues, continuations, continuations-in-part, extensions and renewals thereof.

(c) The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All references to “Sections”, “Schedules” and “Exhibits” shall be to Sections, Schedules and Exhibits, respectively, of this Agreement unless otherwise provided.

(d) Unless otherwise defined herein or in the Loan Agreement, the terms defined in Articles 8 and 9 of the Uniform Commercial Code as enacted in the State of New York (the “UCC”) are used herein as therein defined.

(e) All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

SECTION 2. Grant of Security. Grantor hereby assigns and pledges to Secured Party, and hereby grants to Secured Party, a security interest in, all of Grantor's right, title and interest (howsoever such right, title or interest may appear or arise (whether by ownership, leasehold interest, security interest, claim or otherwise) and whether now existing or hereafter arising, acquired or created) in and to its property described in the following subsections (a) through (i) of this Section 2 (collectively, the “Collateral”):

(a) all of Grantor's (i) machinery, (ii) manufacturing, distribution, selling, data processing and office equipment, (iii) other equipment, all motor vehicles, chattels, tools, parts, machine tools, furniture, furnishings, fixtures, trade fixtures and supplies of every nature, (iv) all equipment within the meaning of the Uniform Commercial Code in effect in any applicable jurisdiction, and (v) all rights under or arising out of present or future contracts relating to the foregoing and in any event, in each case wherever located, and all accessions, additions and improvements thereto and substitutions therefor and all parts and appurtenances thereof which may be attached to or which are necessary for the operation and use of such property, whether or not the same shall be deemed to be affixed to real property (any and all of the foregoing being the "Equipment");

(b) all of Grantor's (i) rights to payment for goods sold or leased or for services rendered, including, without limitation, those evidenced by chattel paper, (ii) accounts, accounts receivable, contract rights, notes, drafts, acceptances, chattel paper, leases and writings evidencing a monetary obligation or a security interest in or a lease of goods, (iii) rights to receive the payment of money or other considerations under present or future contracts (including, without limitation, all rights to receive payments under presently existing or hereafter acquired or created letters of credit) or by virtue of merchandise sold or leased, services rendered, loans and advances made or other considerations given, whether or not earned by performance and whether or not evidenced by or set forth in or arising out of any present or future chattel paper, note, draft, lease, acceptance, writing, bond, insurance policy, instrument, document or general intangible, and all extensions and renewals of any thereof, (iv) rights under or arising out of present or future contracts, agreements or general intangibles, including, without limitation, all payments under licensing agreements or arrangements, (v) merchandise which gave rise to any or all of the foregoing, including, without limitation, all goods, claims and causes of action whether now existing or hereafter arising in connection with or under any agreement or document or by operation of law or otherwise, (vi) collateral security of any kind (including, without limitation, all real property mortgages) given by any Person with respect to any of the foregoing, (vii) revenues, receipts, income, accounts, accounts receivable and other receivables relating to or arising from rentals, rent equivalent income, income and profits from guest rooms, meeting rooms, food and beverage facilities, vending machines, telephone and television systems, guest laundry, the provision or sale of other goods and services, and any other item of revenue, receipts or other income as identified in the Uniform System of Accounts for Hotels, 8th Edition, International Association of Hospitality Accountants (1986), as from time to time amended, and (viii) accounts, instruments and chattel paper within the meaning of the Uniform Commercial Code in effect in any applicable jurisdiction (any and all of the foregoing being the "Accounts");

(c) all of Grantor's (i) goods, including, without limitation, goods in transit, whether now existing or hereafter acquired by Grantor, which are held for sale or lease, furnished under any contract of service or held as raw materials, work in process or supplies, (ii) returned and repossessed goods, (iii) materials used or consumed in Grantor's business, in all of its forms, and (iv) such property the sale or other disposition of which has given rise to Accounts and which has been returned to or repossessed or stopped in transit by Grantor, (v) goods in which Grantor has an interest in mass or a joint or other interest or right of any kind, and (vi) inventory within the meaning of the Uniform Commercial Code in effect in any applicable jurisdiction, and, in each case, all accessions thereto and products thereof (any and all of the foregoing being the "Inventory");

(d) all (i) general intangibles of Grantor, (ii) claims (including, without limitation, all claims for income tax and other refunds), choses in action, judgments, Patents, Trademarks, Licenses, rights in Intellectual Property, inventions, confidential or proprietary technical or business information, know-how, software, databases and related documentation, registrations, franchises, experimental expenses, permits, royalty payments, Copyrights and goodwill of Grantor, (iii) all amounts received by Grantor as an award in or settlement of a suit in damages, (iv) interests of Grantor in joint ventures or general or limited partnerships, (v) general intangibles within the meaning of the Uniform Commercial Code in effect in any applicable jurisdiction, and (vi) rights of Grantor to enforce, collect and receive payments on any of the foregoing and to bring an action to enforce any of the foregoing (any and all of the foregoing being the "General Intangibles");

(e) all rights of Grantor to payment under a contract not yet earned by performance and not yet evidenced by an Account of Grantor (the "Contract Rights" and together with the Accounts and General Intangibles herein collectively called the "Other Receivables");

(f) all of Grantor's documents, instruments and chattel paper of every nature and, in any event, all documents within the meaning of the Uniform Commercial Code in effect in any applicable jurisdiction ("Documents");

(g) all of Grantor's Investment Property;

(h) all of Grantor's deposit accounts (whether general or special), money, instruments, securities, documents, credits, claims, demands, income and any other real or personal property, intangibles, rights and interests of Grantor in real or personal property to the extent assignable; and

(i) all substitutes and replacements for, all accessions, attachments and other additions to, tools, parts and equipment used in connection with, and products, increases and proceeds, in cash or otherwise, of the Collateral described in the foregoing clauses (a), (b),

(c), (d), (e), (f), (g) and (h) (including, without limitation, the proceeds of any sale or other disposition of such Collateral, all condemnation awards and all insurance proceeds of any kind (whether or not Secured Party is the loss payee under the applicable insurance policy) and all income, profits and benefits resulting from any of the foregoing), all Liens (whether possessory, contractual, statutory or otherwise) of Grantor with respect to any of the Collateral, all rights, remedies and claims (whether in the nature of indemnities, warranties, guaranties or otherwise) of Grantor with respect to any of the Collateral, in each case whether now existing or hereafter at any time or from time to time arising, acquired or created, and all books, correspondence, credit files, records, computer programs, computer tapes, cards, customer lists and other papers and documents in the possession or control of Grantor that evidence or relate to the foregoing or to the Accounts, Inventory, Equipment, General Intangibles, Documents or any of the other Collateral.

The inclusion of proceeds in this Agreement does not authorize Grantor to sell, dispose of or otherwise use any of the Collateral in any manner not specifically authorized pursuant to the terms and provisions of this Agreement or any other Loan Document.

Grantor hereby also assigns to Secured Party and grants to Secured Party a security interest in, pledge of and lien on, and the Collateral shall also include (i) the Reserve Account and all certificates and instruments, if any, from time to time representing or evidencing the Reserve Account, (ii) the Principal & Interest Account and all certificates and instruments, if any, from time to time representing or evidencing the Principal & Interest Account and (iii) the General Accounts and all certificates and instruments, if any, from time to time representing or evidencing the General Accounts.

SECTION 3. Security for Obligations. The Collateral secures the prompt and complete (a) payment, whether for principal, interest, fees, costs, expenses or otherwise, of the Obligations, and all renewals, extensions, amendments, supplements and rearrangements thereof and all notes given in substitution or replacement therefor; and (b) performance of the Obligations.

SECTION 4. Grantor Remains Liable. Notwithstanding anything set forth herein (a) Grantor shall remain liable under the instruments, contracts and agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Secured Party of any of its rights hereunder shall not release Grantor from any of its duties or obligations under the instruments, contracts and agreements included in the Collateral; and (c) Secured Party shall not have any obligation or liability under the instruments, contracts and agreements included in the Collateral by reason of this Agreement, nor shall Secured Party be obligated to perform any of the obligations or duties of Grantor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 5. Representations, Warranties and Certain Covenants. Grantor hereby represents, warrants and covenants as follows:

(a) all of the Inventory and Equipment included in the Collateral is located at the places specified on Schedule 1 attached hereto and made a part hereof. The principal place of business and chief executive office of Grantor is located at the address indicated on Schedule 1 hereto;

(b) all books and records concerning Other Receivables included in the Collateral and all originals of all instruments and chattel paper which evidence such Collateral are and will remain located at Grantor's chief executive office set forth on Schedule 1. Grantor will promptly notify Secured Party in writing at least thirty (30) days prior to any change of its name, its corporate structure or the address of its chief executive office or principal place of business set forth on Schedule 1;

(c) the Collateral is free and clear of all Liens (except Liens permitted by Section 8.3 of the Loan Agreement). Except as permitted by Section 8.3 of the Loan Agreement, no effective financing statement or other instrument similar in effect covering all or any part of the Collateral is or will be on file in any recording office;

(d) upon the making of all filings and the taking of all other actions necessary to perfect the security interests created hereby, including, without limitation, the filing of this Agreement with the United States Patent and Trademark Office and the United States Copyright Office and the taking of those actions specified in Section 6(a) below, this Agreement will create a valid first priority Lien in the Collateral (subject only to the Liens permitted by Section 8.3 of the Loan Agreement), securing the payment and performance of the Obligations;

(e) other than the filings and other actions described in Section 6 to perfect the security interests created by this Agreement, no authorization, approval or other action by, and no notice to or filing with or consent of, any Person (including, without limitation, any Governmental Authority or regulatory body) that has not already been taken, made or obtained is required to be taken, made or obtained by Grantor in connection with (i) the due execution, delivery and performance of this Agreement by Grantor, and the other agreements, documents and instruments executed in connection herewith; (ii) the grant by Grantor of the security interests granted hereby; (iii) the perfection of the security interests granted hereby; or (iv) the exercise by Secured Party of the rights and remedies of Secured Party hereunder;

(f) this Agreement and all other documents and instruments executed in connection herewith, have been duly authorized, executed and delivered by Grantor, and when delivered will constitute the legal, valid and binding obligations of Grantor,

enforceable against Grantor in accordance with their respective terms, except as enforcement may be (i) limited by Debtor Laws, and (ii) subject to the general effect of general principles of equity;

(g) Grantor has, as of the date hereof, received reasonably equivalent value for the assignment and pledge of, and the grant of a security interest in, the Collateral hereunder;

(h) as of the date hereof, and after giving effect to this Agreement, (i) the assets of Grantor, at a fair valuation, will exceed its liabilities, including contingent liabilities; (ii) the remaining capital of Grantor will not be unreasonably small to conduct its business; and (iii) Grantor has not incurred debts, and does not intend to incur debts, beyond its ability to pay such debts as they mature. For purposes of this Section 5(h), "debt" means any liability on a claim and "claim" means (x) any right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured, or (y) any right to an equitable remedy for breach of performance if such breach gives rise to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured;

(i) none of the obligors on any of the Other Receivables included in the Collateral is a Governmental Authority which would require Secured Party's security interest with respect to such Other Receivables created hereunder to be perfected other than by the filing of a UCC financing statement;

(j) Schedule 2 includes all Patents, registered Copyrights, registered Trademarks and Licenses included in the Collateral as of the date hereof. Except as disclosed on Schedule 2, Grantor owns, is licensed or otherwise has the lawful right to use, all Patents, Trademarks and Copyrights included in the Collateral and used in or necessary for the conduct of its business as currently conducted which are material to its business, financial condition, Properties, prospects or operations and such use does not infringe on the rights of any Person, subject to such claims and infringements as do not, in the aggregate, give rise to any liability on the part of Grantor which has or is likely to have a material adverse effect on the business, financial condition, Properties, prospects or operation of Grantor. The Patents, Trademarks and Copyrights included in the Collateral are valid except to the extent that the invalidity of any Patent, Trademark or Copyright would not have a material adverse effect on the business, financial condition, Properties, prospects or operation of Grantor. None of the Patents or registrations of the Trademarks or Copyrights included in the Collateral has expired, except to the extent any such expiration would not have a material adverse effect on the business, financial condition, Properties, prospects or operation of Grantor. Except as set forth on Schedule 2 hereto, none of the Patents, Trademarks or Copyrights included in the Collateral is the subject of any licensing or franchise agreement. No holding, decision or judgment has been rendered by any Tribunal which would limit,

cancel or question the validity of any Patent, Trademark or Copyright included in the Collateral, except to the extent that such would not have a material adverse effect on the business, financial condition, Properties, prospects or operation of Grantor. No action or proceeding is pending (i) seeking to limit, cancel or question the validity of any Patent, Trademark or Copyright included in the Collateral, or (ii) which, if adversely determined, would have a material adverse effect on the business, financial condition, Properties, prospects or operation of Grantor on the value of any of the Patents, Trademarks or Copyrights included in the Collateral.

SECTION 6. Further Assurances.

(a) Grantor hereby agrees to execute and deliver to Secured Party and hereby authorizes Secured Party to file and record from time to time, at the cost and expense of Grantor, fixture filing financing statements and financing statements (including, without limitation, Form UCC-1, Form UCC-2 and Form UCC-3) and other security documents executed by Grantor relating to all or any part of the Collateral in such offices and locations as are necessary in the opinion of Secured Party to perfect and maintain the perfection of the security interests granted herein. Grantor further agrees that from time to time, at the cost and expense of Grantor, Grantor will promptly give, execute, deliver, file and/or record all further instruments, agreements and documents, opinions of counsel or other papers, and take all further action that may be necessary, or that Secured Party may request, in order to perfect, protect and maintain the perfection of any security interests renewed and extended or granted or purported to be granted hereby and to create, preserve, validate and perfect any security interests granted hereby or to enable Secured Party to exercise and enforce its rights and remedies hereunder with respect to any of the Collateral. Without limiting the generality of the foregoing, Grantor will: (i) at the request of Secured Party, mark conspicuously each chattel paper, Document and Contract Right included in the Other Receivables included in the Collateral, each Other Receivable and each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to Secured Party, indicating that such chattel paper, Other Receivable or Collateral is subject to the security interests granted hereby; (ii) if any Other Receivable included in the Collateral shall be evidenced by a promissory note or other instrument or chattel paper, at the request of Secured Party deliver and pledge to Secured Party hereunder such note, instrument or chattel paper duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Secured Party; and (iii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary, or as Secured Party may request, in order to perfect and preserve the security interests granted or purported to be granted hereby.

(b) Grantor authorizes Secured Party to file a carbon, photographic or other reproduction of this Agreement as a financing statement or to file one or more financing or

continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of Grantor where permitted by law.

(c) Grantor will at all times maintain its principal place of business and chief executive office at the location specified on Schedule 1 and will not change its name except as permitted under Section 12 hereof; provided, however, that Grantor may change such location upon at least thirty (30) days' prior written notice to Secured Party, and provided further that prior to any and each such change Grantor has taken all such action (including, without limitation, the execution, delivery, filing and recording of all such agreements, documents, instruments, certificates and financing statements) as Secured Party may request in order to (i) maintain Secured Party's rights and remedies under the Loan Documents, and (ii) perfect and/or maintain the perfection of the security interests granted or purported to be granted hereunder.

(d) Grantor will promptly furnish to Secured Party from time to time such statements and schedules identifying and describing the Collateral and such other reports in connection with the Collateral as Secured Party may reasonably request, all in reasonable detail.

(e) Without limiting the foregoing, Grantor shall, prior to acquiring or transporting any Equipment or Inventory included in the Collateral to, or acquiring any Equipment or Inventory at, a location other than the locations identified on Schedule 1 attached hereto, as to each such location, deliver to Secured Party the following, each in form and substance satisfactory to Secured Party:

(i) if such location is leased by Grantor, a landlord waiver, executed by the lessor thereof, pursuant to which such lessor, among other things, waives any Lien such lessor may have at any time with respect to all or any part of the Collateral from time to time located at such location;

(ii) a true, correct and complete property description for such location;

(iii) financing statements (including, without limitation, fixture filing financing statements) relating to the Collateral from time to time located at such location, duly executed by Grantor and filed in the offices that Secured Party shall request; and

(iv) such other agreements, documents and instruments as Secured Party may reasonably request.

(f) Grantor shall notify Secured Party promptly, in reasonable detail of (i) any material change in the composition of the Collateral; and (ii) the occurrence of any other

event that could have a material adverse effect on the aggregate value of the Collateral or on the Lien created hereunder.

(g) Grantor shall notify Secured Party promptly in reasonable detail of any Other Receivables included in the Collateral with respect to which any obligor is a Governmental Authority and which would require a filing other than the filing of a UCC-1 Financing Statement in order for Secured Party's Lien to be perfected hereunder and upon the request of Secured Party and within the reasonable time period specified by Secured Party in such written request, Grantor shall execute and deliver to Secured Party all such instruments, documents and agreements required under Section 6(a) hereof in order to perfect Secured Party's first priority security interest in such Other Receivables.

(h) At least thirty (30) days prior to any application or petition for, or any acquisition of, any Trademark, Patent or Copyright included or to be included in the Collateral, Grantor shall execute and deliver to Secured Party all documents and instruments necessary or prudent or that Secured Party may require to grant to Secured Party a perfected first priority Lien therein and to subject all of such interest to this Agreement. Grantor also agrees to execute and deliver to Secured Party all license and similar agreements that Secured Party may reasonably require to effectuate the terms of this Agreement.

SECTION 7. As to Equipment. Grantor shall:

(a) keep the Equipment included in the Collateral at the places therefor specified in Section 5(a), or at such other locations in jurisdictions in the United States where all action required by Section 6 shall have been taken with respect to such Equipment and of which Secured Party shall have received thirty (30) days' prior written notice of the relocation of any Equipment included in the Collateral;

(b) cause the Equipment included in the Collateral to be maintained and preserved in the same condition, repair and working order as when acquired, ordinary wear and tear excepted, and comply with all Governmental Requirements and all operating or repair standards and periodic maintenance requirements and inspections as are (i) required to enforce warranty claims against manufacturers, subcontractors or installers in respect thereof; (ii) established by such manufacturers, subcontractors or installers as normal operating or maintenance procedures; (iii) required by any government or governmental commission, board or other Governmental Authority having jurisdiction; (iv) required by the contracts and agreements entered into by Grantor with respect to the Equipment included in the Collateral; and/or (v) customary in respect of equipment similar thereto, and shall forthwith, or in the case of any loss or damage to any of the Equipment included in the Collateral as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements and other improvements in connection therewith which are reasonably necessary or desirable to such end. Grantor shall promptly furnish to Secured

Party a statement describing any loss or damage to any of the Equipment included in the Collateral;

(c) pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including, without limitation, claims for labor, materials and supplies) against, the Equipment included in the Collateral, except to the extent the validity thereof is being contested in good faith and by appropriate proceedings and Grantor has established adequate reserves for such contest;

(d) permit Secured Party or any representative or agent of Secured Party to inspect the Equipment included in the Collateral in order to verify that it is in good order and proper repair in accordance with the provisions set forth in Section 11 of this Agreement; and

(e) operate the Equipment included in the Collateral in accordance with prudent operating standards customarily observed by entities engaged in the same or a similar business and similarly situated.

SECTION 8. As to Inventory. Grantor shall:

(a) keep the Inventory (other than Inventory sold or leased in the ordinary course of business) included in the Collateral at the locations specified in Section 5(a) hereof and at such other locations in jurisdictions where all action required by Section 6 hereof shall have been taken with respect to such Inventory in order to perfect or maintain the perfection of Secured Party's security interest therein;

(b) pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including, without limitation, claims for labor, materials and supplies) against, the Inventory included in the Collateral, except to the extent the validity thereof is being contested in good faith and by appropriate proceedings and Grantor has established adequate reserves therefor in accordance with GAAP; and

(c) upon at least five (5) Business Day's prior written notice, permit Secured Party or any representative or agent of Secured Party at any time during normal business hours to inspect the Inventory included in the Collateral.

SECTION 9. As to Other Receivables. Grantor shall:

(a) keep its chief place of business and chief executive offices and the offices where it keeps records concerning the Other Receivables included in the Collateral, and all originals of all chattel paper which evidence such Other Receivables, at the location or locations therefor specified in Section 5(a) or at such other locations in jurisdictions where

all action required by Section 6 shall have been taken with respect to such Other Receivables. Grantor will hold and preserve such records and chattel paper and, upon at least five (5) Business Day's prior written notice, will permit Secured Party or any representative or agent of Secured Party at any time during normal business hours to inspect and make abstracts from and photocopies of such records and Chattel Paper;

(b) except as otherwise provided in this Section 9(b), continue to collect, at its own expense, all amounts due or to become due to it under the Other Receivables included in the Collateral. In connection with such collections, Grantor may take (and, at Secured Party's direction, shall take) such action as Grantor or Secured Party may deem necessary or advisable to enforce collection of such Other Receivables; provided, however, that Secured Party shall have the right, at any time after the occurrence of an Event of Default, to notify the account debtors or obligors under such Other Receivables of the assignment of such Other Receivables to Secured Party and to direct such account debtors or obligors to make payment of all amounts due or to become due to Grantor thereunder directly to Secured Party and, at the expense of Grantor, to enforce collection of any such Other Receivables, and to adjust, settle or compromise the amount or payment thereof. Grantor shall not adjust, settle or compromise the amount or payment of any Other Receivable included in the Collateral, or release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon without Secured Party's prior written consent.

(c) not sell, discount or otherwise transfer, whether with or without recourse, any notes or Other Receivables included in the Collateral without Secured Party's prior written consent except in the ordinary course of business.

SECTION 10. Certain Covenants Regarding Trademark, Copyright and Patent

Collateral.

(a) Grantor (either itself or through licensees) will, for each Trademark included in the Collateral, (i) to the extent consistent with past practice and except to the extent that valid, prudent and permissible business reasons justify abandonment, continue to use such Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (ii) employ such Trademark with appropriate notice of application or registration, (iii) maintain as in the past the quality of products and services offered under such Trademark, and (iv) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark included in the Collateral may become invalidated, canceled, abandoned or lost except as permitted by (i) above.

(b) Grantor (either itself or through licensees) will, for each Patent included in the Collateral, not do any act, or omit to do any act, whereby any Patent included in the

Collateral which is material to the conduct of Grantor's business may become abandoned or dedicated.

(c) Grantor (either itself or through licensees) will (i) display the appropriate copyright notice as required under the applicable copyright law for each work covered by a Copyright included in the Collateral which is published, reproduced, displayed, adopted or distributed, (ii) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material Copyright included in the Collateral may become invalidated, and (iii) not do any act, whereby any material Copyright included in the Collateral may become invalidated, canceled, abandoned or lost.

(d) Grantor shall notify Secured Party within a reasonable period of time, if it knows, or has reason to know, that any Copyright included in the Collateral may become invalidated, canceled, abandoned or lost or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development with any Governmental Authority in the United States or any other country) regarding Grantor's interest in any such Copyright or its validity.

(e) Grantor shall notify Secured Party within a reasonable period of time, if it knows or has reason to know that any application or registration relating to any Patent, Trademark or Copyright included in the Collateral may become abandoned or dedicated, or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark Office, the United States Copyright Office or with any Governmental Authority in any country) regarding Grantor's interest in any such Patent, Trademark or Copyright, its right to register the same or to keep and maintain the same.

(f) In no event shall Grantor, either itself or through any agent, employee, licensee or designee, file an application for the registration of any Patent, Trademark or Copyright included in the Collateral with the United States Patent and Trademark Office, the United States Copyright Office, or any Governmental Authority in any other country or any political subdivision thereof, unless it contemporaneously therewith informs Secured Party, and, upon request of Secured Party, executes and delivers any and all reasonable and necessary agreements, instruments, documents, and papers as Secured Party may request to evidence Secured Party's security interest in such Patent, Trademark or Copyright and the goodwill and General Intangibles of Grantor relating thereto or represented thereby, and Grantor hereby constitutes Secured Party its attorney-in-fact to execute and file all such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such right, being coupled with an interest, is irrevocable until the Obligations are paid in full and the Commitment is terminated.

(g) Grantor will take all necessary steps that are consistent with good business practices in any proceeding before the United States Patent and Trademark Office, the United States Copyright Office, or any Governmental Authority, to maintain and pursue each application relating to the Patents, Trademarks and Copyrights included in the Collateral (and to obtain the relevant registration) and to maintain each registration of such Patents, Trademarks and Copyrights, including, without limitation, filing of applications for renewal, affidavits of use, affidavits of incontestability, and opposition, interference and cancellation proceedings.

(h) In the event that any Collateral consisting of a Patent, Trademark or Copyright is infringed, misappropriated or diluted by a third party, Grantor shall notify Secured Party within a reasonable period of time after it learns thereof and shall, if consistent with good business practice, promptly sue for infringement, unfair competition, misappropriation or dilution and to obtain injunctive relief and to recover any and all damages and profits for such infringement, unfair competition, misappropriation or dilution, and take such other actions as are appropriate under the circumstances to protect such Collateral consisting of a Patent, Trademark or Copyright.

SECTION 11. Insurance.

(a) Without limiting Section 7.3 of the Loan Agreement, Grantor shall at its own expense maintain insurance with respect to the Collateral in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to Secured Party, in its reasonable judgment, from time to time. Secured Party hereby acknowledges that, as of the Closing Date, the insurance in effect as of the Closing Date is in compliance with this Section 11(a). Grantor shall forthwith take or cause to be taken such actions as are necessary, or that Secured Party may reasonably request, to assure that each policy (i) for liability insurance, shall provide that Secured Party shall have been named as an additional assured and that all losses are to be paid on behalf of Secured Party and Grantor as their respective interests may appear; (ii) for property damage insurance, shall provide that Secured Party shall have been named as loss payee and that all losses (except for losses of less than \$25,000 per occurrence or \$100,000 in the aggregate) are to be paid to Secured Party and Grantor, as their interests may appear; (iii) shall name Grantor and Secured Party as insured parties thereunder; (iv) shall contain the agreement by the insurer that any loss thereunder shall be payable to Secured Party (except for liability insurance) notwithstanding any action, inaction or breach of representation or warranty by Grantor; (v) shall provide that there shall be no recourse against Secured Party for payment of premiums or other amounts with respect thereto; and (vi) shall provide that at least thirty (30) days' prior written notice of cancellation or of lapse shall be given to Secured Party by the insurer. In addition, Grantor shall obtain and deliver to Secured Party a Loss Payable Endorsement or equivalent thereof for each such policy for property damage insurance (including, without limitation, those policies required under Section 7.3 of the Loan Agreement) in substantially the form

of Exhibit A attached hereto and made a part hereof. Grantor shall, if so requested by Secured Party, deliver to Secured Party original or duplicate policies of such insurance and, as often as Secured Party may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further, Grantor shall, at the written request of Secured Party, duly execute and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 6 and cause the respective insurers to acknowledge notice of such assignment.

(b) Reimbursement under any liability insurance maintained by Grantor pursuant to this Section 11 may be paid directly to the Person who shall have incurred liability covered by such insurance. In case of any loss involving damage to any of the Collateral when subsection (d) of this Section 11 is not applicable, Grantor shall make or cause to be made the necessary repairs to or replacements of such Collateral, and upon Secured Party's receipt of evidence satisfactory to Secured Party of such repair or replacement, as the case may be, and the cost thereof, any proceeds of insurance maintained by Grantor pursuant to this Section 11 shall be paid to Grantor as reimbursement for the costs of such repairs or replacements and the balance thereof shall be applied by Secured Party as specified in Section 19(b) hereof.

(c) Grantor shall not do any act, nor voluntarily suffer or permit any act to be done, whereby any insurance required by this Section 11 shall or may be suspended, impaired or defeated, or suffer or permit any Collateral to engage in any activity not permitted under the policies of insurance then in effect without first procuring insurance satisfactory to Secured Party in all respects for such activity.

(d) Upon the occurrence and during the continuance of any Event of Default and the actual or constructive total loss of any Collateral, all insurance payments in respect of such Collateral shall be paid to and applied by Secured Party as specified in Section 19(b) hereof.

SECTION 12. Change of Name, Identity or Structure. Grantor will not change its name, identity or corporate structure in any manner which might make any financing or continuation statement filed hereunder seriously misleading within the meaning of Section 9-402 of the UCC (or any other then applicable provision of the UCC or any other provision of law in effect in any applicable jurisdiction) unless Grantor shall have given Secured Party at least thirty (30) days' prior written notice thereof and shall have taken all action (or made arrangements to take such action substantially simultaneously with such change if it is impossible to take such action in advance) as Secured Party may request in order to (i) maintain Secured Party's rights and remedies under the Loan Documents, and (ii) perfect and/or maintain the perfection of the security interests granted or purported to be granted hereunder.

SECTION 13. Right of Inspection. Secured Party, or any representative or agent of Secured Party, shall upon at least five (5) Business Day's prior written notice at all times have full and free access during normal business hours to all the records of Grantor and Secured Party, or such representative or agent, may, at the cost and expense of Grantor, examine the same, take extracts therefrom and make photocopies thereof, and Grantor agrees to render to Secured Party, or such representative or agent, at Grantor's cost and expense, such clerical and other assistance as may be reasonably requested with regard thereto. Secured Party, its representatives and its agents shall upon at least five (5) Business Day's prior written notice at all times, at the cost and expense of Grantor, during normal business hours have the right to enter into and upon any premises where any of the Collateral is located for the purposes of inspecting the same, observing its use or otherwise protecting its interests therein.

SECTION 14. Transfers and Other Liens. Except as permitted by the Loan Agreement, Grantor shall not (a) sell, lease, assign (by operation of law or otherwise) or otherwise transfer or dispose of any of the Collateral, or (b) create, incur or suffer to exist any Lien upon or with respect to any of the Collateral.

SECTION 15. Secured Party Appointed Attorney-in-Fact. Grantor hereby irrevocably appoints Secured Party, effective upon the occurrence and during the continuance of an Event of Default, as Grantor's attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of Grantor, Secured Party or otherwise, from time to time in Secured Party's discretion, to, at the cost and expense of Grantor, take any action and to execute any agreement, document or instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

- (a) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for monies due and to become due under or in respect of any of the Collateral;
- (b) to receive, endorse and collect any drafts or other instruments, documents and chattel paper in connection with clause (a) above;
- (c) to receive, open and dispose of all mail addressed to Grantor and to notify the United States Post Office authorities to change the address for delivery of all mail addressed to Grantor to such address as Secured Party may designate;
- (d) to execute in connection with any sale of the Collateral pursuant to Section 19, any endorsements, assignments, bills of sale or other instruments of conveyance or transfer with respect to the Collateral; and
- (e) to file any claims or take any action or institute any proceedings which Secured Party may deem necessary or desirable for the collection of any of the Collateral or

otherwise to enforce the rights of Secured Party, including, without limitation, the collection of royalties or other compensation due under any license, with respect to any of the Collateral.

SECTION 16. Secured Party May Perform. If Grantor fails to perform any agreement contained herein, Secured Party may itself perform, or cause performance of, such agreement, and the costs and expenses of Secured Party incurred in connection therewith shall be payable by Grantor under Section 21(b) hereof.

SECTION 17. Secured Party's Duties. The powers conferred on Secured Party hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon Secured Party to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for monies actually received by it hereunder, Secured Party shall not have any duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

SECTION 18. Events of Default. Should any "Event of Default" occur under and as such term is defined in the Loan Agreement or any of the other Loan Documents, the same shall constitute an Event of Default under this Agreement.

SECTION 19. Remedies. If any Event of Default that has not been waived, in writing, by Secured Party shall have occurred:

(a) Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party after a default under the UCC (whether or not the UCC applies to the affected Collateral) and in addition thereto and cumulative thereof, the following rights: the right to sell, lease or otherwise dispose of all or any part of the Collateral and the right to take possession of all or any part of the Collateral, and for that purpose, Secured Party may enter upon any premises on which all or any part of the Collateral may be situated and remove the same therefrom and/or may render all or any part of the Collateral inoperable; Secured Party may require Grantor to, and Grantor hereby agrees that it will, at its cost and expense and upon the request of Secured Party, forthwith assemble all or part of the Collateral and all documents relating to the Collateral as directed by Secured Party and make the Collateral available to Secured Party at a place to be designated by Secured Party; without notice except as specified below, sell all or any part of the Collateral in one or more parcels at public or private sale, at any of Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and, to the extent permitted by law, upon such other terms as Secured Party may deem commercially reasonable. Grantor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' written notice to Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of

all or any part of the Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of Secured Party, be held by Secured Party as collateral for, and/or then or at any time thereafter applied in whole or in part by Secured Party against, the Obligations in such order as Secured Party, in its sole discretion, may elect. Except to the extent the payment of any Obligation, or any part thereof, could be subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to Grantor, its successors or assigns under any bankruptcy law, state or federal law or equitable cause, any surplus of such cash or cash proceeds held by Secured Party and remaining after payment in full of all the Obligations shall be paid over to Grantor or to whomsoever may be lawfully entitled to receive such surplus; provided that Secured Party shall have no obligation to invest or otherwise pay interest on any amounts held by it in connection with or pursuant to this Agreement.

(c) All rights and remedies of Secured Party expressed herein are in addition to all other rights and remedies possessed by Secured Party in any other Loan Document and any other agreement or instrument relating to the Obligations under applicable law or otherwise.

SECTION 20. Grant of License to Use Trademark, Copyright and Patent Collateral. For the purpose of enabling Secured Party to exercise its rights and remedies under Section 19 hereof at such time as Secured Party, without regard to this Section 20, shall be lawfully entitled to exercise such rights and remedies, Grantor hereby grants to Secured Party an irrevocable, non-exclusive license (exercisable without payment of royalty or other compensation to Grantor) to use, license or sublicense any Trademark, Copyright or Patent included in the Collateral now owned or hereafter acquired by Grantor, and wherever the same may be located, and including in such license reasonable access to all media in which any of the licensed items may be recorded or stored and to all computer and automatic machinery software and programs used for the compilation or printout thereof. With respect to any Trademark included in the Collateral and licensed to Secured Party pursuant to this Section 20, Secured Party agrees to maintain and to cause any licensee or sublicensee to maintain the quality of products and services offered under any such Trademark.

SECTION 21. Indemnity, Expenses and Interest.

(a) Grantor agrees to indemnify Secured Party in accordance with Section 10.14 of the Loan Agreement.

(b) Grantor agrees to reimburse Secured Party within thirty (30) days following written demand therefor the amount of any and all reasonable fees, costs, expenses and disbursements (including the reasonable fees, cost, expenses and disbursements of its counsel and of any experts and agents) provided for herein or which Secured Party may otherwise incur in connection with (i) the preparation, execution, delivery, modification, amendment, filing, recording and administration of this Agreement; (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral; (iii) the exercise or enforcement of any of the rights of Secured Party hereunder; (iv) the failure by Grantor to perform or observe any of the provisions hereof; and (v) costs and expenses associated with due diligence, transportation, computer, duplication, appraisals, surveys, audits, insurance and consultants.

(c) Grantor agrees that any expenses or other sums due to Secured Party hereunder shall, if not paid when due, bear interest from the date when due until paid in full at a rate per annum equal to the lesser of (i) the Default Rate in effect from time to time during such period, and (ii) the Highest Lawful Rate in effect from time to time during such period.

(d) Grantors obligations and liabilities under this Section 21 shall survive any payment or discharge in full of the Obligations.

SECTION 22. Amendments, Etc. No amendment or waiver of any provision of this Agreement nor consent to any departure by Grantor herefrom shall in any event be effective unless the same shall be in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 23. Addresses for Notices. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be given as provided in Section 10.4 of the Loan Agreement.

SECTION 24. Security Interest Absolute. All rights of Secured Party, all obligations of Grantor hereunder and the security interests hereunder shall, to the extent permitted by applicable law, be absolute and unconditional, irrespective of:

(a) any lack of validity or enforceability of the Loan Agreement, the Note or any of the other Loan Documents;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations or any other amendment or waiver of or any consent to any departure from the Loan Agreement, the Note or any Loan Document;

(c) any exchange, release or non-perfection of any other collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the Obligations; or

(d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Grantor in respect of the Obligations or Grantor in respect of this Agreement.

SECTION 25. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until termination of the obligations of Secured Party to make the Advance and payment in full thereafter of the Obligations; (b) be binding upon Grantor, its successors and assigns; and (c) inure to the benefit of Secured Party and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), Secured Party may, following written notice to Grantor, assign or otherwise transfer any of its rights under this Agreement to any other Person, and such Person shall thereupon become vested with all the benefits in respect thereof granted herein or otherwise to Secured Party. The Debtor shall not assign any of its rights hereunder or interest herein to any Person.

SECTION 26. Waiver of Marshalling. All rights of marshalling of assets of Grantor, including, without limitation, any such right with respect to the Collateral, are hereby waived by Grantor.

SECTION 27. Limitation by Law. All rights, remedies and powers provided in this Agreement may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all the provisions of this Agreement are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render this Agreement invalid, unenforceable, in whole or in part, or not entitled to be recorded, registered or filed under the provisions of any applicable law.

SECTION 28. Termination of Agreement. This Agreement shall remain in full force and effect until the Loan Agreement has been terminated as provided therein.

SECTION 29. Survival of Representations and Warranties. All representations, warranties and indemnities contained in this Agreement, to the extent provided for in the Loan Agreement, shall survive the execution and delivery of this Agreement and the repayment of the Obligations. Any investigation by Secured Party shall not diminish in any respect whatsoever its rights to rely on such representations, warranties and indemnities.

SECTION 30. Separability. Should any clause, sentence, paragraph, subsection or Section of this Agreement be judicially declared to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement, and the

parties hereto agree that the part or parts of this Agreement so held to be invalid, unenforceable or void will be deemed to have been stricken herefrom by the parties hereto, and the remainder will have the same force and effectiveness as if such stricken part or parts had never been included herein.

SECTION 31. Section Headings. The section headings in this Agreement have been inserted for convenience of reference only and shall be given no substantive meaning or significance whatever in construing the terms and provisions of this Agreement.

SECTION 32. No Waiver; Remedies. No failure on the part of Secured Party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by law and any rights and remedies possessed by Secured Party in the Loan Agreement, the Note or any other Loan Document.

SECTION 33. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

SECTION 34. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND APPLICABLE FEDERAL LAW, EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SECTION 35. FINAL AGREEMENT. THIS WRITTEN AGREEMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS, REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, Grantor has caused this Agreement to be duly executed and delivered by a duly authorized officer of its general partner as of the date first above written.

DEL LAGO PARTNERS L.P.

By: Del Lago Partners, Inc., its general partner

By: X ALY EL-KABBANY
Name: ALY EL-KABBANY
Title: Vice President

Agreed and Accepted:


CITICORP USA, INC., as Agent

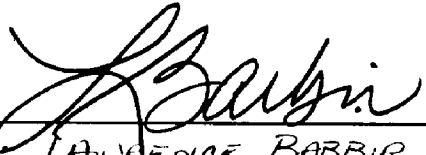
By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, Grantor has caused this Agreement to be duly executed and delivered by a duly authorized officer of its general partner as of the date first above written.

DEL LAGO PARTNERS L.P.

By: Del Lago Partners, Inc., its general partner

By: 
Name: KAREN ROMAN
Title: AUTHORIZED SIGNATORY

By: 
Name: LAWRENCE BARBIR
Title: AUTHORIZED SIGNATORY

Agreed and Accepted:

CITICORP USA, INC., as Agent

By: _____
Name: _____
Title: _____

IN WITNESS WHEREOF, Grantor has caused this Agreement to be duly executed and delivered by a duly authorized officer of its general partner as of the date first above written.

DEL LAGO PARTNERS L.P.

By: Del Lago Partners, Inc., its general partner

By: _____

Name: _____

Title: _____

Agreed and Accepted:

CITICORP USA, INC., as Agent

By: _____ 

Name: _____

Title: _____

**Schedule 1
to
Security Agreement**

Dated as of August 14, 1997

**Principal Place of Business and Chief Executive
Office of Grantor; Locations of Equipment and Inventory**

I. Chief Executive Office

Del Lago Partners L.P.
Del Lago Golf Resort & Conference Center
600 Del Lago Boulevard
Montgomery, Texas 77356
Attention: Mr. Lawrence Barbir
Telecopy No.: (409) 582-4101

II. Principal Place of Business

Del Lago Partners L.P.
Del Lago Golf Resort & Conference Center
600 Del Lago Boulevard
Montgomery, Texas 77356
Attention: Mr. Lawrence Barbir
Telecopy No.: (409) 582-4101

III. Location of Equipment

Del Lago Partners L.P.
Del Lago Golf Resort & Conference Center
600 Del Lago Boulevard
Montgomery, Texas 77356
Attention: Mr. Lawrence Barbir
Telecopy No.: (409) 582-4101

IV. Location of Inventory

Del Lago Partners L.P.
Del Lago Golf Resort & Conference Center
600 Del Lago Boulevard
Montgomery, Texas 77356
Attention: Mr. Lawrence Barbir
Telecopy No.: (409) 582-4101

Schedule 2
to Security Agreement

Dated as of August 14, 1997

Copyrights, Patents and Trademarks

DEL LAGO RESORT & CONFERENCE CENTER
Trademark/Tradename Schedule

Listing of all trademarks, service marks, trade names, patents, copyrights, and other intellectual property rights, whether or not registered, which are owned by, licensed to, or used by the partnership.

Del Lago - Del Lago is a registered service mark, Registration Number 1555292, registered September 5, 1989. The phrase "Golf Resort & Conference Center" is a descriptive add-on but is not a registered mark.

Del Lago Golf Resort & Conference Center - Used for general advertising, marketing, clothing, equipment, signage and promotional products.

Del Lago Resort Hotel & Conference Center - No longer used.

Del Lago - logo

The Grandstand Sports Bar

The Grandstand Sports Bar & Upper Deck

P.G.A. Pizza

Kiva Southwest Family Table

Del Lago Marina

Del Lago - crossed golf club logo

EXHIBIT A

FORM OF LOSS PAYABLE ENDORSEMENT

Attached to and forming part of Policy No. _____ of
_____ ("this Company") issued to Del Lago Partners L.P. ("Insured")
at _____ dated _____.

Loss, if any, under this policy shall be payable to Citicorp USA, Inc., a Delaware corporation ("Lender"), at 1200 Smith Street, #2070, Houston, Texas 77002, as lender, mortgagee, loss payee, additional insured or trustee, as its interest may appear.

It is understood that Lender now has or will acquire from time to time an insurable interest in certain property insured under this policy, which interest is established by various financing documents, warehouse receipts, bills of lading, documentary or other written evidence heretofore, now or hereafter executed or delivered by Insured to Lender or its agents.

This insurance, solely as to the interest therein of Lender, shall not be impaired or invalidated by any act or neglect of the Insured or of the mortgagor or owner of the within described property, nor by any change in the title or ownership of the property, nor by the occupation of the premises wherein such property is located for purposes more hazardous than are permitted by this policy; provided that in case the Insured shall neglect to pay any premium under this policy, Lender may, at its option, pay the same; and provided further that if Lender shall notify this Company of any change of ownership or occupancy or any increase of hazard which shall come to the knowledge of Lender that is not permitted by this policy, such change of ownership or occupancy or increased hazard, as the case may be, shall be noted on this policy and this Company shall demand payment of any increased premium for such change of ownership or occupancy or increased hazard, as the case may be, from Insured; provided, however, that Lender, upon written notice by this Company to Lender at Lender's address set forth above of Insured's failure to pay such premium, may, at its option pay such premium. Except as provided in this paragraph, Lender shall have no obligation to this Company with respect to the payment of all or any part of any premium relating to this policy.

This Company reserves the right to cancel this policy at any time as provided by its terms, but if this Company exercises its right to cancel or if the policy holder cancels this policy, this policy shall continue in force, without payment of any additional premium, for the benefit only of Lender for thirty (30) days after written notice of such cancellation to Lender at the address set forth above and shall then cease, and this Company shall have the right, on like notice, to cancel this agreement.

Whenever this Company shall pay Lender any sum for loss or damage under this policy and shall claim that, as to the Insured, mortgagor or owner no liability thereof existed, this Company shall, to the extent of such payment, be thereupon legally subrogated (but subordinate)

to all the rights of the party to whom such payment shall be made, under all securities held as collateral for the debt, or may, at its option, pay Lender the whole principal due or to grow due on the debt with interest, and shall thereupon receive a full assignment and transfer of the debt and of the mortgage and of all such other securities as evidence the interest of Lender in the within described property, but no such subrogation shall impair the right of Lender to recover the full amount of its claim against the Insured, mortgagor, owner or any other party prior to this Company receiving any payment with respect to its subrogated rights.

All other terms and conditions of the policy to which this Endorsement is attached and of which it is a part, remain unchanged, which other terms and conditions include the limit(s) of liability named in the policy and the conditions of any Value Reporting, Full Reporting, Total Insurance, Coinsurance, Reduced Rate Contribution or Average Clauses incorporated therein or attached thereto.

It is hereby understood and agreed that (i) the policy to which this Endorsement is attached will not be changed in any way which may affect Lender's rights under this policy without prior written notice to Lender at the address set forth above, (ii) that this Company will provide Lender with written notice at Lender's address set forth above of any expiration of this policy or failure by the Insured to renew this policy at the relevant intervals under the terms of the policy within fifteen (15) business days prior to such expiration or failure to renew, and (iii) all notices by this Company to Lender hereunder or pursuant hereto shall be in writing, addressed to Lender at its address set forth above and shall be deemed received by Lender upon actual receipt thereof.

Agent

7/25

**Schedule 2
to Security Agreement**

Dated as of August _____, 1997

Copyrights, Patents and Trademarks

**DEL LAGO RESORT & CONFERENCE CENTER
Trademark/Tradename Schedule**

Listing of all trademarks, service marks, trade names, patents, copyrights, and other intellectual property rights, whether or not registered, which are owned by, licensed to, or used by the partnership.

Del Lago - Del Lago is a registered service mark, Registration Number 1555292, registered September 5, 1989. The phrase "Golf Resort & Conference Center" is a descriptive add-on but is not a registered mark.

Del Lago Golf Resort & Conference Center - Used for general advertising, marketing, clothing, equipment, signage and promotional products.

Del Lago Resort Hotel & Conference Center - No longer used.

Del Lago - logo

The Grandstand Sports Bar

The Grandstand Sports Bar & Upper Deck

P.G.A. Pizza

Kiva Southwest Family Table

Del Lago Marina

Del Lago - crossed golf club logo

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