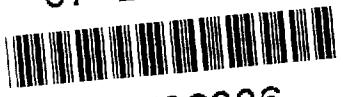


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07-23-2001

Form PTO-1594 (Rev. 03/01) OMB No. 0651-0027 (exp. 5/31/2002)



U.S. DEPARTMENT OF COMMERCE U.S. Patent and Trademark Office

101786086

Tab settings

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):
 CARBON MEDICAL TECHNOLOGIES, INC.
 MRD 7-23-01

Individual(s) Association
 General Partnership Limited Partnership
 Corporation-State a Minnesota corporation
 Other _____

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

2. Name and address of receiving party(ies)
 Name: ITASCA BUSINESS CREDIT, INC.
 Internal Address: Parkdale Plaza, Suite 146
 Street Address: 1660 South Hwy. 100
 City: St. Louis Park State: MN Zip: 55416

Individual(s) citizenship _____
 Association _____
 General Partnership _____
 Limited Partnership _____
 Corporation-State a Minnesota corporation
 Other _____

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

3. Nature of conveyance:
 Assignment Merger
 Security Agreement Change of Name
 Other _____

Execution Date: July 12, 2001

4. Application number(s) or registration number(s):
 A. Trademark Application No.(s)
 75/883892 for DermMatrix

MRD 7-23-01
 B. Trademark Registration No.(s)
 2,373,853 for Durasphere

Additional number(s) attached Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:
 Name: Vera Rosalez
 Internal Address: US Corporate Services
 Street Address: 380 Jackson St #418
 City: St Paul State: MN Zip: 55101

6. Total number of applications and registrations involved: 2

7. Total fee (37 CFR 3.41).....\$ 65.00
 Enclosed
 Authorized to be charged to deposit account

8. Deposit account number: _____
 (Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

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

GORDON BENDLER *[Signature]* 7/20/01
 Name of Person Signing Signature Date

Total number of pages including cover sheet, attachments, and document: 10

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

07/24/2001 DBYRNE 00000004 75883892
 01 FC:481
 02 FC:482

40.00 OP
 25.00 OP

TRADEMARK
 REEL: 2333 FRAME: 0629

PATENT AND TRADEMARK SECURITY AGREEMENT

THIS PATENT AND TRADEMARK SECURITY AGREEMENT (this Agreement) dated as of July 12, 2001 between CARBON MEDICAL TECHNOLOGIES, INC., a Minnesota corporation (the Grantor) and ITASCA BUSINESS CREDIT, INC., a Minnesota corporation, (the Secured Party).

WITNESSETH:

WHEREAS pursuant to a Financing Agreement dated May 23, 2001 and further revised on July 12, 2001 (together with all amendments and other modifications, if any, from time to time thereafter made thereto the "Financing Agreement"), among the Grantor and the Secured Party, the Secured Party has made available to the Grantor a credit facility, and

WHEREAS, in connection with the Financing Agreement, the Grantor has executed and delivered a Security Agreement dated on or about May 23, 2001 (together with all amendments and other modifications, if any, from time to time thereafter made thereto, the "Security Agreement"), in favor of the Secured Party, and

WHEREAS, as a condition to the Financing Agreement, the Grantor is required to execute and deliver this Agreement and to grant to the Secured Party a continuing security interest in all of the Intellectual Property Collateral (as defined below) to secure the payment and performance of each and every debt, liability and obligation of every type and description which Grantor may now or at any time due to the Secured Party including but not limited to each and every debt under the Financing Agreement (the 'Obligations'), and

WHEREAS, the Grantor has duly authorized the execution, delivery and performance of this Agreement, and

WHEREAS, it is in the best interests of the Grantor to execute this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged, and, in order to induce the Secured Party to extend credit to the Grantor pursuant to the Financing Agreement, the Grantor agrees, for the benefit of the Secured Party, as follows:

1. GRANT OF SECURITY INTEREST

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, to secure all of the Obligations, the Grantor does hereby mortgage, pledge, hypothecate to the Secured Party, and grant to the Secured Party a security interest in all of the following property (the "Intellectual Property Collateral") whether now owned or hereafter acquired or existing;

- (a) all trademarks, trade names, corporate names, company names, business names, domain names, trade styles, collective marks, logos, other source of business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of alike nature (all of the foregoing items in this clause (a) being collectively called a "Trademark"), now existing anywhere in the world or hereafter adopted or acquired, whether currently in use or not, all registrations and recordings thereof and all applications in connection therewith, whether pending or in preparation for filing, including registrations, recordings and applications in the United States Patent and Trademark Office or in any office or agency of the United States of America or any State thereof or any foreign country, including those referred to in Item A of Attachment 1 hereto;
- (b) all Trademark licenses, including each Trademark license referred to in Item B of Attachment 1 hereto;
- (c) all reissues, extensions or renewals of any of the items described in clauses (a) and (b);
- (d) all of the goodwill of the business connected with the use of, and symbolized by the items described in clauses (a) and (b);

- (e) all proceeds, products, offspring, issues and income of, and rights associated with, the foregoing, including any claim by the Grantor against third parties for past, present or future infringement or dilution of any Trademark, Trademark registration or Trademark license, including any Trademark. Trademark registration or Trademark license referred to in Item A and Item B of Attachment 1 hereto, or for any injury to the goodwill associated with the use of a Trademark or for breach or enforcement of any Trademark license;
- (f) all patents and patent applications (all of the foregoing items in this clause (f) being collectively a "Patent", now existing anywhere in the world or hereafter acquired, all registrations and recordings thereof and all applications in connection therewith, whether pending or in preparation for filing, including registrations in the United States Patent and Trademark office or in any office or agency of the United States of America or any state thereof or any foreign country, including those referred to in Item A of Attachment 2 hereto;
- (g) all Patent licenses, including each Patent license referred to in Item B of Attachment 2 hereto.
- (h) all reissues, extensions or renewals of any items described in clauses (f) and (g); and
- (i) all proceeds, products, offspring, issues and income of, and rights associated with, the foregoing, including any claim by the Grantor against third parties for past, present or future infringement or dilution of any patent, patent registration or patent license, including any patent.

2. SECURITY AGREEMENT

This Agreement has been executed and delivered by the Grantor for the purpose of registering the security interest of the Secured Party in the Intellectual Property Collateral with the United States Patent and Trademark Office. The security interest granted hereby has been granted as a supplement to, and not in limitation of the security interest granted to the Secured Party under the Security Agreement. The Security Agreement (and all rights and remedies of the Secured Party thereunder) shall remain in full force and effect in accordance with its terms. This Agreement secures the payment and discharge in full of all Obligations now or hereafter existing under the Financing Agreement and each other financing document to which the Grantor is or may become a party, whether for principal, interest, costs, fees, expenses or otherwise.

3. CONTINUING SECURITY INTEREST

This Agreement shall create a continuing security interest in the Intellectual Property Collateral and shall:

- (a) remain in full force and effect until payment and discharge in full of all Obligations and the termination of all commitments;
- (b) be binding upon the Grantor, its successors, transferees and assigns; and
- (c) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of the Secured Party.

4. SECURITY INTEREST ABSOLUTE

All rights of the Secured Party and the security interests granted to the Secured Party hereunder, and all obligations of the Grantor hereunder, shall be absolute and unconditional, irrespective of:

- (a) any lack of validity or enforceability of the Financing Agreement or any other financing document;
- (b) the failure of the Secured Party:
 - (i) to assert any claim or demand or to enforce any right or remedy against any under the provisions of the Financing Agreement or any other financing document or otherwise; or
 - (ii) to exercise any right or remedy against any other guarantor of, or collateral securing, any Obligations;

- (c) 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 extension, compromise or renewal of any Obligations;
- (d) any reduction, limitation, impairment or termination of any Obligations for any reason (other than repayment in full of the Obligations), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to (and the Grantor hereby waives any right to or claim of) any defense or set-off counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, non-genuineness, irregularly, compromise, unenforceability of or any other event or occurrence affecting, any Obligation or otherwise;
- (e) any amendment to, rescission, waiver, or other modification of, or any consent to departure from, any of the terms of the Financing Agreement or any other financing document;
- (f) any addition, exchange, release, surrender or non-perfection of any Intellectual Property Collateral or any amendment to or waiver or release of or addition to or consent to departure from any guaranty, for any of the Obligations; or
- (g) any other circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Grantor, or otherwise.

5. REPRESENTATIONS AND WARRANTIES

- (a) The Patents and Trademarks are subsisting and have not been adjudged invalid or unenforceable, in whole or in part;
- (b) To the best of Grantor's knowledge, each of the Patents and Trademarks is valid and enforceable and Assignor has notified Secured Party in writing of all prior art (including public uses and sales) of which it is aware;
- (c) Assignor is the sole and exclusive owner of the entire and unencumbered right, title and interest in and to each of the Patents and Trademarks, free and clear of any liens, charges and encumbrances, including without limitation pledges, assignments, licenses, shop rights and covenants by Grantor not to sue third persons; and
- (d) Grantor has the unqualified right to enter into this Agreement and perform its terms and has entered and will enter into written agreements with each of its present and future employees, agents and consultants which will enable it to comply with the covenants herein contained.
- (e) Grantor that, until all of the Obligations shall have been satisfied in full, it will not enter into any agreement (for example, a license agreement) which is inconsistent with Grantor's obligations under this Agreement, without Secured Party's prior written consent.
- (f) If, before the Obligations shall have been satisfied in full, Grantor shall obtain rights to any new patentable inventions, or become entitled to the benefit of any patent application or patent for any reissue, division, continuation, renewal, extension, or continuation-in-part of any Patent or any improvement on any Patent, Grantor shall give to Secured Party prompt notice thereof in writing hereof.
- (g) Grantor authorizes Secured Party to modify this Agreement by amending Attachments 1 and 2 to include any future patents and patent applications which are Patents and any future trademarks.

6. SECURED PARTY APPOINTED ATTORNEY-IN-FACT

The Grantor hereby irrevocably appoints the Secured Party the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time in the Secured Party's discretion, to take any action and to execute any instrument which the 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, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Intellectual Property Collateral;

- (b) to receive, endorse and collect any drafts or other instruments, documents and chattel paper, in connection with clause a above;
- (c) to file any claims or take any action or institute any proceedings which the Secured Party may deem necessary or desirable for the collection of any of the Intellectual Property Collateral or otherwise to enforce the rights of the Secured Party with respect to any of the Intellectual Property Collateral, including but not limited to the assignment, sale or other disposition of the Intellectual Property Collateral, provided however, that the Secured Party agrees to exercise this power of attorney only (i) after the occurrence of an event of default and notice to the Grantor of such event of default under the Security Agreement or under this Agreement, or (ii) after demand for payment has been made by the Secured Party under the Financing Agreement or otherwise;
- (d) to perform the affirmative obligations of the Grantor hereunder; and
- (e) subject to the limitations of Section 6(c) of this Agreement with respect to the Intellectual Property Collateral, to take any action as may be permitted or authorized under the Financing Agreement or Security Agreement, including but not limited to any action pursuant to any power of attorney granted to the Secured Party pursuant to the Financing Agreement or Security Agreement.

The Grantor hereby acknowledges, consents and agrees that the power of attorney granted pursuant to this Clause is irrevocable and coupled with an interest.

7. SECURED PARTY MAY PERFORM

If the Grantor fails to perform any agreement contained herein, the Secured Party may itself perform, or cause performance of such agreement and the expenses of the Secured Party incurred in connection therewith shall be payable by the Grantor pursuant to Section 10.

8. SECURED PARTY HAS NO DUTY

The powers conferred on the Secured Party hereunder are solely to protect its interest in the Intellectual Property Collateral and shall not impose any duty on it to exercise any such powers. Except for reasonable care of any Intellectual Property Collateral in its possession and the accounting for moneys actually received by it hereunder, the Secured Party shall have no duty as to any Intellectual Property Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Intellectual Property Collateral.

9. CERTAIN REMEDIES

If any default shall have occurred under the Security Agreement and be continuing, or if the Secured Party shall have demanded payment of an amount due under the Financing Agreement;

- (a) The Secured Party may exercise in respect of the Intellectual Property 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 on default under the Uniform Commercial Code as adopted in the State of Minnesota (the "U.C.C.") or the laws of the United States (whether or not the U.C.C. applies to the affected Intellectual Property Collateral) and also may;
 - (i) require the Grantor to, and the Grantor hereby agrees that it will, at its expense and upon request of the Secured Party forthwith, assemble all or part of the Intellectual Property Collateral as directed by the Secured Party and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties; and

- (ii) without notice except as specified below, sell the Intellectual Property Collateral or any part thereof in one or more parcels at public or private sale at any of the Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Secured Party may deem commercially reasonable. The Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' prior notice to the 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. The Secured Party shall not be obligated to make any sale of Intellectual Property Collateral regardless of notice of sale having been given. The 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 the Secured Party in respect of any sale of collection from, or other realization upon all or any part of the Intellectual Property Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, and/or then or at any time thereafter applied in whole or in part by the Secured Party against, all or any part of the Obligations in such order as the Secured Party shall elect. Any surplus of such cash or cash proceeds held by the Secured Party and remaining after payment in full of all the Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.
- (c) Exercise or enforce any or all rights or remedies available to Secured Party by law or agreement against the Intellectual Property Collateral, against Grantor or any other person or property.

10. INDEMNITY AND EXPENSES

- (a) The Grantor agrees to indemnify the Secured Party from and against any and all claims, losses and liabilities arising out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement).
- (b) The Grantor will upon demand pay to the Secured Party the amount of any and all reasonable expenses, including the reasonable fees and disbursements of its counsel and of any experts and agents, which the Secured Party may incur in connection with;
 - (i) the preparation and negotiation of this Agreement;
 - (ii) the administration of this Agreement;
 - (iii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Intellectual Property Collateral;
 - (iv) the exercise or enforcement of any of the rights of the Secured Party hereunder; or
 - (v) the failure by the Grantor to perform or observe any of the provisions hereof.

11. RELEASE OF SECURITY INTEREST

Upon payment in full and the discharge of all Obligations and the termination of all commitments, the Secured Party shall, at the Grantors expense, promptly execute and deliver to the Grantor all instruments and other documents as may be necessary or proper to release the lien on and security interest in the Intellectual Property Collateral which has been granted hereunder.

12. ACKNOWLEDGMENT

The Grantor does hereby further acknowledge and affirm that the rights and remedies of the Secured Party with respect to the security interest in the Intellectual Property Collateral granted hereby are also set forth in the Security Agreement, the terms and provisions of which (including the remedies provided for therein) are incorporated by reference herein as if fully set forth herein.

13. AMENDMENTS ETC.

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

14. GOVERNING LAW, ENTIRE AGREEMENT, ETC.

This Agreement shall be deemed to be a contract made under and governed by and construed in accordance with the internal laws of the State of Minnesota except to the extent that the validity or perfection of the security interests hereunder or remedies hereunder in respect of any particular collateral are governed by the laws of a jurisdiction other than the State of Minnesota. This Agreement constitutes the entire understanding among the parties hereto with respect to the subject matter hereof and thereof and supersedes any prior agreements, written or oral, with respect thereto.

15. FORUM SELECTION AND CONSENT TO JURISDICTION

Any litigation based hereon, or arising out of under or in connection with this Agreement, or any course of conduct, course of dealing, statements (whether verbal or written) or actions of the Secured Party or the Grantor shall be brought and maintained exclusively in the courts of the State of Minnesota or in the United States District Court for the District of Minnesota; **provided however** that any suit seeking enforcement against any Intellectual Property Collateral or other property may be brought, at the Secured Party's option, in the courts of any jurisdiction where such collateral or other property may be found. The Grantor hereby expressly and irrevocably submits to the jurisdiction of the courts of the State of Minnesota and of the United States District Court for the District of Minnesota for the purpose of any such litigation as set forth above and irrevocably agrees to be bound by any judgment rendered thereby in connection with such litigation. The Grantor further irrevocably consents to the service of process by registered mail, postage prepaid; or by personal service within or without the State of Minnesota. The Grantor hereby expressly and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any, such litigation brought in any such court referred to above and any claim that any such litigation has been brought in an inconvenient forum. To the extent that the Grantor has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution or otherwise) with respect to itself or its property, the Grantor hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

16. WAIVER OF JURY TRIAL

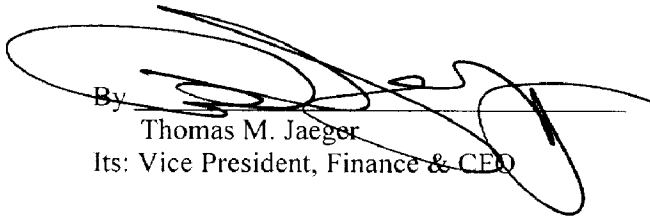
The Secured Party and the Grantor hereby knowingly, voluntarily and intentionally waive any rights they may have to a trial by jury in respect of any litigation based hereon, or arising out of under or in connection with this Agreement, or any course of conduct, course of dealing, statements (whether verbal or written) or actions of the Secured Party or the Grantor. The Grantor acknowledges and agrees that it has received full and sufficient consideration for this provision (and each other provision of each other financing document to which it is a party) and that this provision is a material inducement for the Secured Party entering into the Financing Agreement and each such other financing document. In no event shall the Secured Party be liable for any consequential damages which may be alleged in connection herewith or the transactions contemplated hereby.

17. COUNTERPARTS

This Agreement may be executed by the parties hereto in several counterparts, each of which shall be deemed to be an original and all of which shall constitute together but one and the same agreement.

IN WITNESS whereof the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorised as of the day and year first above written.

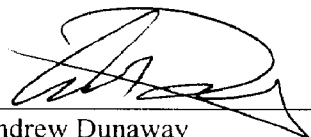
CARBON MEDICAL TECHNOLOGIES, INC.

By 
Thomas M. Jaeger
Its: Vice President, Finance & CEO

Address: 1290 Hammond Road
Saint Paul, Minnesota 55110-5876

Attention: Thomas M. Jaeger
Fax: 651-407-1975

ITASCA BUSINESS CREDIT

By 
Andrew Dunaway
Its: Account Executive

Address: Parkdale Plaza, Suite 146
1660 South Highway 100
St. Louis Park, MN 55416-1524

Attention: Andrew Dunaway
Fax: 952-542-8907

ATTACHMENT 1

Item A. Trademarks

Registered Trademarks

Country: USA

Trademark	Class	Reg No	Reg Date	App No	App Date	Renewal
Durasphere (issued)	10	2,373,853	Aug 1, 2000	N/A	N/A	N/A
DermMatrix (applied for)	10	N/A	N/A	75/883892	Dec 30,1999	N/A

Item B. Trademark Licenses **None**

ATTACHMENT 2

Item A. Patents

Title	Filing Date	Patent No.	Issue Date
Tissue Injectable Composition and Method of Use	July 14, 1994	5,451,406 (U.S.)	Sept 19, 1996
Tissue Injectable Composition and Method of Use	June 13, 1995	2,194,909 (Canada)	July 13, 1999
Improved Tissue Injectable Composition and Method of Use	July 8, 1996	5,792,478 (U.S.)	August 11, 1998

Item B. Patent Licenses

License	Date License Expires
None	None