

FORM PTO-1595 **RECORDATION FORM COVER SHEET** U.S. DEPARTMENT OF COMMERCE
 1/31/92 **TRADEMARKS ONLY** Patent and Trademark Office

To the Director of Patents and Trademarks: Please Record the attached original documents or copy thereof.

<p>1. Name of conveying party(ies): Flexi-Mat Corporation Entity: <u>Illinois Corporation</u> Additional name(s) of conveying party(ies) attached? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>	<p>2. Name and address of receiving party(ies): Name: <u>Bank One, NA</u> Internal Address: <u>120 S. LaSalle Street</u> <u>Chicago, Illinois 60603</u></p>
<p>3. Nature of conveyance: <input type="checkbox"/> Assignment <input type="checkbox"/> Merger <input checked="" type="checkbox"/> Security Agreement <input type="checkbox"/> Change of Name <input type="checkbox"/> Other _____ Execution Date <u>June 4, 2004</u></p>	<p>Entity: <u>National Association</u> Additional Name(s) & Address(es) attached <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p>

4. Application or registration number(s):

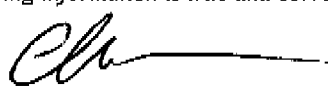
<p>A. Trademark Application No.(s) <u>76/244,800</u></p>	<p>B. Trademark Registration No. (s) <u>2,268,844; 1,391,596; 2,590,455; 2,338,555; 1,078,928; 1,242,097; 2,235,927; 2,228,694; 2,271,867; 2,159,634; 2,401,938; 2,217,277; 2,249,058; 2,433,631; 1,671,759; 1,294,394</u></p>
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Additional numbers attached? Yes No

<p>5. Name and address of party to whom correspondence concerning document should be mailed: Please send the recorded assignment back by fax to 312-258-5600 to the attention of: SCHIFF HARDIN LLP Chris Bollinger, Attorney P.O. Box 06079 Chicago, IL 60606-0079 Telephone: (312) 258-5500 Customer Number: 06984-0034</p>	<p>6. Total number of applications and patents involved <u>17</u></p> <p>7. Total Fee (37 CFR 3.41) \$440.00 <input checked="" type="checkbox"/> Authorization is given to charge the deposit account for the above fee and any additional fees required or to credit any overpayment.</p> <p>8. Deposit Account Number: <u>19-0409</u> (Attach duplicate copy of this page if paying by deposit account)</p>
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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.

Chris Bollinger  6/18/04
 Name of Person Signing Signature Date

Total number of pages including cover sheet and attached documents **49**:

Mail documents to be recorded and required cover sheet information to:
 By Fax: 703/306-5995
 Commissioner of Patents and Trademarks
 Box Assignments
 Washington, D.C. 20231

TRADEMARK

CH \$440.00 190409 76244800

EXECUTION COPY**PLEDGE AND SECURITY AGREEMENT**

THIS PLEDGE AND SECURITY AGREEMENT (as it may be amended, restated or modified from time to time, the "Security Agreement") is entered into as of June 4, 2004 by and among **Flexi-Mat Corporation**, an Illinois corporation ("Borrower"), **Flexi-Mat Holding, Inc.**, a Delaware corporation ("Parent" and, together with Borrower, collectively, the "Grantors" and, individually, a "Grantor"), and **Bank One, NA**, a national banking association having its principal office in Chicago, Illinois (the "Lender").

PRELIMINARY STATEMENT

WHEREAS, the Grantors and the Lender are entering into a Credit Agreement dated as of June 4, 2004 (as it may be amended or modified from time to time, the "Credit Agreement"); and

WHEREAS, the Grantors are entering into this Security Agreement in order to induce the Lender to enter into and extend credit to the Borrower under the Credit Agreement and to secure the Obligations that Parent has agreed to guarantee pursuant to Article IX of the Credit Agreement;

NOW THEREFORE, in consideration of these premises and the terms and conditions set forth in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Terms Defined in Credit Agreement. All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

1.2 Terms Defined in UCC. Terms defined in the UCC which are not otherwise defined in this Security Agreement are used herein as defined in the UCC.

1.3 Definitions of Certain Terms Used Herein. As used in this Security Agreement, in addition to the terms defined in the Preliminary Statement, the following terms shall have the following meanings:

"Accounts" shall have the meaning set forth in Article 9 of the UCC.

"Article" means a numbered article of this Security Agreement, unless another document is specifically referenced.

"Assigned Contracts" means, collectively, all of each Grantor's rights and remedies under, and all moneys and claims for money due or to become due to each Grantor under those contracts set forth on Exhibit J hereto, and any other material contracts, and any and all amendments, supplements, extensions, and renewals thereof including all rights and claims of

each Grantor now or hereafter existing: (a) under any insurance, indemnities, warranties, and guarantees provided for or arising out of or in connection with any of the foregoing agreements; (b) for any damages arising out of or for breach or default under or in connection with any of the foregoing contracts; (c) to all other amounts from time to time paid or payable under or in connection with any of the foregoing agreements; or (d) to exercise or enforce any and all covenants, remedies, powers and privileges thereunder.

“Chattel Paper” shall have the meaning set forth in Article 9 of the UCC.

“Collateral” shall have the meaning set forth in Article II.

“Collateral Deposit Account” shall have the meaning set forth in Section 7.1(a).

“Collateral Report” means any certificate (including any Borrowing Base Certificate), report or other document delivered by any Grantor to the Lender with respect to the Collateral pursuant to any Loan Document.

“Collection Account” shall have the meaning set forth in Section 7.1(b).

“Commercial Tort Claims” means the following existing commercial tort claims of each Grantor to the extent greater than \$100,000 individually or \$200,000 in the aggregate: None.

“Control” shall have the meaning set forth in Article 8 or, if applicable, in Section 9-104, 9-105, 9-106 or 9-107 of Article 9 of the UCC.

“Copyrights” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following: (a) all United States copyrights, rights and interests in copyrights, works protectable by copyright, copyright registrations, and copyright applications; (b) all renewals of any of the foregoing; (c) all income, royalties, damages, and payments now or hereafter due and/or payable under any of the foregoing, including, without limitation, damages or payments for past or future infringements for any of the foregoing; (d) the right to sue for past, present, and future infringements of any of the foregoing; and (e) all rights corresponding to any of the foregoing throughout the world.

“Default” means an event described in Section 5.1.

“Deposit Accounts” shall have the meaning set forth in Article 9 of the UCC.

“Documents” shall have the meaning set forth in Article 9 of the UCC.

“Equipment” shall have the meaning set forth in Article 9 of the UCC.

“Exhibit” refers to a specific exhibit to this Security Agreement, unless another document is specifically referenced.

“Farm Products” shall have the meaning set forth in Article 9 of the UCC.

“Fixtures” shall have the meaning set forth in Article 9 of the UCC.

"General Intangibles" shall have the meaning set forth in Article 9 of the UCC.

"Goods" shall have the meaning set forth in Article 9 of the UCC.

"Instruments" shall have the meaning set forth in Article 9 of the UCC.

"Inventory" shall have the meaning set forth in Article 9 of the UCC.

"Investment Property" shall have the meaning set forth in Article 9 of the UCC.

"Letter-of-Credit Rights" shall have the meaning set forth in Article 9 of the UCC.

"Licenses" means, with respect to any Person, all of such Person's right, title, and interest in and to (a) any and all licensing agreements or similar arrangements in and to its Patents, Copyrights, or Trademarks, (b) all income, royalties, damages, claims, and payments now or hereafter due or payable under and with respect thereto, including, without limitation, damages and payments for past and future breaches thereof, and (c) all rights to sue for past, present, and future breaches thereof.

"Lock Boxes" shall have the meaning set forth in Section 7.1(a).

"Lock Box Agreements" shall have the meaning set forth in Section 7.1(a).

"Payment Intangibles" shall have the meaning set forth in Article 9 of the UCC.

"Patents" means, with respect to any Person, all of such Person's right, title, and interest in and to: (a) any and all patents and patent applications; (b) all inventions and improvements described and claimed therein; (c) all reissues, divisions, continuations, renewals, extensions, and continuations-in-part thereof; (d) all income, royalties, damages, claims, and payments now or hereafter due or payable under and with respect thereto, including, without limitation, damages and payments for past and future infringements thereof; (e) all rights to sue for past, present, and future infringements thereof; and (f) all rights corresponding to any of the foregoing throughout the world.

"Pledged Collateral" means all Instruments, Securities and other Investment Property of each Grantor, whether or not physically delivered to the Lender pursuant to this Security Agreement.

"Receivables" means the Accounts, Chattel Paper, Documents, Investment Property, Instruments and any other rights or claims to receive money which are General Intangibles or which are otherwise included as Collateral.

"Section" means a numbered section of this Security Agreement, unless another document is specifically referenced.

"Security" has the meaning set forth in Article 8 of the UCC.

“Stock Rights” means all dividends, instruments or other distributions and any other right or property which any Grantor shall receive or shall become entitled to receive for any reason whatsoever with respect to, in substitution for or in exchange for any Capital Stock constituting Collateral, any right to receive Capital Stock and any right to receive earnings, in which any Grantor now has or hereafter acquires any right, issued by an issuer of such Capital Stock.

“Supporting Obligations” shall have the meaning set forth in Article 9 of the UCC.

“Trademarks” means, with respect to any Person, all of such Person’s right, title, and interest in and to the following: (a) all United States trademarks (including service marks), trade names, trade dress, and trade styles and the registrations and applications for registration thereof and the goodwill of the business symbolized by the foregoing; (b) all licenses of the foregoing, whether as licensee or licensor; (c) all renewals of the foregoing; (d) all income, royalties, damages, and payments now or hereafter due or payable with respect thereto, including, without limitation, damages, claims, and payments for past and future infringements thereof; (e) all rights to sue for past, present, and future infringements of the foregoing, including the right to settle suits involving claims and demands for royalties owing; and (f) all rights corresponding to any of the foregoing throughout the world.

“UCC” means the Uniform Commercial Code, as in effect from time to time, of the State of Illinois or of any other state the laws of which are required as a result thereof to be applied in connection with the attachment, perfection or priority of, or remedies with respect to, the Lender’s Lien on any Collateral.

“Unmatured Default” means an event which but for the lapse of time or the giving of notice, or both, would constitute a Default hereunder.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

ARTICLE II

GRANT OF SECURITY INTEREST

Each Grantor hereby pledges, assigns and grants to the Lender, a security interest in all of its right, title and interest in, to and under all personal property and other assets, whether now owned by or owing to, or hereafter acquired by or arising in favor of such Grantor, and whether owned or consigned by or to, or leased from or to, such Grantor, and regardless of where located (all of which will be collectively referred to as the “Collateral”), including:

- (i) all Accounts;
- (ii) all Chattel Paper;
- (iii) all Documents;
- (iv) all Equipment;
- (v) all Fixtures;

- (vi) all General Intangibles (including, without limitation, all Payment Intangibles);
- (vii) all Goods;
- (viii) all Instruments;
- (ix) all Inventory;
- (x) all Investment Property;
- (xi) all cash or cash equivalents;
- (xii) all letters of credit, Letter-of-Credit Rights and Supporting Obligations;
- (xiii) all Deposit Accounts with any bank or other financial institution;
- (xiv) all Commercial Tort Claims;
- (xv) all Assigned Contracts;
- (xvi) all Farm Products; and
- (xvii) all accessions to, substitutions for and replacements, proceeds (including Stock Rights), insurance proceeds and products of the foregoing, together with all books and records, customer lists, credit files, computer files, programs, printouts and other computer materials and records related thereto and any General Intangibles at any time evidencing or relating to any of the foregoing;

to secure the prompt and complete payment and performance of the Obligations.

Notwithstanding the foregoing, the pledge and grant of a Lien and security interest as provided herein shall not extend to (i) the key man life insurance policies required to be obtained and maintained pursuant to the Subordinated Credit Agreement, and (ii) any Equipment subject to a purchase money security interest or lease ("Encumbered Equipment"), Assigned Contract, General Intangible, Instrument, License or Chattel Paper in which any Grantor has any right, title or interest if and to the extent such Encumbered Equipment, Assigned Contract, General Intangible, Instrument, License or Chattel Paper is subject to a Permitted Lien, contractual provision or other restriction on assignment (which is not prohibited by any Loan Document) which provides that the creation of a security interest in the right, title or interest of such Grantor therein would be prohibited and would, in and of itself, cause or result in a default thereunder enabling another Person party to such Encumbered Equipment purchase contract or lease, Assigned Contract, General Intangible, Instrument, License or Chattel Paper to enforce any remedy with respect thereto; *provided, however*, that the foregoing exclusion shall not apply if (a) such prohibition has been waived or such other Person has otherwise consented to the creation hereunder of a Lien and security interest in such Encumbered Equipment, Assigned Contract, General Intangible, Instrument, License or Chattel Paper, or (b) such prohibition would

be rendered ineffective pursuant to any of Sections 9-406, 9-407 or 9-408 of Article 9 of the Uniform Commercial Code, as applicable and as then in effect in any relevant jurisdiction, or any other applicable law (including the Bankruptcy Code) or principles of equity.

ARTICLE III **REPRESENTATIONS AND WARRANTIES**

Each Grantor represents and warrants to the Lender that:

3.1 Title, Perfection and Priority. Such Grantor has good and valid rights in or the power to transfer the Collateral and title to the Collateral, free and clear of all Liens except for Liens permitted under Section 4.1(e), and has all necessary power and authority to grant to the Lender the security interest in such Collateral pursuant hereto. When (i) financing statements have been filed in the appropriate offices against such Grantor in the locations listed on Exhibit H naming each Grantor as debtor and the Lender as secured party, and (ii) the Subordinated Agent has terminated, in accordance with the terms of that certain letter agreement dated the date hereof made by the Subordinated Agent in favor of the Lender, all financing statements naming any Grantor as debtor and the Subordinated Agent as secured party and filed prior to the date hereof, the Lender will have a fully perfected first priority security interest in that Collateral in which a security interest may be perfected by filing, subject only to Liens permitted under Section 4.1(e).

3.2 Type and Jurisdiction of Organization, Organizational and Identification Numbers. The type of entity of such Grantor, its state of organization, the organizational number issued to it by its state of organization, if any, and its federal employer identification number are set forth on Exhibit A.

3.3 Principal Location. As of the Closing Date, such Grantor's mailing address and the location of its place of business (if it has only one) or its chief executive office (if it has more than one place of business) are disclosed in Exhibit A; such Grantor has no other places of business except those set forth in Exhibit A.

3.4 Collateral Locations. As of the Closing Date, all of such Grantor's locations where Collateral is located are listed on Exhibit A. All of said locations are owned by such Grantor except for locations (i) which are leased by such Grantor as lessee and designated in Part VII(b) of Exhibit A and (ii) at which Inventory is held in a public warehouse or is otherwise held by a bailee or on consignment as designated in Part VII(c) of Exhibit A.

3.5 Deposit Accounts. As of the Closing Date, all of such Grantor's Deposit Accounts are listed on Exhibit B.

3.6 Exact Names. Such Grantor's name in which it has executed this Security Agreement is the exact legal name as it appears in such Grantor's organizational documents, as amended, as filed with such Grantor's jurisdiction of organization.

3.7 Letter-of-Credit Rights and Chattel Paper. Exhibit C lists all Letter-of-Credit Rights and Chattel Paper of such Grantor. All action by such Grantor necessary to protect and

perfect the Lender's Lien on each item listed on Exhibit C (including the delivery of all originals and the placement of a legend on all Chattel Paper as required hereunder) has been duly taken. The Lender will have a fully perfected first priority security interest in the Collateral listed on Exhibit C, subject only to Liens permitted under Section 4.1(e).

3.8 Accounts and Chattel Paper.

(a) The names of the obligors, amounts owing, due dates and other information with respect to the Accounts and Chattel Paper are and will be correctly stated in all material respects in all records of such Grantor relating thereto and in all invoices and Collateral Reports with respect thereto furnished to the Lender by such Grantor from time to time. As of the time when each Account or each item of Chattel Paper arises, such Grantor shall be deemed to have represented and warranted that such Account or Chattel Paper, as the case may be, and all records relating thereto, are genuine and in all material respects what they purport to be.

(b) With respect to Accounts, except as specifically disclosed on the most recent Collateral Report, (i) all Accounts are Eligible Accounts; (ii) all Accounts represent bona fide sales of Inventory or rendering of services to Account Debtors in the ordinary course of such Grantor's business and are not evidenced by a judgment, Instrument or Chattel Paper; (iii) if listed thereon as an Eligible Account, such Grantor has not made any agreement with any Account Debtor for any material extension of time for the payment thereof, any compromise or settlement for less than the full amount thereof, any release of any Account Debtor from liability therefor, or any deduction therefrom except a discount or allowance allowed by such Grantor in the ordinary course of its business and disclosed to the Lender; (iv) to such Grantor's knowledge, there are no facts, events or occurrences which in any way impair the validity or enforceability thereof or could reasonably be expected to reduce the amount payable thereunder as shown on such Grantor's books and records and any invoices, statements and Collateral Reports with respect thereto; (v) such Grantor has not received any notice of proceedings or actions which are threatened or pending against any Account Debtor which might result in any adverse change in such Account Debtor's financial condition; and (vi) such Grantor has no knowledge that any Account Debtor is unable generally to pay its debts as they become due.

(c) In addition, with respect to all Accounts, (i) the amounts shown on all invoices, statements and Collateral Reports with respect thereto are actually and absolutely owing to such Grantor as indicated thereon and are not in any way contingent (other than setoff and similar rights of purchasers in the ordinary course of business); (ii) no payments have been or shall be made thereon except payments that have been delivered to a Lock Box or a Collateral Deposit Account as required pursuant to Section 7.1; and (iii) to such Grantor's knowledge, all Account Debtors have the capacity to contract.

3.9 Inventory. With respect to any Inventory scheduled or listed on the most recent Collateral Report, (a) such Inventory (other than Inventory in transit) is located at one of such Grantor's locations set forth on Exhibit A, (b) no Inventory (other than Inventory in transit) is now, or shall at any time or times hereafter be stored at any other location except as permitted by Section 4.1(g), (c) such Grantor has good and sufficient title to such Inventory and such Inventory is not subject to any Lien or security interest or document whatsoever except for the Lien granted to the Lender and except for Permitted Liens, (d) except as specifically disclosed in

the most recent Collateral Report, such Inventory is Eligible Inventory of good and merchantable quality, free from any material defects, (e) such Inventory is not subject to any licensing, patent, royalty, trademark, trade name or copyright agreements with any third parties which would require any consent of any third party upon sale or disposition of that Inventory or the payment of any monies to any third party upon such sale or other disposition (other than payments to Jeanne Iben), and (f) such Inventory has been produced in material compliance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders thereunder.

3.10 Intellectual Property. As of the Closing Date, such Grantor does not have any interest in, or title to, any Patent, Trademark or Copyright except as set forth in Exhibit D. This Security Agreement is effective to create a valid and continuing Lien and, upon filing of this Security Agreement with the United States Copyright Office and the United States Patent and Trademark Office, fully perfected first priority security interests in favor of the Lender subject to Permitted Liens on such Grantor's Patents, Trademarks and Copyrights, such perfected security interests are enforceable as such as against any and all creditors of and purchasers from such Grantor and, upon the filing of appropriate financing statements listed on Exhibit H, all action necessary or reasonably deemed necessary by Lender to protect and perfect the Lender's Lien on such Grantor's Patents, Trademarks or Copyrights shall have been duly taken.

3.11 Filing Requirements. None of the Equipment is covered by any certificate of title, except for the vehicles described in Part I of Exhibit E. None of the Collateral is of a type for which security interests or liens may be perfected by filing under any federal statute except for (a) the vehicles described in Part II of Exhibit E and (b) Patents, Trademarks and Copyrights held by such Grantor and described in Exhibit D. To Borrower's best knowledge, the legal description, county and street address of each property on which any Fixtures are located is set forth in Exhibit F together with the name and address of the record owner of each such property.

3.12 No Financing Statements, Security Agreements. No authorized financing statement or security agreement describing all or any portion of the Collateral which has not lapsed or been terminated naming such Grantor as debtor has been filed or is of record in any jurisdiction except (a) for financing statements or security agreements naming the Lender as the secured party, and (b) as permitted by Section 4.1(e).

3.13 Pledged Collateral.

(a) Exhibit G sets forth a complete and accurate list of all of the Pledged Collateral as of the Closing Date. Such Grantor is the direct, sole beneficial owner and sole holder of record of the Pledged Collateral listed on Exhibit G as being owned by it, free and clear of any Liens, except for the security interest granted to the Lender hereunder. Such Grantor further represents and warrants that (i) all Pledged Collateral constituting Capital Stock has been (to the extent such concepts are relevant with respect to such Pledged Collateral) duly authorized, validly issued, are fully paid and non-assessable, (ii) with respect to any certificates delivered to the Lender representing Capital Stock, either such certificates are Securities as defined in Article 8 of the UCC as a result of actions by the issuer or otherwise, or, if such certificates are not Securities, such Grantor has so informed the Lender so that the Lender may take steps to perfect its security interest therein as a General Intangible, (iii) as of the Closing Date, all Pledged Collateral held by a securities intermediary is covered by a control agreement

among such Grantor, the securities intermediary and the Lender pursuant to which the Lender has Control and (iv) all Pledged Collateral which represents Indebtedness owed to such Grantor has been duly authorized, authenticated or issued and delivered by the issuer of such Indebtedness, is the legal, valid and binding obligation of such issuer and such issuer is not in default thereunder.

(b) In addition, (i) none of the Pledged Collateral has been issued or transferred in violation of the securities registration, securities disclosure or similar laws of any jurisdiction to which such issuance or transfer may be subject, (ii) except as set forth in Exhibit G, there are existing no options, warrants, calls or commitments of any character whatsoever relating to the Pledged Collateral or which obligate the issuer of any Capital Stock included in the Pledged Collateral to issue additional Capital Stock, and (iii) no consent, approval, authorization, or other action by, and no giving of notice or filing with, any governmental authority or any other Person is required for the pledge by such Grantor of the Pledged Collateral pursuant to this Security Agreement or for the execution, delivery and performance of this Security Agreement by such Grantor, or for the exercise by the Lender of the voting or other rights provided for in this Security Agreement or for the remedies in respect of the Pledged Collateral pursuant to this Security Agreement, except as may be required in connection with such disposition by laws affecting the offering and sale of securities generally.

(c) Except as set forth in Exhibit G, such Grantor owns 100% of the issued and outstanding Capital Stock which constitutes Pledged Collateral and none of the Pledged Collateral which represents Indebtedness owed to such Grantor is subordinated in right of payment to other Indebtedness or subject to the terms of an indenture.

ARTICLE IV COVENANTS

From the date of this Security Agreement, and thereafter until this Security Agreement is terminated:

4.1 General.

(a) Collateral Records. Each Grantor will maintain in all material respects complete and accurate books and records with respect to the Collateral, and furnish to the Lender such reports relating to the Collateral as the Lender shall from time to time reasonably request.

(b) Authorization to File Financing Statements; Ratification. Each Grantor hereby authorizes the Lender to file, and if requested will deliver to the Lender, all financing statements and other documents and take such other necessary actions as may from time to time be reasonably requested by the Lender in order to maintain a first perfected security interest (subject to Permitted Liens which, by the terms of the Credit Agreement are permitted to be prior to Lender's Lien) in and, if applicable, Control of, the Collateral. Any financing statement filed by the Lender may be filed in any filing office in any UCC jurisdiction and may (i) indicate the Collateral (1) as all assets of each Grantor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the UCC or such jurisdiction, or (2) by any other description which reasonably approximates the description

contained in this Security Agreement, and (ii) contain any other information required by part 5 of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including (A) whether each Grantor is an organization, the type of organization and any organization identification number issued to each Grantor, and (B) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of real Property to which the Collateral relates. Each Grantor also agrees to furnish any such necessary information to the Lender promptly upon reasonable request. Each Grantor also ratifies its authorization for the Lender to have filed in any UCC jurisdiction any initial financing statements or amendments thereto if filed prior to the date hereof.

(c) Further Assurances. Each Grantor will, if so requested by the Lender, furnish to the Lender, as often as the Lender reasonably requests, statements and schedules further identifying and describing the Collateral and such other reports and information in connection with the Collateral as the Lender may reasonably request, all in such detail as the Lender may specify. Each Grantor also agrees to take any and all commercially reasonable actions necessary to defend title to the Collateral against all persons and to defend the security interest of the Lender in the Collateral and the priority thereof against any Lien not expressly permitted under the Loan Documents.

(d) Disposition of Collateral. No Grantor will sell, lease or otherwise dispose of the Collateral except for dispositions specifically permitted pursuant to Section 6.20 of the Credit Agreement.

(e) Liens. No Grantor will create, incur, or suffer to exist any Lien on the Collateral except (i) the security interest created by this Security Agreement, and (ii) other Permitted Liens.

(f) Other Financing Statements. No Grantor will authorize the filing of any financing statement naming it as debtor covering all or any portion of the Collateral, except as permitted by Section 4.1(e). Each Grantor acknowledges that it is not authorized to file any financing statement or amendment or termination statement with respect to any financing statement without the prior written consent of the Lender, subject to such Grantor's rights under Section 9-509(d)(2) of the UCC.

(g) Locations. No Grantor will (i) maintain any material portion of the Collateral at any location other than those locations listed on Exhibit A (other than Inventory and Equipment out for temporary repairs or processing), (ii) otherwise change, or add to, such locations without the Lender's prior written consent as required by the Credit Agreement (and if the Lender gives such consent, each Grantor will concurrently therewith obtain a Collateral Access Agreement for each such location to the extent required by the Credit Agreement), or (iii) change its location (as defined in Section 9-307 of the UCC) from the location identified on Exhibit A, other than as permitted by the Credit Agreement.

(h) Compliance with Terms. Each Grantor will perform and comply in all material respects with all obligations in respect of the Collateral and all agreements to which it is a party or by which it is bound relating to the Collateral.

4.2 Receivables.

(a) Certain Agreements on Receivables. No Grantor will make or agree to make any discount, credit, rebate or other reduction in the original amount owing on a Receivable or accept in satisfaction of a Receivable less than the original amount thereof, except that, prior to the occurrence of a Default, each Grantor may reduce the amount of Accounts arising from the sale of Inventory reasonably in accordance with its present policies and in the ordinary course of business or otherwise permitted by the Credit Agreement.

(b) Collection of Receivables. Except as otherwise provided in this Security Agreement, each Grantor will collect and enforce, at such Grantor's sole expense, all amounts due or hereafter due to such Grantor under the Receivables.

(c) Delivery of Invoices. Each Grantor will deliver to the Lender immediately upon its reasonable request duplicate invoices with respect to each Account and after the occurrence and during the continuance of a Default bearing such language of assignment as the Lender shall specify.

(d) Disclosure of Counterclaims on Receivables. If (i) any discount, credit or agreement to make a rebate or to otherwise reduce the amount owing on a Receivable exists or (ii) to the knowledge of any Grantor, any dispute, setoff, claim, counterclaim or defense exists or has been asserted or threatened with respect to a Receivable, each Grantor will promptly disclose such fact to the Lender in writing. Each Grantor shall send the Lender a copy of each credit memorandum as required by Section 6.1(g) of the Credit Agreement, and each Grantor shall promptly report each credit memo and each of the facts required to be disclosed to the Lender in accordance with this Section 4.2(d) on the Borrowing Base Certificates submitted by it.

(e) Electronic Chattel Paper. Each Grantor shall take all steps necessary to grant the Lender Control of all electronic chattel paper in accordance with the UCC and all "transferable records" as defined in each of the Uniform Electronic Transactions Act and the Electronic Signatures in Global and National Commerce Act.

4.3 Inventory and Equipment.

(a) Maintenance of Goods. Each Grantor will do all things necessary to maintain, preserve, protect and keep the Inventory and the Equipment in good repair and working order and, in the case of Inventory, saleable condition, except for damaged or defective goods arising in the ordinary course of such Grantor's business and except for ordinary wear and tear in respect of the Equipment.

(b) Returned Inventory. If an Account Debtor returns any Inventory to any Grantor when no Default exists, then such Grantor shall promptly determine the reason for such return and shall issue a credit memorandum to the Account Debtor in the appropriate amount. Each Grantor shall immediately report to the Lender any return involving an amount in excess of \$100,000 (excluding under the Wal-Mart Seasonal Return Program). Each such report shall indicate the reasons for the returns and the locations and condition of the returned Inventory. All returned Inventory shall be subject to the Lender's Liens thereon. Whenever any Inventory is

returned, the related Account shall be deemed ineligible to the extent of the amount owing by the Account Debtor with respect to such returned Inventory.

(c) Inventory Count; Perpetual Inventory System. Each Grantor will conduct a physical count of the Inventory at least once per Fiscal Year, and after and during the continuation of a Default, at such other times as the Lender reasonably requests. Each Grantor, at its own expense, shall deliver to the Lender the results of each physical verification, which such Grantor has made, or has caused any other Person to make on its behalf, of all or any portion of its Inventory. Each Grantor will maintain a perpetual inventory reporting system at all times.

(d) Equipment. Each Grantor shall promptly inform the Lender of any deletions from the Equipment which individually exceed \$50,000. No Grantor shall permit any Equipment to become a fixture with respect to real property or to become an accession with respect to other personal property with respect to which real or personal property the Lender does not have a Lien. No Grantor will, without the Lender's prior written consent, alter or remove any identifying symbol or number on any of such Grantor's Equipment constituting Collateral.

(e) Titled Vehicles. After Lender's request, each Grantor will (i) give the Lender notice of its acquisition of any vehicle or vehicles for an aggregate purchase price in excess of \$50,000 individually or \$200,000 in the aggregate which are covered by a certificate of title, and (ii) deliver to the Lender, upon reasonable request, the original of any vehicle title certificate and provide and/or file all other documents or instruments necessary to have the Lien of the Lender noted on any such certificate or with the appropriate state office.

4.4 Delivery of Instruments, Securities, Chattel Paper and Documents. Each Grantor will (a) deliver to the Lender immediately upon execution of this Security Agreement the originals of all Chattel Paper, Securities and Instruments constituting Collateral (if any then exist), (b) hold in trust for the Lender upon receipt and immediately thereafter deliver to the Lender any Chattel Paper, Securities and Instruments constituting Collateral, (c) upon the Lender's reasonable request, deliver to the Lender (and thereafter hold in trust for the Lender upon receipt and immediately deliver to the Lender) any negotiable Document evidencing or constituting Collateral and (d) upon the Lender's reasonable request, deliver to the Lender a duly executed amendment to this Security Agreement, in the form of Exhibit I hereto (the "Amendment"), pursuant to which such Grantor will pledge such additional Collateral. Each Grantor hereby authorizes the Lender to attach each Amendment to this Security Agreement and agrees that all additional Collateral set forth in such Amendments shall be considered to be part of the Collateral.

4.5 Uncertificated Pledged Collateral. Each Grantor will permit the Lender from time to time to cause the appropriate issuers (and, if held with a securities intermediary, such securities intermediary) of uncertificated securities or other types of Pledged Collateral not represented by certificates to mark their books and records with the numbers and face amounts of all such uncertificated securities or other types of Pledged Collateral not represented by certificates and all rollovers and replacements therefor to reflect the Lien of the Lender granted pursuant to this Security Agreement. Each Grantor will take any commercially reasonable actions necessary to cause (a) the issuers of uncertificated securities which are Pledged Collateral

and (b) any securities intermediary which is the holder of any Pledged Collateral, to cause the Lender to obtain Control over such Pledged Collateral. Without limiting the foregoing, each Grantor will, with respect to Pledged Collateral held with a securities intermediary, use commercially reasonable efforts to cause such securities intermediary to enter into a control agreement with the Lender, in form and substance reasonably satisfactory to the Lender, giving the Lender Control.

4.6 Pledged Collateral.

(a) Changes in Capital Structure of Issuers. No Grantor will (i) permit or suffer any Subsidiary which is an issuer of Capital Stock constituting Pledged Collateral to dissolve, merge, liquidate or retire any of its Capital Stock or other Instruments or Securities evidencing ownership, reduce its capital, sell or encumber all or substantially all of its assets (except for Permitted Liens and sales of assets permitted pursuant to Section 4.1(d)) or merge or consolidate with any other entity except as expressly permitted by the Credit Agreement, or (ii) vote any Pledged Collateral in favor of any of the foregoing.

(b) Issuance of Additional Securities. No Grantor will permit or suffer any Subsidiary which is an issuer of Capital Stock constituting Pledged Collateral to issue additional Capital Stock, any right to receive the same or any right to receive earnings, except to such Grantor.

(c) Registration of Pledged Collateral. After the occurrence and during the continuance of a Default, each Grantor will permit any registerable Pledged Collateral to be registered in the name of the Lender or its nominee at any time at the option of the Lender.

(d) Exercise of Rights in Pledged Collateral.

(i) Without in any way limiting the foregoing and subject to clause (ii) below, each Grantor shall have the right to exercise all voting rights or other rights relating to the Pledged Collateral for all purposes not prohibited by this Security Agreement, the Credit Agreement or any other Loan Document; *provided however*, that no vote or other right shall be exercised or action taken which would have the effect of impairing the rights of the Lender in respect of the Pledged Collateral in any material respect.

(ii) Each Grantor will permit the Lender or its nominee at any time after the occurrence of a Default, with prior written notice, to exercise all voting rights or other rights relating to Pledged Collateral, including, without limitation, exchange, subscription or any other rights, privileges, or options pertaining to any Capital Stock or Investment Property constituting Pledged Collateral as if it were the absolute owner thereof.

(iii) Each Grantor shall be entitled to collect and receive for its own use all cash dividends and interest paid in respect of the Pledged Collateral to the extent not in violation of the Credit Agreement other than any of the following distributions and payments (collectively referred to as the "Excluded Payments"): (A) dividends and interest paid or payable other than in cash in respect of any

Pledged Collateral, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Pledged Collateral; (B) dividends and other distributions paid or payable in cash in respect of any Pledged Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in capital of an issuer; and (C) cash paid, payable or otherwise distributed, in respect of principal of, or in redemption of, or in exchange for, any Pledged Collateral; *provided however*, that until actually paid, all rights to such distributions shall remain subject to the Lien created by this Security Agreement; and

(iv) All Excluded Payments and all other distributions in respect of any of the Pledged Collateral, whenever paid or made, shall be delivered to the Lender to hold as Pledged Collateral and shall, if received by any Grantor, be received in trust for the benefit of the Lender, be segregated from the other property or funds of such Grantor, and be forthwith delivered to the Lender as Pledged Collateral in the same form as so received (with any necessary endorsement).

(e) Security. If any Capital Stock which is included within the Collateral shall at any time constitute a Security or the issuer of any such Capital Stock shall take any action to have such interests treated as a Security, then (i) all certificates or other documents constituting such Security shall be promptly delivered to Lender, or (ii) Grantors shall cause the issuer of such Security or a securities intermediary relating to such Security to enter into a control agreement with Lender.

4.7 Intellectual Property.

(a) Upon the reasonable request of the Lender after the occurrence and during the continuance of a Default, each Grantor will use commercially reasonable efforts to secure all consents and approvals necessary or appropriate for the assignment to or benefit of the Lender of any material License held by such Grantor and to enforce the security interests granted hereunder.

(b) Each Grantor shall notify the Lender immediately if it knows or has reason to know that any application or registration relating to any Patent, Trademark or Copyright (now or hereafter existing) may become abandoned or dedicated, or of any adverse determination or development (including 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 any court) regarding such Grantor's ownership of any Patent, Trademark or Copyright, its right to register the same, or to keep and maintain the same.

(c) In no event shall any Grantor, either directly or through any agent, employee, licensee or designee, file an application for the registration of any Patent, Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office or any similar office or agency without giving the Lender prior written notice thereof, and, upon reasonable request of the Lender, each Grantor shall execute and deliver any and all security agreements as the Lender may request to evidence the Lender's first priority security

interest on such Patent, Trademark or Copyright, and the General Intangibles of such Grantor relating thereto or represented thereby.

(d) Each Grantor shall take all commercially reasonable actions necessary or requested by the Lender to maintain and pursue each application, to obtain the relevant registration and to maintain the registration of each of the Patents, Trademarks and Copyrights (now or hereafter existing), in each case if material to the operation of its business as decided by the management of such Grantor, including the filing of applications for renewal, affidavits of use, affidavits of noncontestability and opposition and interference and cancellation proceedings.

(e) Each Grantor shall, unless it shall reasonably determine that such Patent, Trademark or Copyright is not material to the conduct of its business or operations, promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, and shall take such other actions as the Lender shall deem appropriate under the circumstances to protect such Patent, Trademark or Copyright. In the event that any Grantor institutes suit because any of the Patents, Trademarks or Copyrights constituting Collateral is infringed upon, or misappropriated or diluted by a third party, such Grantor shall comply with Section 4.8.

4.8 Commercial Tort Claims. Each Grantor shall promptly, and in any event within two Business Days after the same is acquired by it, notify the Lender of any commercial tort claim (as defined in the UCC) where damages sought or the reasonably likely proceeds thereof would exceed \$100,000 individually or \$200,000 in the aggregate acquired by it and, unless the Lender otherwise consents, such Grantor shall enter into an amendment to this Security Agreement, in the form of Exhibit I hereto, granting to Lender a first priority security interest in such commercial tort claim.

4.9 Letter-of-Credit Rights. If any Grantor is or becomes the beneficiary of a letter of credit, such Grantor shall promptly, and in any event within two Business Days after becoming a beneficiary, notify the Lender thereof and use commercially reasonable efforts to cause the issuer and/or confirmation bank to (i) consent to the assignment of any Letter-of-Credit Rights to the Lender and (ii) agree to direct all payments thereunder to a Deposit Account at the Lender or subject to a Deposit Account Control Agreement for application to the Obligations all in form and substance reasonably satisfactory to the Lender.

4.10 Federal, State or Municipal Claims. Each Grantor will promptly notify the Lender of any Collateral which constitutes a claim against the United States government or any state or local government or any instrumentality or agency thereof, the assignment of which claim is restricted by federal, state or municipal law.

4.11 [Intentionally Omitted].

4.12 Assigned Contracts. Each Grantor will use its commercially reasonable efforts to secure all consents and approvals necessary or appropriate for the assignment to or for the benefit of the Lender of any Assigned Contract held by such Grantor and to enforce the security interests granted hereunder. Each Grantor shall fully perform all of its obligations under each of the Assigned Contracts, and shall enforce all of its rights and remedies thereunder, in each case,

as it deems appropriate in its business judgment; *provided however*, that no Grantor shall take any commercially reasonable action or fail to take any action with respect to its Assigned Contracts which would cause the early termination of an Assigned Contract. Without limiting the generality of the foregoing, each Grantor shall take all action necessary or appropriate to permit, and shall not take any commercially reasonable action which would have any materially adverse effect upon, the full enforcement of all indemnification rights under its Assigned Contracts. Each Grantor shall notify the Lender in writing, promptly after such Grantor becomes aware thereof, of any event or fact which could give rise to a material claim by it for indemnification under any of its Assigned Contracts, and shall diligently pursue such right and report to the Lender on all further developments with respect thereto. Each Grantor shall deposit into a Deposit Account at the Lender or subject to a Deposit Account Control Agreement for application to the Obligations all amounts received by such Grantor as indemnification or otherwise pursuant to its Assigned Contracts. If any Grantor shall fail after the Lender's demand to pursue diligently any material right under its Assigned Contracts, or if a Default then exists, the Lender may directly enforce such right in its own or such Grantor's name and may enter into such reasonable settlements or other agreements with respect thereto as the Lender shall reasonably determine. In any suit, proceeding or action brought by the Lender under any Assigned Contract for any sum owing thereunder or to enforce any provision thereof, each Grantor shall indemnify (without duplication of any other indemnity) and hold the Lender harmless from and against all expense, loss or damage suffered by reason of any defense, setoff, counterclaims, recoupment, or reduction of liability whatsoever of the obligor thereunder arising out of a breach by any Grantor of any obligation thereunder or arising out of any other agreement, indebtedness or liability at any time owing from any Grantor to or in favor of such obligor or its successors. All such obligations of each Grantor shall be and remain enforceable only against such Grantor and shall not be enforceable against the Lender. Notwithstanding any provision hereof to the contrary, each Grantor shall at all times remain liable to observe and perform all of its duties and obligations under its Assigned Contracts, and the Lender's exercise of any of its rights with respect to the Collateral shall not release any Grantor from any of such duties and obligations. The Lender shall not be obligated to perform or fulfill any Grantor's duties or obligations under its Assigned Contracts or to make any payment thereunder, or to make any inquiry as to the nature or sufficiency of any payment or property received by it thereunder or the sufficiency of performance by any party thereunder, or to present or file any claim, or to take any action to collect or enforce any performance, any payment of any amounts, or any delivery of any property.

ARTICLE V

DEFAULTS AND REMEDIES

5.1 [Intentionally Omitted].

5.2 Remedies.

(a) Upon the occurrence and during the continuance of a Default, the Lender may exercise any or all of the following rights and remedies:

(i) those rights and remedies provided in this Security Agreement, the Credit Agreement, or any other Loan Document; *provided that*, this Section 5.2(a)

shall not be understood to limit any rights or remedies available to the Lender prior to a Default;

(ii) those rights and remedies available to a secured party under the UCC (whether or not the UCC applies to the affected Collateral) or under any other applicable law (including, without limitation, any law governing the exercise of a bank's right of setoff or bankers' lien) when a debtor is in default under a security agreement;

(iii) give notice of sole control or any other instruction under any Deposit Account Control Agreement or any other control agreement with any securities intermediary and take any action therein with respect to such Collateral;

(iv) without notice (except as specifically provided in Section 8.1 or elsewhere herein), demand or advertisement of any kind to any Grantor or any other Person, enter the premises of any Grantor where any Collateral is located (through self-help and without judicial process) to collect, receive, assemble, process, appropriate, sell, lease, assign, grant an option or options to purchase or otherwise dispose of, deliver, or realize upon, the Collateral or any part thereof in one or more parcels at public or private sale or sales (which sales may be adjourned or continued from time to time with or without notice and may take place at any Grantor's premises or elsewhere), for cash, on credit or for future delivery without assumption of any credit risk, and upon such other terms as the Lender may deem commercially reasonable; and

(v) concurrently with written notice to the applicable Grantor, transfer and register in its name or in the name of its nominee the whole or any part of the Pledged Collateral, to exchange certificates or instruments representing or evidencing Pledged Collateral for certificates or instruments of smaller or larger denominations, to exercise the voting and all other rights as a holder with respect thereto, to collect and receive all cash dividends, interest, principal and other distributions made thereon and to otherwise act with respect to the Pledged Collateral as though the Lender was the outright owner thereof.

(b) The Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.

(c) The Lender shall have the right upon any such public sale or sales and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right of equity redemption, which equity redemption each Grantor hereby expressly releases to the extent permitted by law.

(d) Until the Lender is able to effect a sale, lease, or other disposition of Collateral, the Lender shall have the right to hold or use Collateral, or any part thereof, to the extent that it deems appropriate for the purpose of preserving Collateral or its value or for any other purpose reasonably deemed appropriate by the Lender. The Lender may, if it so elects,

seek the appointment of a receiver or keeper to take possession of Collateral and to enforce any of the Lender's remedies, with respect to such appointment without prior notice or hearing as to such appointment to the extent permitted by law.

(e) If, after the Credit Agreement has terminated by its terms and all of the Obligations have been paid in full, there remain Rate Management Obligations outstanding with Lender, the Lender may exercise the remedies provided in this Section 5.2 upon the occurrence of any event which would allow or require the termination or acceleration of any Rate Management Obligations pursuant to the terms of the agreement governing any Rate Management Transaction.

(f) Notwithstanding the foregoing, the Lender shall not be required to (i) make any demand upon, or pursue or exhaust any of their rights or remedies against, any Grantor, any other obligor, guarantor, pledgor or any other Person with respect to the payment of the Obligations or to pursue or exhaust any of their rights or remedies with respect to any Collateral therefor or any direct or indirect guarantee thereof, (ii) marshal the Collateral or any guarantee of the Obligations or to resort to the Collateral or any such guarantee in any particular order, or (iii) effect a public sale of any Collateral.

(g) Each Grantor recognizes that the Lender may be unable to effect a public sale of any or all the Pledged Collateral and may be compelled to resort to one or more private sales thereof in accordance with clause (a) above. Each Grantor also acknowledges that any private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by virtue of such sale being private. Except to the extent required by law, the Lender shall be under no obligation to delay a sale of any of the Pledged Collateral for the period of time necessary to permit any Grantor or the issuer of the Pledged Collateral to register such securities for public sale under the Securities Act of 1933, as amended, or under applicable state securities laws, even if any Grantor and the issuer would agree to do so.

5.3 Grantors' Obligations Upon Default. Upon the request of the Lender after the occurrence and during the continuance of a Default, each Grantor will:

(a) assemble and make available to the Lender the Collateral and all books and records relating thereto at any place or places reasonably specified by the Lender, whether at such Grantor's premises or elsewhere;

(b) permit the Lender, by the Lender's representatives and agents, to enter any premises (subject to its rights with respect to such premises) and such Grantor shall use its commercially reasonable efforts to permit access to any third party premises, where all or any part of the Collateral, or the books and records relating thereto, or both, are located, to take possession of all or any part of the Collateral or the books and records relating thereto, or both, to remove all or any part of the Collateral or the books and records relating thereto, or both, and to conduct sales of the Collateral;

(c) prepare and file, or use its commercially reasonable efforts to cause an issuer of Pledged Collateral to prepare and file, with the Securities and Exchange Commission or any other applicable government agency, registration statements, a prospectus and such other documentation in connection with the Pledged Collateral as the Lender may reasonably request, all in form and substance reasonably satisfactory to the Lender, and furnish to the Lender, or cause an issuer of Pledged Collateral to furnish to the Lender, any information regarding the Pledged Collateral in such detail as the Lender may specify;

(d) take, or use its commercially reasonable efforts to cause an issuer of Pledged Collateral to take, any and all actions necessary to register or qualify the Pledged Collateral to enable the Lender to consummate a public sale or other disposition of the Pledged Collateral; and

(e) at its own expense, use commercially reasonable efforts to cause the independent certified public accountants then engaged by such Grantor to prepare and deliver to the Lender, at any time, and from time to time, promptly upon the Lender's reasonable request, the following reports with respect to such Grantor: (i) a reconciliation of all Accounts; (ii) an aging of all Accounts; (iii) trial balances; and (iv) a test verification of such Accounts.

5.4 Grant of Intellectual Property License. For the purpose of enabling the Lender to exercise the rights and remedies under this Article V at such time as the Lender shall be lawfully entitled to exercise such rights and remedies, each Grantor hereby (a) grants to the Lender an irrevocable, nonexclusive license (exercisable without payment of royalty or other compensation to any Grantor) to use, license or sublicense any Intellectual Property Rights now owned or hereafter acquired by such Grantor, and wherever the same may be located, and including in such license access to all media in which any of the licensed items may be recorded or stored and to all computer software and programs used for the compilation or printout thereof and (b) irrevocably agrees that the Lender may sell any of such Grantor's Inventory directly to any person, including without limitation persons who have previously purchased such Grantor's Inventory from such Grantor and in connection with any such sale or other enforcement of the Lender's rights under this Security Agreement, may sell Inventory which bears any Trademark owned by or licensed to such Grantor and any Inventory that is covered by any Copyright owned by or licensed to such Grantor and the Lender may finish any work in process and affix any Trademark owned by or licensed to such Grantor and sell such Inventory as provided herein.

ARTICLE VI

ACCOUNT VERIFICATION; ATTORNEY IN FACT; PROXY

6.1 Account Verification. After the occurrence and during the continuance of a Default, the Lender may at any time, in the Lender's own name, in the name of a nominee of the Lender, or in the name of any Grantor, communicate (by mail, telephone, facsimile or otherwise) with the Account Debtors of such Grantor, parties to contracts with such Grantor and obligors in respect of Instruments of such Grantor to verify with such Persons, to the Lender's reasonable satisfaction, the existence, amount, terms of, and any other matter relating to, Accounts, Instruments, Chattel Paper, payment intangibles and/or other Receivables.

6.2 Authorization for the Lender to Take Certain Action.

(a) Each Grantor irrevocably authorizes the Lender at any time and from time to time in the reasonable discretion of the Lender and appoints the Lender as its attorney in fact (1) at any time (i) to execute on behalf of such Grantor as debtor and to file financing statements necessary or desirable in the Lender's reasonable discretion to perfect and to maintain the perfection and priority of the Lender's security interest in the Collateral, (ii) to endorse any cash proceeds of the Collateral, (iii) to file a carbon, photographic or other reproduction of this Security Agreement or any financing statement with respect to the Collateral as a financing statement and to file any other financing statement or amendment of a financing statement (which does not add new collateral or add a debtor) in such offices as the Lender in its reasonable discretion deems necessary or desirable to perfect and to maintain the perfection and priority of the Lender's security interest in the Collateral; and (2) at any time after the occurrence and during the continuance of a Default (i) to endorse and collect any cash proceeds of the Collateral, (ii) to contact and enter into one or more agreements with the issuers of uncertificated securities which are Pledged Collateral or with securities intermediaries holding Pledged Collateral as may be necessary or advisable to give the Lender Control over such Pledged Collateral, (iii) to apply the proceeds of any Collateral received by the Lender to the Obligations as provided in Section 7.3, (iv) to discharge past due taxes, assessments, charges, fees or Liens on the Collateral (except for such Liens as are specifically permitted hereunder), (v) to contact Account Debtors for any reason, (vi) to demand payment or enforce payment of the Receivables in the name of the Lender or such Grantor and to endorse any and all checks, drafts, and other instruments for the payment of money relating to the Receivables, (vii) to sign such Grantor's name on any invoice or bill of lading relating to the Receivables, drafts against any Account Debtor of such Grantor, assignments and verifications of Receivables, (ix) to exercise all of such Grantor's rights and remedies with respect to the collection of the Receivables and any other Collateral, (x) to settle, adjust, compromise, extend or renew the Receivables, (xi) to settle, adjust or compromise any legal proceedings brought to collect Receivables, (xii) to prepare, file and sign such Grantor's name on a proof of claim in bankruptcy or similar document against any Account Debtor of such Grantor, (xiii) to prepare, file and sign such Grantor's name on any notice of Lien, assignment or satisfaction of Lien or similar document in connection with the Receivables, (xiv) to change the address for delivery of mail addressed to such Grantor to such address as the Lender may designate and to receive, open and dispose of all mail addressed to such Grantor, and (xv) to do all other acts and things necessary to carry out this Security Agreement; and the Borrower agrees to reimburse the Lender on demand for any payment made or any reasonable out-of-pocket expense incurred by the Lender in connection with any of the foregoing; *provided that*, this authorization shall not relieve any Grantor of any of its obligations under this Security Agreement or under the Credit Agreement.

(b) All acts of said attorney or designee are hereby ratified and approved. The powers conferred on the Lender under this Section 6.2 are solely to protect the Lender's interests in the Collateral and shall not impose any duty upon the Lender to exercise any such powers.

6.3 Proxy. EACH GRANTOR HEREBY IRREVOCABLY CONSTITUTES AND APPOINTS THE LENDER AS THE PROXY AND ATTORNEY-IN-FACT (AS SET FORTH IN SECTION 6.2 ABOVE) OF SUCH GRANTOR WITH RESPECT TO THE PLEDGED COLLATERAL, INCLUDING THE RIGHT TO VOTE SUCH PLEDGED COLLATERAL,

WITH FULL POWER OF SUBSTITUTION TO DO SO. IN ADDITION TO THE RIGHT TO VOTE ANY SUCH PLEDGED COLLATERAL, THE APPOINTMENT OF THE LENDER AS PROXY AND ATTORNEY-IN-FACT SHALL INCLUDE THE RIGHT TO EXERCISE ALL OTHER RIGHTS, POWERS, PRIVILEGES AND REMEDIES TO WHICH A HOLDER OF SUCH PLEDGED COLLATERAL WOULD BE ENTITLED (INCLUDING GIVING OR WITHHOLDING WRITTEN CONSENTS OF SHAREHOLDERS, CALLING SPECIAL MEETINGS OF SHAREHOLDERS AND VOTING AT SUCH MEETINGS); *PROVIDED, HOWEVER,* THAT SUCH PROXY SHALL BE EFFECTIVE AUTOMATICALLY AND WITHOUT THE NECESSITY OF ANY ACTION (INCLUDING ANY TRANSFER OF ANY SUCH PLEDGED COLLATERAL ON THE RECORD BOOKS OF THE ISSUER THEREOF) BY ANY PERSON (INCLUDING THE ISSUER OF SUCH PLEDGED COLLATERAL OR ANY OFFICER OR AGENT THEREOF) ONLY UPON THE OCCURRENCE OF A DEFAULT.

6.4 Nature of Appointment; Limitation of Duty. THE APPOINTMENT OF THE LENDER AS PROXY AND ATTORNEY-IN-FACT IN THIS ARTICLE VI IS COUPLED WITH AN INTEREST AND SHALL BE IRREVOCABLE UNTIL THE DATE ON WHICH THIS SECURITY AGREEMENT IS TERMINATED IN ACCORDANCE WITH SECTION 8.15. NOTWITHSTANDING ANYTHING CONTAINED HEREIN, NEITHER THE LENDER, NOR ANY OF ITS AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES SHALL HAVE ANY DUTY TO EXERCISE ANY RIGHT OR POWER GRANTED HEREUNDER OR OTHERWISE OR TO PRESERVE THE SAME AND SHALL NOT BE LIABLE FOR ANY FAILURE TO DO SO OR FOR ANY DELAY IN DOING SO, EXCEPT IN RESPECT OF DAMAGES ATTRIBUTABLE TO THEIR OWN GROSS NEGLIGENCE, BAD FAITH OR WILLFUL MISCONDUCT AS FINALLY DETERMINED BY A COURT OF COMPETENT JURISDICTION; PROVIDED THAT, IN NO EVENT SHALL THEY BE LIABLE FOR ANY PUNITIVE, EXEMPLARY, INDIRECT OR CONSEQUENTIAL DAMAGES.

ARTICLE VII COLLECTION AND APPLICATION OF COLLATERAL PROCEEDS; DEPOSIT ACCOUNTS

7.1 Collection of Receivables.

(a) Each Grantor shall (i) on or before the Closing Date, execute and deliver to the Lender Deposit Account Control Agreements for each Deposit Account maintained by such Grantor into which all cash, checks or other similar payments relating to or constituting payments made in respect of Receivables will be deposited (a "Collateral Deposit Account"), which Collateral Deposit Accounts are identified as such on Exhibit B, and (ii) at any time after the occurrence and during the continuance of a Default, upon the request of the Lender, establish lock box service (the "Lock Boxes") with the bank(s) set forth in Exhibit B, which Lock Boxes shall be subject to irrevocable lock box agreements in the form provided by or otherwise acceptable to the Lender and shall be accompanied by an acknowledgment by the bank where the Lock Box is located of the Lien of the Lender granted hereunder and of irrevocable instructions to wire all amounts collected therein to the Collection Account (a "Lock Box Agreement"). After the Closing Date, each Grantor will comply with the terms of Section 7.2.

(b) If Lock Boxes have been established pursuant to clause (ii) of Section 7.1(a): Each Grantor shall direct all of its Account Debtors to forward payments directly to Lock Boxes subject to Lock Box Agreements. The Lender shall have sole access to the Lock Boxes at all times and each Grantor shall take all actions necessary to grant the Lender such sole access. At no time shall any Grantor remove any item from the Lock Box or from a Collateral Deposit Account without the Lender's prior written consent. If any Grantor should refuse or neglect to notify any Account Debtor to forward payments directly to a Lock Box subject to a Lock Box Agreement after notice from the Lender, the Lender shall be entitled to make such notification directly to the Account Debtor. If, notwithstanding the foregoing instructions, any Grantor receives any proceeds of any Receivables, such Grantor shall receive such payments as the Lender's trustee, and shall immediately deposit all cash, checks or other similar payments related to or constituting payments made in respect of Receivables received by it to a Collateral Deposit Account. All funds deposited into any Lock Box subject to a Lock Box Agreement or a Collateral Deposit Account will be swept on a daily basis into a collection account maintained by each Grantor with the Lender (the "Collection Account"). The Lender shall hold and apply funds received into the Collection Account as provided by the terms of Section 7.3.

7.2 Covenant Regarding New Deposit Accounts; Lock Boxes. Before opening or replacing any Collateral Deposit Account or other Deposit Account, or establishing a new Lock Box, each Grantor shall (a) obtain the Lender's consent in writing to the opening of such Deposit Account or Lock Box, and (b) cause each bank or financial institution in which it seeks to open (i) a Deposit Account, to enter into a Deposit Account Control Agreement with the Lender in order to give the Lender Control of such Deposit Account, or (ii) a Lock Box, to enter into a Lock Box Agreement with the Lender in order to give the Lender Control of the Lock Box.

7.3 Application of Proceeds; Deficiency. All amounts deposited in the Collection Account shall be deemed received by the Lender in accordance with Section 2.15 of the Credit Agreement and shall, after having been credited in immediately available funds to the Collection Account, be applied in accordance with the terms of the Credit Agreement. In no event shall any amount be so applied unless and until such amount shall have been credited in immediately available funds to the Collection Account. The Lender shall require all other cash proceeds of the Collateral, which are not required to be applied to the Obligations pursuant to Section 2.13 of the Credit Agreement, to be deposited in a special non-interest bearing cash collateral account with the Lender and held there as security for the Obligations. No Grantor shall have any control whatsoever over said cash collateral account. Any such proceeds of the Collateral shall be applied in the order set forth in the Credit Agreement unless a court of competent jurisdiction shall otherwise direct. The balance, if any, after all of the Obligations have been satisfied, shall be deposited by the Lender into each Grantor's general operating account with the Lender. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all Obligations, including any attorneys' fees and other expenses incurred by the Lender to collect such deficiency.

ARTICLE VIII
GENERAL PROVISIONS

8.1 Waivers. To the extent permitted by law, each Grantor hereby waives notice of the time and place of any public sale or the time after which any private sale or other disposition

of all or any part of the Collateral may be made. To the extent such notice may not be waived under applicable law, any notice made shall be deemed reasonable if sent to any Grantor, addressed as set forth in Article IX, at least ten days prior to (i) the date of any such public sale or (ii) the time after which any such private sale or other disposition may be made. To the maximum extent permitted by applicable law, each Grantor waives all claims, damages, and demands against the Lender arising out of the repossession, retention or sale of the Collateral, except such as arise out of the gross negligence, bad faith or willful misconduct of the Lender as finally determined by a court of competent jurisdiction. To the extent it may lawfully do so, each Grantor absolutely and irrevocably waives and relinquishes the benefit and advantage of, and covenants not to assert against the Lender, any valuation, stay, appraisal, extension, moratorium, redemption or similar laws and any and all rights or defenses it may have as a surety now or hereafter existing which, but for this provision, might be applicable to the sale of any Collateral made under the judgment, order or decree of any court, or privately under the power of sale conferred by this Security Agreement, or otherwise. Except as otherwise specifically provided herein, each Grantor hereby waives presentment, demand, protest or any notice (to the maximum extent permitted by applicable law) of any kind in connection with this Security Agreement or any Collateral.

8.2 Limitation on the Lender's Duty with Respect to the Collateral. The Lender shall have no obligation to clean-up or otherwise prepare the Collateral for sale. The Lender shall use reasonable care with respect to the Collateral in its possession or under its control. The Lender shall not have any other duty as to any Collateral in its possession or control or in the possession or control of any agent or nominee of the Lender, or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. To the extent that applicable law imposes duties on the Lender to exercise remedies in a commercially reasonable manner, each Grantor acknowledges and agrees that it is commercially reasonable for the Lender (i) to fail to incur expenses deemed significant by the Lender to prepare Collateral for disposition or otherwise to transform raw material or work in process into finished goods or other finished products for disposition, (ii) to fail to obtain third party consents for access to Collateral to be disposed of (so long as Lender does not breach the peace when employing its remedies with respect to such Collateral), or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (iii) to fail to exercise collection remedies against Account Debtors or other Persons obligated on Collateral or to remove Liens on or any adverse claims against Collateral, (iv) to exercise collection remedies against Account Debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (vi) to contact other Persons, whether or not in the same business as any Grantor, for expressions of interest in acquiring all or any portion of such Collateral, (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature, (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capacity of doing so, or that match buyers and sellers of assets, (ix) to dispose of assets in wholesale rather than retail markets, (x) to disclaim disposition warranties, such as title, possession or quiet enjoyment, (xi) to purchase insurance or credit enhancements to insure the Lender against risks of loss, collection or disposition of Collateral or to provide to the Lender a guaranteed return from the collection or disposition of Collateral, or

(xii) to the extent deemed appropriate by the Lender, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Lender in the collection or disposition of any of the Collateral. Each Grantor acknowledges that the purpose of this Section 8.2 is to provide non-exhaustive indications of what actions or omissions by the Lender would be commercially reasonable in the Lender's exercise of remedies against the Collateral and that other actions or omissions by the Lender shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 8.2. Without limitation upon the foregoing, nothing contained in this Section 8.2 shall be construed to grant any rights to any Grantor or to impose any duties on the Lender that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section 8.2.

8.3 Compromises and Collection of Collateral. Each Grantor agrees that the Lender may at any time and from time to time, if a Default has occurred and is continuing, compromise with the obligor on any Receivable, accept in full payment of any Receivable such amount as the Lender in its reasonable discretion shall determine or abandon any Receivable, and any such action by the Lender shall be commercially reasonable so long as the Lender acts in good faith based on information known to it at the time it takes any such action.

8.4 Secured Party Performance of Debtor Obligations. Without having any obligation to do so, the Lender may perform or pay any obligation which any Grantor has agreed to perform or pay in this Security Agreement and the Borrower shall reimburse the Lender for any reasonable amounts paid by the Lender pursuant to this Section 8.4. The Borrower's obligation to reimburse the Lender pursuant to the preceding sentence shall be an Obligation payable on demand.

8.5 Specific Performance of Certain Covenants. Each Grantor acknowledges and agrees that a breach of any of the covenants contained in Sections 4.1(d), 4.1(e), 4.4, 4.5, 4.6, 4.7, 4.8, 4.9, 4.10, 5.3, or 8.7 or in Article VII will cause irreparable injury to the Lender, that the Lender has no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of the Lender to seek and obtain specific performance of other obligations of any Grantor contained in this Security Agreement, that the covenants of each Grantor contained in the Sections referred to in this Section 8.5 shall be specifically enforceable against each Grantor.

8.6 Use and Possession of Certain Premises. Upon the occurrence of a Default, the Lender shall be entitled to occupy and use any premises owned or leased by each Grantor where any of the Collateral or any records relating to the Collateral are located until the Obligations are paid or the Collateral is removed therefrom, whichever first occurs, without any obligation to pay any Grantor for such use and occupancy; provided, however, any damages caused to any such premises by Lender's gross negligence, bad faith or willful misconduct shall be at Lender's sole cost and not subject to any indemnification by an Grantor.

8.7 Dispositions Not Authorized. No Grantor is authorized to sell or otherwise dispose of the Collateral except as set forth in Section 4.1(d) and notwithstanding any course of dealing between any Grantor and the Lender or other conduct of the Lender, no authorization to sell or otherwise dispose of the Collateral (except as set forth in Section 4.1(d)) shall be binding upon the Lender unless such authorization is in writing signed by the Lender.

8.8 No Waiver; Amendments; Cumulative Remedies. No delay or omission of the Lender to exercise any right or remedy granted under this Security Agreement shall impair such right or remedy or be construed to be a waiver of any Default or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Security Agreement whatsoever shall be valid unless in writing signed by the Lender and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Security Agreement or by law afforded shall be cumulative and all shall be available to the Lender until the Obligations have been paid in full.

8.9 Limitation by Law; Severability of Provisions. All rights, remedies and powers provided in this Security 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 Security Agreement are intended to be subject to all applicable mandatory provisions of law that may be controlling and to be limited to the extent necessary so that they shall not render this Security Agreement invalid, unenforceable or not entitled to be recorded or registered, in whole or in part. Any provision in this Security Agreement that is held to be inoperative, unenforceable, or invalid in any jurisdiction shall, as to that jurisdiction, be inoperative, unenforceable, or invalid without affecting the remaining provisions in that jurisdiction or the operation, enforceability, or validity of that provision in any other jurisdiction, and to this end the provisions of this Security Agreement are declared to be severable.

8.10 Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Grantor for liquidation or reorganization, should any Grantor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Grantor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

8.11 Benefit of Agreement. The terms and provisions of this Security Agreement shall be binding upon and inure to the benefit of each Grantor, the Lender and its successors and assigns (including all persons who become bound as a debtor to this Security Agreement), except that no Grantor shall have the right to assign its rights or delegate its obligations under this Security Agreement or any interest herein, without the prior written consent of the Lender. No sales of participations, assignments, transfers, or other dispositions of any agreement governing the Obligations or any portion thereof or interest therein shall in any manner impair the Lien granted to the Lender hereunder.

8.12 Survival of Representations. All representations and warranties of each Grantor contained in this Security Agreement shall survive the execution and delivery of this Security Agreement.

8.13 Taxes and Expenses. Any taxes (including income taxes) payable or ruled payable by Federal or State authority in respect of this Security Agreement shall be paid by each Grantor, together with interest and penalties, if any. The Borrower shall reimburse the Lender for any and all out-of-pocket expenses and internal charges (including reasonable attorneys', auditors' and accountants' fees and reasonable time charges of attorneys, paralegals, auditors and accountants) paid or incurred by the Lender in connection with the preparation, execution, delivery, administration, collection and enforcement of this Security Agreement and in the audit, analysis, administration, collection, preservation or sale of the Collateral (including the charges and reasonable out-of-pocket expenses associated with any periodic or special audit of the Collateral). Any and all costs and reasonable out-of-pocket expenses incurred by any Grantor in the performance of actions required pursuant to the terms hereof shall be borne solely by such Grantor.

8.14 Headings. The title of and section headings in this Security Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Security Agreement.

8.15 Termination. This Security Agreement shall continue in effect (notwithstanding the fact that from time to time there may be no Obligations outstanding) until (i) the Credit Agreement has terminated pursuant to its express terms and (ii) all of the Obligations have been indefeasibly paid and performed in full (or with respect to any outstanding Facility LCs, a cash deposit has been delivered to the Lender as required by the Credit Agreement) and no commitments of the Lender which would give rise to any Obligations are outstanding.

8.16 Entire Agreement. This Security Agreement embodies the entire agreement and understanding between each Grantor and the Lender relating to the Collateral and supersedes all prior agreements and understandings between any Grantor and the Lender relating to the Collateral.

8.17 **CHOICE OF LAW.** THIS SECURITY AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (AND NOT THE LAW OF CONFLICTS) OF THE STATE OF ILLINOIS, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

8.18 **CONSENT TO JURISDICTION.** EACH GRANTOR AND LENDER HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY U.S. FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO, ILLINOIS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT AND EACH GRANTOR AND LENDER HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY

SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE LENDER TO BRING PROCEEDINGS AGAINST ANY GRANTOR IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY ANY GRANTOR AGAINST THE LENDER OR ANY AFFILIATE OF THE LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS.

8.19 WAIVER OF JURY TRIAL. EACH GRANTOR AND THE LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

8.20 Counterparts. This Security Agreement may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute this Security Agreement by signing any such counterpart.

8.21 Section Titles. The Section titles contained in this Security Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not part of the agreement between the parties hereto.

8.22 Lien Absolute. All rights of the Lender hereunder, and all obligations of each Grantor hereunder, shall be absolute and unconditional irrespective of:

- (a) any lack of validity or enforceability of the Credit Agreement, any other Loan Document or any other agreement or instrument governing or evidencing any Obligations;
- (b) any change in the time, manner or place of payment of, or in any other term of, all or any part of the Obligations, or any other amendment or waiver of or any consent to any departure from the Credit Agreement, any other Loan Document or any other agreement or instrument governing or evidencing any Obligations;
- (c) any exchange, release or non-perfection of all or any portion of the Collateral, or any release or amendment or waiver of or consent to departure from any guaranty, for all or any of the Obligations;
- (d) the insolvency of any Person; or
- (e) any other circumstance which might otherwise constitute a defense available to, or a discharge of, any Grantor.

ARTICLE IX
NOTICES

9.1 Sending Notices. Any notice required or permitted to be given under this Security Agreement shall be sent by United States mail, telecopier, personal delivery or nationally established overnight courier service, and shall be deemed received (a) when received, if sent by hand or overnight courier service, or mailed by certified or registered mail or (b) when sent, if sent by telecopier (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient), in each case addressed to each Grantor at the address set forth on Exhibit A as its principal place of business, and to the Lender at the address set forth in the Credit Agreement.

9.2 Change in Address for Notices. Each Grantor and the Lender may change the address for service of notice upon it by a notice in writing to the other parties.

[SIGNATURE PAGE FOLLOWS]

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

FLEXI-MAT CORPORATION

By: Troy A. Reiter
Name: Troy A. Reiter
Title: President

FLEXI-MAT HOLDING, INC.

By: Troy A. Reiter
Name: Troy A. Reiter
Title: President

BANK ONE, NA

By: _____
Name:
Title:

IN WITNESS WHEREOF, each Grantor and the Lender have executed this Security
ement as of the date first above written.

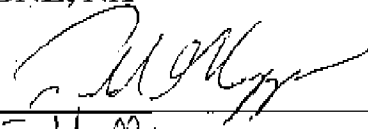
FLEXI-MAT CORPORATION

By: _____
Name:
Title:

FLEXI-MAT HOLDING, INC.

By: _____
Name:
Title:

BANK ONE, NA

By:  _____
Name: Todd Meyers
Title: AVP

STATE OF ILLINOIS)
) SS
COUNTY OF WILL)

The foregoing instrument was acknowledged before me this 3 day of June, 2004, by TROY PEIFER, the PRESIDENT of Flexi-Mat Holding, Inc., a Delaware corporation, on behalf of said corporation.

Dennis Paoli

Notary Public



My commission expires: 4/20/2008

STATE OF ILLINOIS)
) SS
COUNTY OF WILL)

The foregoing instrument was acknowledged before me this 3 day of June, 2004, by TROY PEIFER, the PRESIDENT of Flexi-Mat Corporation, an Illinois corporation, on behalf of said corporation.

Dennis Paoli

Notary Public

My commission expires: 4/20/2008



EXHIBIT A

(See Sections 3.2, 3.3, 3.4, 3.9 and 9.1 of Security Agreement)

GRANTORS' INFORMATION AND COLLATERAL LOCATIONS

Grantor	Type of Entity/ Jurisdiction of Incorporation	Org. ID	Tax Payer ID	Chief Executive Office	Location of Collateral and Books and Records:			Public Warehouses or other Locations pursuant to Bailment or Consignment
					Properties Owned	Properties Leased		
Parent	Corporation / Delaware	3708876	20-0303-660	14420 Van Dyke Rd Plainfield, IL	None	None	None	
Borrower	Corporation / Illinois	30225694	36-2102-561	14420 Van Dyke Rd Plainfield, IL	14420 Van Dyke Rd Plainfield, IL	4636 Towerwood Street Brownsville, TX Lessor: JTM, I, Ltd.	None	
						1910 Anei Circle Brownsville, TX Lessor: Gold Star Warehousing, Ltd.		
						130 S. Jefferson Avenue Chicago, IL		
						Matamoros, Mexico		

EXHIBIT B
(See Section 3.5 of Security Agreement)

DEPOSIT ACCOUNTS

<u>Name of Institution</u>	<u>Account Number</u>	<u>Check here if Deposit Account is a Collateral Deposit Account</u>	<u>Description of Deposit Account if not a Collateral Deposit Account</u>
Bank One	208-345	Main Account	
Bank One	500679738	Controlled	
Bank One	208558	Factory Payroll	
Bank One	18044832	Delaware	
Bank One	18044727	Office Payroll	
LaSalle Bank	526615		1031 Exchange Account
LaSalle Bank	526616		1031 Exchange Account

LOCK BOXES

None.

EXHIBIT C

(See Section 3.7 of Security Agreement)

LETTER OF CREDIT RIGHTS

None.

CHATTEL PAPER

None.

EXHIBIT D

(See Section 3.10 and 3.11 of Security Agreement)

INTELLECTUAL PROPERTY RIGHTS**PATENTS**

<u>Patent Description</u>	<u>Patent Number</u>	<u>Issue Date</u>
Pet Bed With Removable Bolster	5,765,502	June 16, 1998
Pet Perch For Attachment To A Window Sill	2700441	February 2, 1996
Pet Perch For Attachment To A Window Sill	01272541	June 23, 1997
Pet Perch For Attachment To A Window Sill	5,351,648	October 4, 1994
Pet Perch For Attachment To A Window Sill	5,509,373	April 23, 1996
Treated Fabric	1227022	September 22, 1987

PATENT APPLICATIONS

<u>Patent Application</u>	<u>Application Filing Date</u>	<u>Application Serial Number</u>
Inventory Control Carton With Two Compartments And Method Of Using Same	April 10, 2003	09/696,510
Pillow Bed	September 15, 1986	06/907,498

TRADEMARKS

<u>Trademark</u>	<u>Registration Date</u>	<u>Registration Number</u>
40 Winks Designs	August 10, 1999	2268844
40 Winks Designs and Design	June 19, 2000	529434
Catnapper	April 29, 1986	1391596
Crate Mate	May 30, 2001	2271325
Cuddle Ball (Canada)	April 4, 2003	TMA579021
Cuddle Ball (United States)	July 9, 2002	2590455
Cuddle-Up	April 4, 2000	2338555
Cuddler	December 6, 1977	1078928
Dognapper and Design	June 14, 1983	1242097
Flexi-Mat	March 30, 1999	2235927
Flexi-Mat's	March 2, 1999	2228694
Highland Plaid	August 24, 1999	2271867
Kitty Kuddler (Canada)	April 7, 1999	510534
Kitty Kuddler (United States)	May 19, 1998	2159634
Oops! Pad	November 7, 2000	2401938
Ortho Napper	January 12, 1999	2217277
Petnapper	June 1, 1999	2249058
Snuggle Ball (Canada)	October 22, 2002	569238

Snuggle Ball (United Kingdom)	June 7, 2000	2235166
Snuggle Ball (United States)	March 6, 2001	2433631
Snuggler	January 14, 1992	1671759
Steri-Lon	September 11, 1984	1294394

TRADEMARK APPLICATIONS

<u>Trademark Application</u>	<u>Application Filing Date</u>	<u>Application Serial Number</u>
Crate Mate	April 23, 2001	76/244800

COPYRIGHTS

<u>Copyright</u>	<u>Registration Date</u>	<u>Registration Number</u>
Cat Paws (Fabric)	December 9, 1993	VA 281-112
Duck Toy	February 17, 1993	VA 254-357
I Love My Dog (Fabric)	February 1, 1999	VA 965-234
Paisley And Dog Print	April 24, 1995	VA 689-113
Pet Pillow Package	October 28, 1992	VA 530-713
Rabbit Toy	February 16, 1993	VA 206-302
Tossed Dogs (Fabric)	April 13, 2001	VA 507-640

COPYRIGHT APPLICATIONS

None.

INTELLECTUAL PROPERTY LICENSES

None.

EXHIBIT E
(See Section 3.11 of Security Agreement)

TITLE DOCUMENTS

I. Vehicles subject to certificates of title:

Description	Title Number	State Where Issued
2004 Volvo station wagon	T407662065	IL

II. Aircraft/engines/parts, ships, railcars and other vehicles governed by federal statute:

None.

EXHIBIT F

(See Section 3.11 of Security Agreement)

Fixtures Located on Real Properties

Address	County	Legal Description	Name of landlord	Address of landlord
<u>Owned:</u>				
1. 14420 Van Dyke Road, Plainfield, Illinois 60544	Will	See <u>Exhibit F-1</u> attached hereto.	N/A	N/A
<u>Leased:</u>				
1. 4636 Towerwood Drive, City of Brownsville, Texas	Cameron	[See <u>Exhibit F-2</u> attached hereto]	JTM, I, Ltd., a TX limited partnership	550 E. Levee, Brownsville, TX 78520
2. 1910 Anei Circle, City of Brownsville, Texas	Cameron	See <u>Exhibit F-3</u> attached hereto.	Gold Star Warehousing, Ltd., a TX limited partnership	P.O. Box 6370, Brownsville, TX 78523
3. 130 S. Jefferson Street, Chicago, Illinois (commonly known as The Glessner Center)	Cook	See <u>Exhibit F-4</u> attached hereto.	Loft Development Corporation (as agent for 130 South Jefferson, L.L.C.)	641 West Lake Street, Suite 401, Chicago, IL 60661
4. Matamoros, Mexico	N/A	Not available	Not available	Not available

EXHIBIT F-1

Legal Description of Plainfield, IL

LOT 14, IN CROSSROADS BUSINESS CENTER LOT 1 RESUBDIVISION, PLAINFIELD, ILLINOIS, ACCORDING TO THE PLAT THEREOF RECORDED AUGUST 25, 2003, AS DOCUMENT NO. R2003-207876, ALL IN WILL COUNTY, ILLINOIS.

PARCEL 2:

A NON-EXCLUSIVE STORMWATER MANAGEMENT EASEMENT, FOR THE BENEFIT OF PARCEL 1 HEREIN, AS CREATED BY THE FINAL PLAT OF SUBDIVISION OF CROSSROADS BUSINESS CENTER, ACCORDING TO THE PLAT THEREOF RECORDED JUNE 27, 2003, AS DOCUMENT NO. R2003-150504, BEING DESCRIBED AS OUTLOT D IN THE CROSSROADS BUSINESS CENTER LOT 1 RESUBDIVISION, PLAINFIELD, ILLINOIS, ACCORDING TO THE PLAT THEREOF RECORDED AUGUST 25, 2003, AS DOCUMENT NO. R2003-207876, ALL IN WILL COUNTY, ILLINOIS.

EXHIBIT F-2

Legal Description of Brownsville, Texas

Lots Fourteen (14), Fifteen (15) and Sixteen (16), 802 INDUSTRIAL PARK WEST
SUBDIVISION, a Subdivision in Cameron County, Texas, according to the Map thereof
recorded in Cabinet 1, Slot 252-A, Map Records of Cameron County, Texas.

EXHIBIT F-3

Legal Description of 1910 Anei Circle, Brownsville, Texas

Lot 9, Block 1, Coffee Port Industrial Park Subdivision, according to the plat or map thereof recorded in Cabinet 1, Slot 1793-A, Map Records of Cameron County, Texas. (1910 Anei Circle, Brownsville, Texas)

EXHIBIT F-4

Legal Description for Chicago, IL

Lot 5 in Block 26 in School Section Addition to Chicago, a Subdivision in the West Half of the Northwest Quarter of Section 16, Township 39 North, Range 14 East of the Third Principal Meridian, in Cook County, Illinois.

EXHIBIT G

(See Section 3.13 of Security Agreement and Definition of "Pledged Collateral")

**LIST OF PLEDGED COLLATERAL, SECURITIES AND OTHER INVESTMENT
PROPERTY****STOCKS**

<u>Issuer</u>	<u>Certificate Number(s)</u>	<u>Number of Shares</u>	<u>Class of Stock</u>	<u>Percentage of Outstanding Shares</u>
Borrower	C-1	49,510	Common	100%
Pet E-tailing	n.a.	100,000	Class A common	7.41% of profit/losses

BONDS

None.

GOVERNMENT SECURITIES

None.

**OTHER SECURITIES OR OTHER INVESTMENT PROPERTY
(CERTIFICATED AND UNCERTIFICATED)**

None.

EXHIBIT H
(See Section 3.1 of Security Agreement)

OFFICES IN WHICH FINANCING STATEMENTS HAVE BEEN FILED

Parent: Office of the Secretary of State of Delaware

Borrower: Office of the Secretary of State of Illinois

EXHIBIT I

(See Section 4.4 and 4.8 of Security Agreement)

AMENDMENT

This Amendment, dated _____, ___ is delivered pursuant to Section [4.4 / 4.8] of the Security Agreement referred to below. All defined terms herein shall have the meanings ascribed thereto or incorporated by reference in the Security Agreement. The undersigned hereby certifies that the representations and warranties in Article III of the Security Agreement are and continue to be true and correct. The undersigned further agrees that this Amendment may be attached to that certain Pledge and Security Agreement, dated as of June 4, 2004 between the undersigned, as the Grantors, and Bank One, NA (the "Security Agreement") and that the Collateral listed on Schedule I to this Amendment shall be and become a part of the Collateral referred to in said Security Agreement and shall secure all Obligations referred to in said Security Agreement.

FLEXI-MAT CORPORATION

By: _____

Name:

Title:

FLEXI-MAT HOLDING, INC.

By: _____

Name:

Title:

SCHEDULE I TO AMENDMENT

STOCKS

<u>Issuer</u>	<u>Certificate Number(s)</u>	<u>Number of Shares</u>	<u>Class of Stock</u>	<u>Percentage of Outstanding Shares</u>

BONDS

<u>Issuer</u>	<u>Number</u>	<u>Face Amount</u>	<u>Coupon Rate</u>	<u>Maturity</u>

GOVERNMENT SECURITIES

<u>Issuer</u>	<u>Number</u>	<u>Type</u>	<u>Face Amount</u>	<u>Coupon Rate</u>	<u>Maturity</u>

OTHER SECURITIES OR OTHER INVESTMENT PROPERTY
(CERTIFICATED AND UNCERTIFICATED)

<u>Issuer</u>	<u>Description of Collateral</u>	<u>Percentage Ownership Interest</u>

COMMERCIAL TORT CLAIMS

<u>Description of Claim</u>	<u>Parties</u>	<u>Case Number: Name of Court where Case was Filed</u>

EXHIBIT J

Assigned Contracts" Definition)

ASSIGNED CONTRACTS

None.