

09-06-2000



101450209

RECORDATION FORM COVER SHEET  
TRADEMARKS ONLY

TO: The Commissioner of Patents and Trademarks: Please record the attached original document(s) or copy(ies).

Submission Type

- New
- Resubmission (Non-Recordation)  
Document ID #
- Correction of PTO Error  
Reel #  Frame #
- Corrective Document  
Reel #  Frame #

Conveyance Type

- Assignment  License
  - Security Agreement  Nunc Pro Tunc Assignment
  - Merger
  - Change of Name
  - Other
- Effective Date  
Month Day Year  
**08042000**

Conveying Party

Mark if additional names of conveying parties attached

Name  Execution Date  
Month Day Year **08042000**

Formerly

- Individual  General Partnership  Limited Partnership  Corporation  Association
- Other
- Citizenship/State of Incorporation/Organization

Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AK/A/T/A

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City State/Country Zip Code

- Individual  General Partnership  Limited Partnership  If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative should be attached. (Designation must be a separate document from Assignment.)
- Corporation  Association
- Other

Citizenship/State of Incorporation/Organization

FOR OFFICE USE ONLY

09/01/2000 MTHAI1  
01 FC:481  
02 FC:482

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40.00 OP  
350.00 OP

Public burden reporting for this collection of information is estimated to average approximately 30 minutes per Cover Sheet to be recorded, including time for reviewing the document and gathering the data needed to complete the Cover Sheet. Send comments regarding this burden estimate to the U.S. Patent and Trademark Office, Chief Information Officer, Washington, D.C. 20231 and to the Office of Information and Regulatory Affairs, Office of Management and Budget, Paperwork Reduction Project (0651-0027), Washington, D.C. 20503. See OMB Information Collection Budget Package 0651-0027, Patent and Trademark Assignment Practice. DO NOT SEND REQUESTS TO RECORD ASSIGNMENT DOCUMENTS TO THIS ADDRESS.

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

TRADEMARK  
REEL: 002129 FRAME: 0229

**Domestic Representative Name and Address**

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**Correspondent Name and Address**

Area Code and Telephone Number

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**Pages**

Enter the total number of pages of the attached conveyance document including any attachments. #

**Trademark Application Number(s) or Registration Number(s)**

Mark if additional numbers attached

Enter either the Trademark Application Number or the Registration Number (DO NOT ENTER BOTH numbers for the same property).

**Trademark Application Number(s)**

**Registration Number(s)**

**Number of Properties**

Enter the total number of properties involved. #

**Fee Amount**

Fee Amount for Properties Listed (37 CFR 3.41): \$

Method of Payment: Enclosed  Deposit Account

Deposit Account

(Enter for payment by deposit account or if additional fees can be charged to the account.)

Deposit Account Number: #

Authorization to charge additional fees: Yes  No

**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. Charges to deposit account are authorized, as indicated herein.

Lisa Halustick

*Lisa Halustick*

8/4/00

Name of Person Signing

Signature

Date Signed

**RECORDATION FORM COVER SHEET  
CONTINUATION  
TRADEMARKS ONLY**

FORM PTO-1618C  
Expires 06/30/99  
OMB 0651-0027

U.S. Department of Commerce  
Patent and Trademark Office  
**TRADEMARK**

**Conveying Party**

Enter Additional Conveying Party

Mark if additional names of conveying parties attached

Execution Date  
Month Day Year

Name

Formerly

Individual  General Partnership  Limited Partnership  Corporation  Association

Other

Citizenship State of Incorporation/Organization

**Receiving Party**

Enter Additional Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)     
City State/Country Zip Code

Individual  General Partnership  Limited Partnership

Corporation  Association

Other

Citizenship/State of Incorporation/Organization

If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative should be attached (Designation must be a separate document from the Assignment.)

**Trademark Application Number(s) or Registration Number(s)**

Enter either the Trademark Application Number or the Registration Number (DO NOT ENTER BOTH numbers for the same property).

Mark if additional numbers attached

**Trademark Application Number(s)**

**Registration Number(s)**

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**SECURITY AGREEMENT**

SECURITY AGREEMENT dated as of August 4, 2000 ("Security Agreement"), between ELASTIC NETWORKS INC., a Delaware corporation ("Borrower") and NORTEL NETWORKS INC., a Delaware corporation ("Nortel") and PEQUOT PRIVATE EQUITY FUND II, L.P., a Delaware limited partnership (collectively, the "Secured Parties").

PRELIMINARY STATEMENTS. 1. Reference is made to the Secured Promissory Notes dated as of even date herewith by Borrower in favor of each of the Secured Parties and each in a principal amount of up to \$5,000,000 (as modified and supplemented and in effect from time to time, the "Notes"). Capitalized terms used in this Security Agreement and not otherwise defined herein shall have the meanings set forth in the Notes.

2. It is a condition precedent to the obligation of the Secured Parties to provide the loan to Borrower as provided in the Notes that Borrower shall have granted the security interest contemplated by this Security Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Secured Parties to provide the loans to Borrower as provided in the Notes, Borrower hereby agrees as follows:

SECTION 1. Grant of Security. Borrower hereby grants to the Secured Parties a security interest in and on all of Borrower's right, title and interest in and to all of the following, whether now owned or hereafter acquired or existing (the "Collateral"):

(a) All equipment in all of its forms, wherever located, including, without limitation, all machinery and other goods, furniture, furnishings, fixtures, office supplies and all other similar types of tangible personal property and all parts thereof and all accessions thereto, together with all parts, fittings, special tools, alterations, substitutions, replacements and accessions thereto (any and all such equipment, parts and accessions being the "Equipment");

(b) All inventory in all of its forms, wherever located, including, but not limited to, (i) all raw materials and work in process, finished goods, and materials used or consumed in manufacture or production, (ii) goods in which Borrower has an interest in mass or a joint or other interest or right of any kind (including, without limitation, goods in which Borrower has an interest or right as consignee), and (iii) goods which are returned to or repossessed by Borrower, and all accessions thereto and products thereof and all documents and documents of title relating to or covering any of the foregoing or any other assets ("Documents") (any and all such inventory, accessions, products and Documents being the "Inventory");

(c) All accounts, accounts receivable, contract rights, chattel paper, instruments, acceptances, drafts, and other obligations of any kind, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services, together with all ledger sheets, files, records and documents relating to any of the foregoing, including all computer records, programs, storage media and computer software useful or required in connection therewith (the "Receivables"), and all rights now or hereafter existing in and to all security agreements, leases, and other contracts securing or otherwise relating to any such Receivables, and any and all such leases, security agreements and other contracts (the "Related Contracts");

(d) All rights under all contracts or agreements to which Borrower is a party (other than contracts or agreements which by their terms expressly prohibit the granting of any lien, charge, claim or encumbrance of any nature whatsoever ("Lien") thereon);

(e) All trademarks, trade names, trade styles, service marks, prints and labels on which said trademarks, trade names, trade styles and service marks have appeared or appear, designs and general intangibles of like nature, now existing or hereafter adopted, all right, title and interest therein and thereto, and all registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof, or any other country or any political subdivision thereof, together with the goodwill associated therewith, and all reissues, amendments, extensions or renewals thereof and all licenses thereof (the "Trademarks");

(f) All copyrights, copyrighted works or any item which embodies such copyrighted work of the United States or any other country, all applications therefor, all right, title and interest therein and thereto, and all registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, and all derivative works, extensions or renewals thereof (the "Copyrights");

(g) All letters patent of the United States or any other country, and all applications therefor, all right, title and interest therein and thereto, and all registrations and recordings thereof, including, without limitation, applications, registrations and recordings in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, and all reissues, continuations, divisionals, continuations-in-part or extensions thereof and all licenses thereof (the "Patents");

(h) All other tangible and intangible personal property and fixtures; and

(i) All proceeds of any and all of the foregoing Collateral (including, without limitation, proceeds which constitute property of the types described in clauses (a) through (h) of this Section 1) and, to the extent not otherwise included, all payments under insurance (whether or not the Secured Parties are the loss payees thereof), or any

indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing items.

SECTION 2. Security for Obligations. The Collateral secures the prompt and complete payment when due of (i) the outstanding principal and interest on the Notes, (ii) all other obligations of Borrower under the Notes, and (iii) all obligations of Borrower to the Secured Parties hereunder (collectively, the "Secured Obligations").

SECTION 3. Borrower Remains Liable. Anything herein to the contrary notwithstanding, (a) Borrower shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Security Agreement had not been executed, (b) the exercise by the Secured Parties of any of the rights hereunder shall not release Borrower from any of its duties or obligations under the contracts and agreements included in the Collateral, and (c) the Secured Parties shall not have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Security Agreement, nor shall the Secured Parties be obligated to perform any of the obligations or duties of Borrower thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 4. Representations and Warranties. Borrower represents and warrants to the Secured Parties as follows:

(a) All of the Equipment and Inventory are located at the places specified in Schedule I hereto. The chief place of business and chief executive office of Borrower and the office where Borrower keeps its records concerning Receivables are located at the address specified on Schedule I hereto. All originals of all chattel paper which evidence Receivables have been delivered to Nortel, to hold for the benefit of the Secured Parties. None of the Receivables is evidenced by a promissory note or other instrument.

(b) Borrower owns the Collateral free and clear of any Lien, except for the security interest created by this Security Agreement and the security interests existing on the date hereof and set forth on Schedule II hereto (the "Existing Equipment Liens"). No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except for financing statements filed in favor of the Secured Parties relating to this Security Agreement and such financing statements as have been filed with respect to the Existing Equipment Liens.

(c) Borrower conducts no business under any name or trade name other than its proper corporate name.

(d) Borrower has exclusive possession and control of the Equipment and Inventory.

(e) Schedule III sets forth a complete and correct list of all Patents, Trademarks and Copyrights owned by Borrower on the date hereof. Borrower has the right to use all Patents, Trademarks, and Copyrights and all computer programs and other rights, free from materially burdensome restrictions, which are necessary for the

operation of its business as presently conducted. Except as set forth on Schedule IV, there is not pending or threatened any claim or litigation against or affecting Borrower contesting the validity of any of the Patents, Trademarks or Copyrights or computer program or other right.

(f) This Security Agreement creates a valid Lien in the Collateral, securing the payment of the Secured Obligations.

(g) No authorization, approval or other action by, and no notice to or filing with, any governmental or regulatory authority or agency is required (1) for the grant by Borrower of the security interest granted hereby or (2) for the execution, delivery or performance of this Security Agreement by Borrower or (3) other than such filings as may be required to be made with the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof, or under the Uniform Commercial Code (the "Code"), for the perfection of or the exercise by the Secured Parties of their respective rights and remedies hereunder.

(h) Except as set forth on the disclosure schedules to the Notes and as otherwise set forth in the Notes, (i) each of the representations and warranties of the Borrower contained in the Borrower's Series B Redeemable Convertible Participating Preferred Stock Purchase Agreement dated as of February 14, 2000 (the "Series B Purchase Agreement"), is true and correct on the date hereof and (ii) since February 14, 2000, no event has occurred or condition exists which could be reasonably expected to have a material adverse effect on the business, assets, prospects or financial condition of the Borrower.

#### SECTION 5. Further Assurances.

(a) Borrower agrees that from time to time, at the expense of Borrower, Borrower will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Secured Parties may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable the Secured Parties to exercise and enforce their rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Borrower will: (1) if any Receivable shall be evidenced by a promissory note or other instrument or chattel paper deliver such promissory note, instrument or chattel paper to Nortel, to hold for the benefit of the Secured Parties, duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Secured Parties; and (2) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Secured Parties may request, in order to perfect and preserve the security interest granted or purported to be granted hereby.

(b) Borrower hereby authorizes the Secured Parties to file one or more financing or continuation statements, and amendments thereto, relative to all or any part

of the Collateral without the signature of Borrower where permitted by law. A carbon, photographic or other reproduction of this Security Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) Borrower will furnish to the Secured Parties from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Secured Parties may reasonably request, all in reasonable detail.

(d) Borrower will defend the Collateral against all claims and demands of all persons (other than the Secured Parties and the secured parties set forth on Schedule II) claiming an interest therein. Borrower will pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including claims for labor, materials and supplies) against, the Collateral, except to the extent where there is a good faith contest to the validity thereof. In connection with any such good faith contest Borrower will, at the request of the Secured Parties, promptly provide a bond, cash deposit or other security reasonably satisfactory to protect the security interest of the Secured Parties should such good faith contest be unsuccessful.

SECTION 6. As to Equipment, Inventory and Trademarks. Borrower shall:

(a) Keep the Equipment and Inventory (other than Inventory sold in the ordinary course of business) at the places therefor specified in Schedule I hereto or, upon 30 days' prior written notice to the Secured Parties, at such other places in jurisdictions where all action required by Section 5 shall have been taken with respect to the Equipment and Inventory;

(b) Cause the Equipment necessary for the conduct of its business to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and shall forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements, and other improvements in connection therewith which are necessary or desirable to such end;

(c) Permit the Secured Parties or any agent thereof to have access to the Inventory and Equipment for purposes of inspection during normal business hours and upon reasonable notice to the Borrower;

(d) Promptly notify the Secured Parties in writing of any material loss or damage to the Inventory or Equipment;

(e) Not sell, assign, lease, mortgage, transfer or otherwise dispose of any interest in the Inventory or Equipment, except in the ordinary course of business;

(f) Not use or permit the Inventory or Equipment to be used for any



unlawful purpose or in violation of any law or for hire;

(g) Not permit the Equipment to become a part of or to be affixed to any real property of any person;

(h) Advise the Secured Parties of all Trademarks, Patents and Copyrights or applications for or registration of the same, created or obtained by Borrower on or after the date of this Security Agreement; and

(i) Take all reasonable steps to maintain and enforce the Trademarks, Patents and Copyrights material to the conduct of its business, including but not limited to (1) payment of all fees, (2) prosecuting infringers if failure to do so would materially and adversely affect the business of Borrower and (3) diligently pursuing any application or registration material to the business of Borrower.

#### SECTION 7. Insurance.

(a) Borrower shall, at its own expense, maintain insurance with respect to the Equipment and Inventory in such amounts, against such risks, in such form and with such insurers, as shall be reasonably satisfactory to the Secured Parties from time to time.

(b) Reimbursement under any liability insurance maintained by Borrower pursuant to this Section 7 may be paid directly to the person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Equipment or Inventory when subsection (c) of this Section 7 is not applicable, Borrower shall make or cause to be made the necessary repairs to or replacements of such Equipment or Inventory, and any proceeds of insurance maintained by Borrower pursuant to this Section 7 shall be paid to Borrower as reimbursement for the costs of such repairs or replacements.

(c) Upon the occurrence of any Event of Default all insurance payments in respect of such Equipment or Inventory shall be paid to the Secured Parties and applied on a pro rata basis to payment of the amounts due under the Notes and hereunder.

#### SECTION 8. As to Receivables.

(a) Borrower shall keep the Receivables at its chief place of business and chief executive office and the office where it keeps its records concerning the Receivables, at the location therefor specified in Schedule I hereto or, upon 30 days' prior written notice to the Secured Parties, at such other locations in a jurisdiction where all action required by Section 5 shall have been taken with respect to Receivables. Borrower will hold and preserve such records and will permit representatives of the Secured Parties to inspect and make abstracts from such records.

(b) Except as otherwise provided in this subsection (b), Borrower shall continue to collect, at its own expense, all amounts due or to become due to Borrower under the Receivables. In connection with such collections, Borrower may take (and, at the discretion of the Secured Parties, shall take) such action as Borrower or the Secured

Parties may deem necessary or advisable to enforce collection of the Receivables; provided, however, that the Secured Parties shall have the right at any time, upon the occurrence and during the continuance of an Event of Default upon written notice to Borrower of its intention to do so, to notify the account debtors or obligors under any Receivables of the assignment of such Receivables to the Secured Parties and to direct such account debtors or obligors to make payment of all amounts due or to become due to Borrower thereunder directly to the Secured Parties on a pro rata basis and, upon such notification and at the expense of Borrower, to enforce collection of any such Receivables, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Borrower might have done. After receipt by Borrower of the notice from the Secured Parties referred to in the proviso to the preceding sentence and as long as there is an Event of Default, (1) all amounts and proceeds (including instruments) received by Borrower in respect of the Receivables shall be received in trust for the benefit of the Secured Parties hereunder, shall be segregated from other funds of Borrower and shall be forthwith paid over to the Secured Parties in the same form as so received (with any necessary endorsement) to be held as cash collateral, or be applied as provided by Section 13(b), as determined by the Secured Parties, and (2) Borrower shall not adjust, settle or compromise the amount or payment of any Receivable, or release wholly or partly any account debtor or obligor thereof, or allow any credit or discount thereon, other than any discount allowed for prompt payment.

SECTION 9. Transfer and Other Liens. Borrower shall not, except as required under the terms of the indebtedness secured by the Existing Equipment Liens:

(a) Sell, assign (by operation of law or otherwise) or otherwise dispose of any of the Collateral, except in the ordinary course of business.

(b) Create or suffer to exist any Lien upon or with respect to any of the Collateral to secure debt of any person, except for (i) purchase money financing in the ordinary course of business, or (ii) Liens that are junior in preference to the Liens created by this Security Agreement, subject to the prior written approval of the Secured Parties (at their sole discretion) and which approval may be conditioned upon such junior lienholder entering into an intercreditor agreement satisfactory to the Secured Parties.

SECTION 10. Secured Parties Appointed Attorney-in-Fact. Borrower hereby irrevocably appoints each Secured Party as Borrower's attorney-in-fact, with full authority in the place and stead of Borrower and in the name of Borrower, the Secured Parties or otherwise, to, after the occurrence and during the continuance of an Event of Default, take any action and to execute any instrument which the Secured Parties may deem necessary or advisable to accomplish the purposes of this Security Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to the Secured Parties pursuant to Section 7;

(b) to ask, demand, collect, sue for, recover, compromise, receive and give

acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(c) to receive, endorse, assign, and collect any and all checks, notes, drafts and other negotiable and non-negotiable instruments, documents and chattel paper, in connection with clause (a) or (b) above, and Borrower waives notice of presentment, protest and non-payment of any instrument, document or chattel paper so endorsed or assigned;

(d) to file any claims or take any action or institute any proceedings which the Secured Parties may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Secured Parties with respect to any of the Collateral; and

(e) to sell, transfer, assign or otherwise deal in or with the Collateral or the proceeds or avails thereof, as fully and effectually as if the Secured Parties were the absolute owner thereof.

The Secured Parties shall provide notice to Borrower prior to taking any of the actions described in Section 11(a) through (e) above.

Borrower hereby ratifies and approves all lawful acts, other than those which result from the Secured Parties' gross negligence or willful misconduct, of the Secured Parties, as its attorney in-fact, pursuant to this Section 10, and the Secured Parties, as its attorney in-fact, will not be liable for any acts of commission or omission, nor for any error of judgment or mistake of fact or law other than those which result from the Secured Parties' gross negligence or willful misconduct. This power, being coupled with an interest, is irrevocable so long as this Security Agreement remains in effect and for so long as an Event of Default shall exist.

Borrower also authorizes each Secured Party, at any time and from time to time, after the occurrence and during the continuance of an Event of Default, to communicate in its own name with any party to any contract, agreement or instrument included in the Collateral with regard to the assignment of such contract, agreement or instrument and other matters relating thereto.

SECTION 11. Secured Parties May Perform. If Borrower fails to perform any agreement contained herein, the Secured Parties may themselves perform, or cause performance of, such agreement, and the expenses of the Secured Parties incurred in connection therewith shall be payable by Borrower under Section 15(b).

SECTION 12. The Secured Parties' Duties. The powers conferred on the Secured Parties hereunder are solely to protect their interest in the Collateral and shall not impose any duty upon them to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Secured Parties shall not have any duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

SECTION 13. Remedies. If any Event of Default shall have occurred, then during the continuance of such Event of Default:

(a) The Secured Parties may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the Code (whether or not the Code applies to the affected Collateral) and also may (i) require Borrower to, and Borrower hereby agrees that it will at its expense and upon the request of the Secured Parties forthwith, assemble all or part of the Collateral as directed by the Secured Parties and make it available to the Secured Parties at a place to be designated by the Secured Parties which is reasonably convenient to both parties and (ii) enter the premises where any of the Collateral is located and take and carry away the same, by any of its representatives, with or without legal process, to Secured Parties' place of storage, and (iii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Secured Parties' offices or elsewhere, for cash, on credit or for future delivery and upon such other terms as the Secured Parties may deem commercially reasonable. Borrower agrees that, to the extent notice of sale shall be required by law, at least five (5) days' notice to Borrower of the time and place of any public or private sale is to be made shall constitute reasonable notification. The Secured Parties shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Parties may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place it was so adjourned.

(b) All cash proceeds received by the Secured Parties in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Parties, be held by the Secured Parties as collateral for, and/or then or at any time thereafter be applied on a pro rata basis (after payment of any amounts payable to the Secured Parties pursuant to Section 15) in whole or in part by the Secured Parties against, all or any part of Secured Obligations in such order as the Secured Parties shall elect. Any surplus of such cash or cash proceeds held by the Secured Parties and remaining after payment in full of all the Secured Obligations to the Secured Parties shall be paid over to Borrower. If the proceeds of the sale of the Collateral are insufficient to pay all of the Secured Obligations Borrower agrees to pay upon demand any deficiency to the Secured Parties.

SECTION 14. Compliance with Covenants. The Borrower agrees with the Secured Parties that it will comply with the covenants of the Borrower contained in Section 7 of the Series B Purchase Agreement.

SECTION 15. Indemnity and Expenses.

(a) Borrower agrees to indemnify the Secured Parties from and against any and all claims, losses and liabilities arising out of or resulting from this Security Agreement (including, without limitation, enforcement of this Security Agreement), except claims, losses or liabilities resulting from the Secured Parties' gross negligence or willful misconduct.

(b) Borrower will upon demand pay to each of the Secured Parties the amount of any and all expenses, including the reasonable fees and out of pocket disbursements of its counsel and of any experts and agents, which such party may incur in connection with (1) filing or recording fees incurred in connection with this Security Agreement, (2) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral, (3) the exercise or enforcement of any of the rights of the Secured Parties, or (4) the failure by Borrower to perform or observe any of the provisions hereof. The Secured Parties shall not be liable to Borrower for damages as a result of delays, temporary withdrawals of the Equipment from service or other causes other than those caused by the Secured Parties' gross negligence or willful misconduct.

SECTION 16. Amendments; Etc. No amendment or waiver of any provision of this Security Agreement nor consent to any departure by Borrower herefrom shall in any event be effective unless the same shall be in writing and signed by the Secured Parties, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 17. Notices. All notices and other communications required or permitted hereunder shall be in writing and shall be (i) mailed by registered or certified mail, postage prepaid, (ii) delivered by reliable overnight courier service, or (iii) otherwise delivered by hand or by messenger, addressed (A) if to the Secured Parties, to Pequot Capital Management, Inc., 500 Nyala Farm Road, Westport, Connecticut 06880, Attention: David J. Malat and Carol Holley, and Nortel Networks Inc., 200 Athens Way, Nashville, Tennessee 37228, Attention: Mary Cross, with a copy to Corporate Secretary/Legal Department, Mail Stop A611 at the same address, or at such other address as any Secured Party shall have furnished to Borrower in writing, or (B) if to Borrower, to Elastic Networks Inc., 6120 Windward Parkway, Suite 100, Alpharetta, Georgia 30005, Attention: President, or at such other address as Borrower shall have furnished to the Secured Parties in writing. All such notices and communications shall be effective upon receipt.

SECTION 18. Continuing Security Interest; Transfer of Notes. This Agreement shall create a continuing security interest in the Collateral and shall (1) remain in full force and effect until payment in full of the Secured Obligations, (2) be binding upon Borrower, its permitted successors and assigns, and (3) inure to the benefit of the Secured Parties and its successors, transferees and assigns. Without limiting the generality of the foregoing clause (3), a Secured Party may assign or otherwise transfer all or a portion of its rights and obligations under its respective Note to any permitted

transferee in accordance with the terms of such Note and such transferee shall thereupon become vested with all the benefits in respect thereof granted to the Secured Parties herein or otherwise. Upon the payment in full of the Secured Obligations, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to Borrower. Upon any such termination, the Secured Parties will, at Borrower's expense, execute and deliver to Borrower such Uniform Commercial Code termination statements and such other documentation as Borrower shall reasonably request to effect the termination and release of the Liens on the Collateral.

SECTION 19. Governing Law; Terms. This Security Agreement shall be governed by and construed in accordance with the laws of the State of Georgia, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of Georgia. Unless otherwise defined herein or in the Notes, terms used in Article 9 of the Uniform Commercial Code in the State of Georgia are used herein as therein defined.

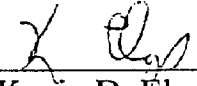
SECTION 20. Miscellaneous. This Security Agreement is in addition to and not in limitation of any other rights and remedies the Secured Parties may have by virtue of any other instrument or agreement heretofore, contemporaneously herewith or hereafter executed by Borrower or by law or otherwise. If any provision of this Security Agreement is contrary to applicable law, such provision shall be deemed ineffective without invalidating the remaining provisions hereof. If and to the extent that applicable Law confers any rights in addition to any of the provisions of this Security Agreement, the affected provision shall be considered amended to conform thereto. The Secured Parties shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder. A waiver by the Secured Parties of any right or remedy hereunder on any one occasion, shall not be construed as a bar to or waiver of any such right or remedy which the Secured Parties would have had on any future occasion nor shall the Secured Parties be liable for exercising or failing to exercise any such right or remedy. This Security Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and the parties hereto may execute this Security Agreement by signing any such counterpart.

**[The remainder of this page has been intentionally left blank.]**

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

BORROWER:

ELASTIC NETWORKS INC.

By:   
Kevin D. Elop, Chief Financial Officer

SECURED PARTIES:

NORTEL NETWORKS INC.

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

PEQUOT PRIVATE EQUITY FUND II, L.P.

By: PEQUOT CAPITAL MANAGEMENT, INC.,  
its Investment Manager

By: \_\_\_\_\_  
Kevin E. O'Brien, General Counsel

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

BORROWER:

ELASTIC NETWORKS INC.

By: \_\_\_\_\_  
Kevin D. Elop, Chief Financial Officer

SECURED PARTIES:

NORTEL NETWORKS INC.

By: Mary M. Cross  
Name: Mary M. Cross  
Title: President

PEQUOT PRIVATE EQUITY FUND II, L.P.

By: PEQUOT CAPITAL MANAGEMENT, INC.,  
its Investment Manager

By: \_\_\_\_\_  
Kevin E. O'Brien, General Counsel



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

BORROWER:

ELASTIC NETWORKS INC.

By: \_\_\_\_\_  
Kevin D. Elop, Chief Financial Officer

SECURED PARTIES:

NORTEL NETWORKS INC.

By: \_\_\_\_\_  
Mary Cross, President

PEQUOT PRIVATE EQUITY FUND II, L.P.

By: PEQUOT CAPITAL MANAGEMENT, INC.,  
its Investment Manager

By: Kevin E. O'Brien  
Kevin E. O'Brien, General Counsel

SCHEDULE I  
to Security Agreement

**PLACE OF BUSINESS AND LOCATIONS OF COLLATERAL**

Chief Place of Business  
and Chief Executive Office:

6120 Windward Parkway, Suite 100  
Alpharetta (Fulton County), Georgia 30005

Locations of Equipment:

6120 Windward Parkway, Suite 100  
Alpharetta (Fulton County), Georgia 30005

Locations of Inventory:

6120 Windward Parkway, Suite 100  
Alpharetta (Fulton County), Georgia 30005

Location of Records  
Evidencing Receivables:

6120 Windward Parkway, Suite 100  
Alpharetta (Fulton County), Georgia 30005

SCHEDULE II  
to Security Agreement

**EXISTING EQUIPMENT LIENS**

| Secured Party                 | Jurisdiction      | Filing No.      | Filing Date       |
|-------------------------------|-------------------|-----------------|-------------------|
| Colonial Pacific Leasing      | Barrow County, GA | 007-99-011160   | October 28, 1999  |
| Colonial Pacific Leasing      | Barrow County, GA | 007-99-11161    | October 28, 1999  |
| Dell Financial Services, L.P. | Barrow County, GA | 007-99-012348   | November 30, 1999 |
| Dell Financial Services, L.P. | Barrow County, GA | 007-99-013051   | December 17, 1999 |
| Dell Financial Services, L.P. | Barrow County, GA | 007-99-013526   | December 30, 1999 |
| Colonial Pacific Leasing      | Barrow County, GA | 007-2000-000131 | January 5, 2000   |
| Colonial Pacific Leasing      | Barrow County, GA | 007-2000-000133 | January 5, 2000   |
| Colonial Pacific Leasing      | Barrow County, GA | 007-2000-001090 | February 1, 2000  |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-002041 | February 23, 2000 |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-002278 | February 29, 2000 |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-003366 | March 23, 2000    |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-003573 | March 30, 2000    |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-004384 | April 19, 2000    |
| The Myerson Companies, Inc.   | Barrow County, GA | 007-2000-006189 | May 25, 2000      |
| The Myerson Companies, Inc.   | Barrow County, GA | 007-2000-006732 | June 7, 2000      |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-006937 | June 9, 2000      |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-007249 | June 15, 2000     |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-007384 | June 19, 2000     |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-008055 | July 6, 2000      |
| Dell Financial Services, L.P. | Barrow County, GA | 007-2000-008056 | July 6, 2000      |
| Newcourt Technologies Corp.   | Fulton County, GA | 060200008874    | May 12, 2000      |

SCHEDULE III  
to Security Agreement

**REGISTERED PATENTS**

| Patent  | Jurisdiction and<br>Registration No. | Registration Date |
|---|--------------------------------------|-------------------|
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | US: 5,912,895                        | June 15, 1999     |
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | Australia: 704793                    | August 12, 1999   |

**PATENT APPLICATIONS**

| Patent Applications   | Jurisdiction and<br>Application No.                                      | Application Date  |
|---|--|---|
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | US: 09/251,939<br>Supplemental<br>Preliminary<br>Amendment               | February 18, 1999   |
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | PCT: CA96/00601<br>Designating Australia,<br>Canada, Europe and<br>Japan | September 11, 1996<br>(Publication No.<br>W097/41667 dated<br>November 6, 1997) |
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | Canada: 2,253,373  | September 11, 1996  |
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | Europe (EPO):<br>96929149.1  | October 23, 1998  |
| Information Network Access<br>Apparatus and Methods<br>Communicating Information<br>Packets via Telephone Lines | Japan: 9-538411  | September 11, 1996  |

**REGISTERED TRADEMARKS**

| Trademark | Jurisdiction and Registration No. | Registration Date |
|-----------|-----------------------------------|-------------------|
| ELMO      | U.S.: 2,345,521                   | April 25, 2000    |
| ETHERLOOP | Canada: TMA 523,177               | February 16, 2000 |

**TRADEMARK APPLICATIONS**

| Trademark Application | Jurisdiction and Application No. | Application Date   |
|-----------------------|----------------------------------|--------------------|
| STORMPORT             | U.S.: 76/061,024                 | June 1, 2000       |
| STORMTRACKER          | U.S.: 76/061,023                 | June 1, 2000       |
| STORMWARE             | U.S.: 76/060,909                 | June 1, 2000       |
| MICROBURST            | U.S.: 76/060,908                 | June 1, 2000       |
| BITSTORM              | U.S.: 76/060,907                 | June 1, 2000       |
| ESLED                 | U.S.: 76/032,922                 | April 21, 2000     |
| SPEED UP AMERICA      | U.S.: 75/903,850                 | January 27, 2000   |
| YES WARE (& Design)   | U.S.: 75/826,905                 | October 20, 1999   |
| YESWARE               | U.S.: 75/671,723                 | March 31, 1999     |
| INTERPROXY            | U.S.: 75/609,548                 | December 21, 1998  |
| ELASTIC NETWORKS      | U.S.: 75/609,547                 | December 21, 1998  |
| ELASTIC               | U.S.: 75/609,526                 | December 21, 1998  |
| E (& Design)          | U.S.: 75/609,525                 | December 21, 1998  |
| ETHERLOOP             | U.S.: 75/560,747                 | September 28, 1998 |
| SPECTRUM MANAGER      | Canada: 105,809,800              | May 9, 2000        |
| YESWARE (& Design)    | Canada: 104,165,800              | January 6, 2000    |
| ELASTIC NETWORKS      | Canada: 101,183,000              | April 13, 1999     |
| E DESIGN (& Design)   | Canada: 101,182,800              | April 13, 1999     |
| ELASTIC               | Canada: 101,182,600              | April 13, 1999     |
| YESWARE               | Canada: 101,175,400              | April 13, 1999     |
| ELMO                  | Canada: 102,816,200              | September 8, 1999  |
| INTERPROXY            | Canada: 101,182,700              | April 13, 1999     |
| ETHERLOOP             | Community Trademark: 1,584,036   | March 29, 2000     |
| YES WARE (& Design)   | Community Trademark: 1,431,295   | December 20, 1999  |
| ELMO                  | Community Trademark: 1,300,466   | September 6, 1999  |
| E (& Design)          | Community Trademark: 1,137,017   | April 13, 1999     |
| YESWARE               | Community Trademark: 1,137,025   | April 13, 1999     |
| INTERPROXY            | Community Trademark: 1,134,535   | April 12, 1999     |
| ELASTIC               | Community Trademark: 1,134,519   | April 12, 1999     |
| ELASTIC NETWORKS      | Community Trademark: 1,134,485   | April 12, 1999     |
| ETHERLOOP             | Hong Kong: 200006933             | March 31, 2000     |
| ELASTIC NETWORKS      | Hong Kong: 9904501               | April 13, 1999     |

|                    |                            |                   |
|--------------------|----------------------------|-------------------|
| INTERPROXY         | Hong Kong: 9904502         | April 13, 1999    |
| ELASTIC            | Hong Kong: 9904503         | April 13, 1999    |
| E (& Design)       | Hong Kong: 9904673         | April 13, 1999    |
| YESWARE            | Hong Kong: 9904674         | April 16, 1999    |
| YESWARE (& Design) | Hong Kong: 9919207         | December 22, 1999 |
| ELMO               | Hong Kong: 9912337         | September 8, 1999 |
| ETHERLOOP          | Korea: 40-2000-0009448     | April 3, 1999     |
| ELASTIC NETWORKS   | Korea: 40-2000-0002442     | January 19, 2000  |
| INTERPROXY         | Korea: 40-2000-0013866     | March 22, 2000    |
| ELASTIC            | Korea: 40-2000-0002439     | January 19, 2000  |
| E (& Design)       | Korea: 40-2000-0002438     | January 19, 2000  |
| YESWARE            | Korea: 40-2000-0002441     | January 19, 2000  |
| YESWARE (& Design) | Korea: 40-2000-0002437     | January 19, 2000  |
| ELMO               | Korea: 40-2000-0002440     | January 19, 2000  |
| SPECTRUM MANAGER   | Korea: 40-2000-0012263     | March 15, 2000    |
| ETHERLOOP          | China: no number available |                   |
| ELASTIC NETWORKS   | China: 2000025494          | March 7, 2000     |
| INTERPROXY         | China: 2000040989          | March 7, 2000     |
| ELASTIC            | China: 2000025493          | March 7, 2000     |
| E (& Design)       | China: 2000025492          | March 7, 2000     |
| YESWARE            | China: 2000025495          | March 7, 2000     |
| YESWARE (& Design) | China: 2000025497          | March 7, 2000     |
| ELMO               | China: 2000025496          | March 7, 2000     |
| SPECTRUM MANAGER   | China: no number available |                   |

## COMMON LAW TRADEMARKS

The Borrower claims common law trademark protection for the following trademarks: ELITE, STORM SYSTEM, STORM SHELTER and HIGH SPEED CONNECTIVITY. NO BOUNDARIES.

## COPYRIGHTS

| Copyright  | Jurisdiction and Registration No. | Registration Date |
|--|-----------------------------------|-------------------|
| Downloader Software and All Associated Documentation | N/A                               | N/A               |
| EtherCraft Software and All Associated Documentation | N/A                               | N/A               |

SCHEDULE IV  
to Security Agreement

**CLAIMS AGAINST BORROWER CONCERNING TRADEMARKS**

Borrower's application to register the trademark YesWare in the United States is being opposed by Halfmoon Systems. Borrower is currently considering whether to continue prosecuting the application for this trademark or to select a different trademark.



# DEWEY BALLANTINE LLP

1301 AVENUE OF THE AMERICAS  
NEW YORK 10019-6092  
TEL 212 259-8000 FAX 212 259-6333

August 8, 2000

## VIA FEDERAL EXPRESS

Commissioner of Patents and Trademarks  
Box Assignments  
Washington, DC 20231

Re: Elastic Networks Inc.

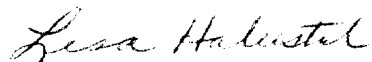
Dear Commissioner:

Enclosed for recordation are the following:

1. Recordation Form Cover Sheet for Patents; and
2. Recordation Form Cover Sheet for Trademarks.

Also enclosed are checks for the applicable recordation fees. Please call me at (212) 259-6833 if you have any questions concerning the foregoing. Thank you.

Very truly yours,



Lisa Halustick

Enclosures