

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the Rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Expenses. If Lender institutes any suit or action to enforce any of the terms of this Agreement, Lender shall be entitled to recover such sum as the court may adjudge reasonable. Whether or not any court action is involved, and to the extent not prohibited by law, all reasonable expenses Lender incurs that in Lender's opinion are necessary at any time for the protection of its interest or the enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest at the Note rate from the date of the expenditure until repaid. Expenses covered by this paragraph include, without limitation, however subject to any limits under applicable law, Lender's expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services, to the extent permitted by applicable law. Grantor also will pay any court costs, in addition to all other sums provided by law.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by, construed and enforced in accordance with federal law and the laws of the Commonwealth of Pennsylvania. This Agreement has been accepted by Lender in the Commonwealth of Pennsylvania.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of Schuylkill County, Commonwealth of Pennsylvania.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Unless otherwise provided by applicable law, any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by

giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided by applicable law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Additional Authorizations. Grantor hereby authorizes Lender, with full power of substitution, to execute in Grantor's name any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties and, without further authorization from Grantor, to file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. It is understood and agreed that any exercise of this authorization by Lender shall be on behalf of Lender and not on behalf of Grantor. Lender is not an agent or fiduciary of Grantor. However, in exercising the authorization granted hereby, Lender shall exercise reasonable caution and prudence and Lender shall keep full and accurate record of all actions, receipts and disbursements.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successor Interests. The terms of this Agreement shall be binding upon Grantor, and upon Grantor's heirs, personal representatives, successors, and assigns, and shall be enforceable by Lender and its successors and assigns.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party. (Initial Here _____)

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Account. The word "Account" means a trade account, account receivable, other receivable, or other right to payment for goods sold or services rendered owing to Grantor (or to a third party grantor acceptable to Lender).

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means Leather U.S.A. LLC, and all other persons and entities signing the Note in whatever capacity.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Default. The word "Default" means the Default set forth in this Agreement in the section titled "Default".

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means Leather U.S.A. LLC.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Indebtedness.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. The liens and security interests created pursuant to this Agreement covering the Indebtedness which may be created in the future shall relate back to the date of this Agreement.

Lender. The word "Lender" means Sovereign Bank, its successors and assigns.

Note. The word "Note" means the Note executed by Leather U.S.A. LLC in the principal amount of \$500,000.00 dated 4/24/12, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS

COMMERCIAL SECURITY AGREEMENT (Continued)

TERMS. THIS AGREEMENT IS DATED 4/24/02

THIS AGREEMENT IS GIVEN UNDER SEAL AND IT IS INTENDED THAT THIS AGREEMENT IS AND SHALL CONSTITUTE AND HAVE THE EFFECT OF A SEALED INSTRUMENT ACCORDING TO LAW.

GRANTOR:

LEATHER U.S.A. LLC

By: Bruce Carmel (Seal)
Bruce Carmel, CEO of Leather U.S.A. LLC

LENDER:

SOVEREIGN BANK

X
Authorized Signer



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Department of State

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Debtor Information

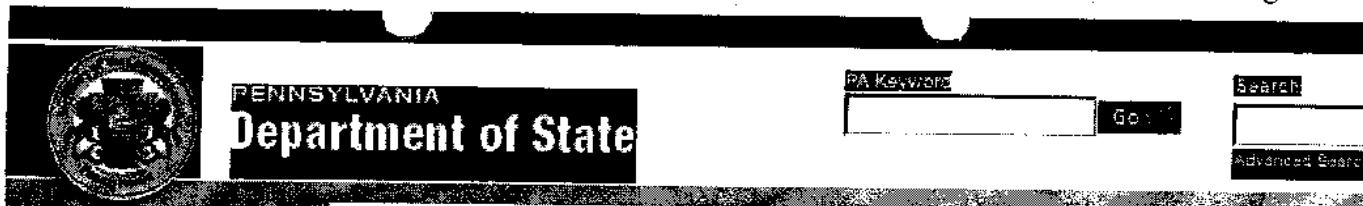
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FINANCING STATEMENT NUMBER: 36220988

Debtor Name	Address	City	State
LEATHER USA LLC	480 WEST FIFTH STREET	BLOOMSBURG	PA

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Secured Party Information

[UCC Free Search](#)[UCC Online Filing](#)[Bureau Staff](#)**FINANCING STATEMENT NUMBER: 36220988**

Secured Party Name	Address	City	State
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SOVEREIGN BANK	120 SOUTH CENTRE STREET	POTTSTOWN	PA
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[UCC Free Search](#)[UCC Online Filing](#)[Bureau Staff](#)**FINANCING STATEMENT NUMBER: 36220988****FILING DATE AND TIME**

5/8/2002 4:41:00 PM

MATURITY DATE

05/08/2007

MICROFILM NUMBER

36220988

NO. OF ADDITIONAL SHEETS

0

NO. OF AMENDMENTS[Debtor Information](#) [Secured Party Information](#)[History of Changes](#)[Home](#) | [Site Map](#) | [Site Feedback](#) | [View as Text Only](#) | [Employment](#)

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George J. Shoop, Esquire
Direct Dial Number: 610.376.6651, ext. 244
E-mail: gshoop@barley.com

May 10, 2004

Certified Mail- Return Receipt Requested

Certified Article Number

7160 3901 9844 1090 6217

SENDERS RECORD

Leather U.S.A. LLC
480 West Fifth Street
Bloomsburg, PA 17815
Attn: Mr. Bruce Carmel

Re: **Sovereign Bank**

Dear Mr. Carmel:

Please be advised that this office represents Sovereign Bank. It is my understanding that Leather U.S.A. LLC entered into a demand loan ("Loan") in the original principal sum of \$500,000.00 with the Bank, and executed certain loan documentation in support thereof. Included in the loan documentation was a certain demand promissory note dated April 24, 2002.

In accordance with the provisions of said loan documentation, Sovereign Bank is hereby demanding that the entire balance of the Loan be immediately due and payable. As of May 5, 2004, the demanded balance is itemized as follows:

<u>Loan # 51235120-42</u>	
Principal balance	\$500,000.00
Accrued and unpaid interest (to and including 5/5/04)	687.50
Total	\$500,687.50

Interest continues to accrue after May 5, 2004 at the rate of \$62.50 per day.

Demand is hereby made upon Leather U.S.A. LLC to pay to Sovereign Bank the aforesaid balance of \$500,687.50, plus interest accruing after May 5, 2004, within twenty (20) days of the date of this letter, and with a copy of this letter, demand for full payment is also being made upon the sureties, Bruce Carmel and Sherry Carmel, individually. Absent payment in full, as aforesaid, I have been authorized to proceed to exercise such legal rights and remedies as are

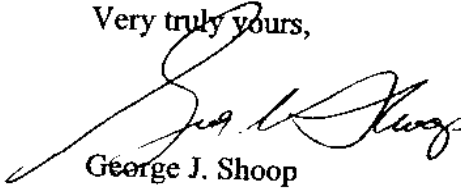
Leather U.S.A. LLC

May 10, 2004

Page 2

appropriate to effectuate the rights of my client. Sovereign Bank reserves the right to exercise its remedies prior to the expiration of the twenty (20) day period if it deems it prudent to protect its interests in its collateral. The Borrower and the sureties will be responsible for all costs, fees, and expenses associated with such exercise. Your actions should be governed accordingly.

Very truly yours,

A handwritten signature in dark ink, appearing to read "George J. Shoop", written over a horizontal line.

George J. Shoop

GJS/dls:1271863_1.DOC

cc: Sovereign Bank, Attention, Rick Spinicci, V.P.

 Bruce Carmel, individually

 Sherry Carmel, individually

7160 3901 9844 1090 6217

TO: Leather U.S.A. LLC

Attn: Mr. Bruce Carmel
480 West Fifth Street
Bloomsburg, PA 17815

SENDER: George J. Shoop, Esquire

REFERENCE: SB/LeatherSource

PS Form 3800, June 2000

**RETURN
RECEIPT
SERVICE**

Postage	37
Certified Fee	2.30
Return Receipt Fee	1.75
Restricted Delivery	
Total Postage & Fees	4.42

US Postal Service

**Receipt for
Certified Mail**

No Insurance Coverage Provided
Do Not Use for International Mail



2. Article Number



7160 3901 9844 1090 6217

3. Service Type **CERTIFIED MAIL**

4. Restricted Delivery? (Extra Fee) ☐ Yes

1. Article Addressed to:

Leather U.S.A. LLC
Attn: Mr. Bruce Carmel
480 West Fifth Street
Bloomsburg, PA 17815

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

C. Signature

X

D. Is delivery address different from item 17?
If YES, enter delivery address below:

☐ Agent
☐ Address
☐ Yes
☐ No

Reference Information

SB/LeatherSource

George J. Shoop, Esquire

VERIFICATION

I, RICHARD SPINELLI, hereby verify that I am a
VICE PRESIDENT of Sovereign Bank, the Plaintiff in the within
matter, that I am authorized to execute this Verification on its behalf, and that the facts set forth
in the within Complaint are true and correct to the best of my knowledge, information and belief.
I understand that false statements herein are made subject to the penalties of 18 Pa. C.S. Section
4904 relating to unsworn falsification to authorities.

Date: 7/8/04Richard Spinelli, VP

REPORT DATE: 06/04/04

ALL AYA LE LOTS

PAGE: 1

LOT NUMBER	ITEM NUMBER	DESCRIPTION	ON HAND	SOLD IELS
CK795D-2NB	80LF10TJY	LF Granite	35.75	
CK798F-2N6	61LF10TJX	LF FOREST	26.24	
CK879A	70FF08TCK	FF Black	129.25	
CY701D	70CS18BCY	CS Black	969.70	
CY701D	72MI10TCY	MI Misc Colors	1,792.40	
CY701D	72MI10TCY	MI Misc Colors	501.50	
CY701D-1C7	70CA11TJX	CA BLACK	2,549.50	
CY701D-1C7	70FF10TKK	FF Black	1,928.00	
CY701D-2N1	14FF10TGP	FF Cognac	409.00	
DE883A	10VM18TDB	VM RUSSETT	35.90	
DF916B	11LF10TDF	LF Canyon	66.00	
DF916B	11LF10TDF	LF Canyon	197.50	
DF925U	31NA14TDF	NA Chocolate	26.25	
GN654A	70NA10CGM	NA Black	29.00	
GN684A	72MI10TGM	MI Misc Colors	1,899.75	
GN686	72MI10TGM	MI Misc Colors	113.25	
GN686A	72MI10TGM	MI Misc Colors	5.70	
GN686A	72MI10TGM	MI Misc Colors	6,167.58	
GN686A	72MI10TGM	MI Misc Colors	68.75	
GN686A	72MI10TGM	MI Misc Colors	754.50	
GU154H	70LF20TGD	LF Black	188.50	
HC691A	92CS10THC	CS Pearl	127.50	
HC695A	70FF06THC	FF Black	623.75	
HC696B	72LF10THC	LF Misc Colors	54.50	
HC901A	92CS10THC	CS Pearl	227.90	
HC903L	70FF10THC	FF Black	140.50	
HC905B	31NA10THC	NA Hershey	6.00	
HC908A	92CS10THC	CS Pearl	87.00	
HC908B	70FF06THC	FF Black	288.00	
HC908B	92CS10THC	CS Pearl	48.00	
HC910A	44RP10TBP	RP Red	206.00	
HC913A	44FF10TGP	FF Red	84.95	
HC927A	71MP00THG	MP Grey Steering Wheel Covers	300.00	
HG209A-1C6	70NA10THD	NA Black	142.75	
HG456A-1C7	81LF10TFT	LF TAUPE	18.00	
HJ095A	60LF10THJ	LF Green	186.25	
HK592A	70CS24THK	CS Black	29.75	
HQ508A	22NA10THQ	NA NUT BROWN	44.00	
II129F	72LF10BII	LF Misc Colors	272.00	
II177F	11LF12TII	LF CANYON	69.00	
II860A	72MI05TII	MI Misc Colors	168.75	
IJ154D	60LF20TII	LF Green	100.25	
IJ501B	92CS12TII	CS Pearl	286.20	
IX151I	70BF20TIX	BF Black	21.50	
JB025F	10VF13TJB	VP RUSSETT	74.50	

LOT NUMBER	ITEM NUMBER	DESCRIPTION	ON HAND	SOLD/SLD
JB288A	31NP10TJB	NP Hershey	23.00	
JB289A	14NP10TJB	NP Cognac	201.25	
JB293A	22NP10TJB	NP Brown	347.07	
JB294A	51NP10TJB	NP Navy	679.50	
JB295A	50NP10TJB	NP Green	355.00	
JB296A	11NP10TJB	NP Canyon	48.75	
JB572A	80NP10TJB	NP GRANITE	512.50	
JB609A	32NP10TJB	NP CHESTNUT	28.66	
JB650B	40NP10TJB	NP Burgundy	422.86	
JB650D	48NP10TJB	NP Lambrusco	491.50	
JB650F	32NP10TJB	NP CHESTNUT	67.75	
JB670C	70NP10TJB	NP Black	767.25	
JB689B	31NP10TJB	NP Hershey	210.50	
JB689C	22NP10TJB	NP Brown	575.25	
JB732A	24NP10TJB	NP BRANDY	211.00	
JB801A	24NP10TJB	NP BRANDY	94.00	
JB868A	10VP13TJB	VP RUSSETT	293.40	
JB869A	21VP18TJB	VP MED. BROWN	461.50	
JB894A	70VP13TZZ	VP BLACK	37.70	
JB894B	51VP10TQ	VP Navy	45.25	
JB894D	14VM19TZZ	VM Cognac	50.90	
JB894E	10VP13TZZ	JB Natural Croco	39.80	
JB917A	40VP11TZZ	VP Burgundy Croco	424.15	
JB917A	40VP11TZZ	VP Burgundy Croco	20.00	
JB917B	10VP11TZZ	VP Natural Tan	401.00	
JB917C	21VP13TZZ	VP Medium Brown	152.70	
JB917C	21VP13TZZ	VP Medium Brown	89.20	
JB917C	21VP13TZZ	VP Medium Brown	23.00	
JB917D	70VP13TZZ	VP BLACK	15.15	
JB917E	70VP10TZZ	VP BLACK	141.25	
JB917F	40FP20TJR	FP Burgundy	1,102.50	
JB917G	10VP11TZZ	VP Natural Tan	19.45	
JB917H	40VP10TZZ	VP Burgundy	382.00	
JB917I	21VP13TZZ	VP Medium Brown	67.05	
JB917J	70VP10TZZ	VP BLACK	107.25	
JB917J	70VP10TZZ	VP BLACK	30.25	
JB917J	70VP10TZZ	VP BLACK	23.00	
JB918A	11NP10TKZ	NP Canyon	399.75	
JB918B	17NP10TCY	NP Golden	1,628.50	
JB918C	32VP18TZZ	VP Chestnut	114.75	
JB918D	51VP10TZZ	VP Navy	382.75	
JB918E	21VP14TZZ	VP Medium Brown	49.50	
JB918E	40VP10TZZ	VP Burgundy	486.27	
JB918G	70VP18TZZ	VP Black	45.55	
JB918G	70VP18TZZ	VP Black	337.50	

LOT NUMBER	ITEM NUMBER	DESCRIPTION	ON HAND	SOLD/CLS
JB918H	10VP12TZL	VP Natural Tan	158.65	
JB918I	21VP14TZL	VP Medium Brown	26.00	
JB918J	11FP10TLH	FP Green	17.75	
JB918K	14FP10TLH	FP Cognac	17.00	
JB923I	21VP12TZL	VP Medium Brown	42.20	
JB925L	21NP10TKY	NP Medium Brown	43.25	
JB925H	21NP16TZL	NP Medium Brown	44.90	
JD162K	70SF16TJD	SF Black	17.00	
JE927B	92WB10GJE	WB Pearl	4,500.00	
JF127A	70NA10CJF	NA Black	177.07	
JJ405H	70SF20TJJ	SF Black	20.00	
JJ498C	91FF14TJJ	FF White	3,789.45	
JJ498C	91FF14TJJ	FF White	23.00	
KH607A	70CS18TKH	CS Black	31.00	
KH569A	70CS12TKH	CS Black	109.25	
KN722B-1C9	31LF14TGP	LF MERSHEY	30.00	
KRB12A	72CH08TKR	CH (Misc Colors)	490.25	
KU763A-1NB	80LF08TJK	LF Granite	302.00	
KV230A	72MI10TKV	MI Misc Colors	47.00	
KI734B	92CH10TKI	CH PEARL	135.80	
KZ873A	92CH10TKZ	CH PEARL	122.75	
LC792A	72MI11TLC	MI Misc Colors	284.75	
LC826A-2N3	32LF09TGP	LF CHESTNUT	14.25	
L8786C	14FP14TLG	FP Cognac	20.00	
LH832A	93NA10TLH	NA Cream	29.00	
LH853A	70FF12TLH	FF Black	82.75	
LH854B-1H7	70FF10TGP	FF Black	269.25	
LH874D	92DE06TLH	DE RAWHIDE	36.00	
LH877A	70NA11TLH	NA Black	5.00	
LH834C	60BU13TLH	BU GREEN	765.40	
LH834D	14BU13TLH	BU Cognac	611.30	
LP881A	92CH10TLP	CH Pearl	312.85	
LB902A	72LF08TLQ	LF Misc.Colors	140.25	
Q156B	40VP10TQ	VP Burgundy	733.25	
Q156B	51VP10TQ	VP Navy	1,181.50	
Q157C	10SP12TQ	SP RUSSETT	956.00	
Q159A	72PS10TQ	PS Misc Colors	15,907.70	
QA926A	72MI13SQA	MI Misc.Colors	1,160.00	
QA926B	72MI13SQA	MI Misc.Colors	4,200.00	
QA926C	72MI13SQA	MI Misc.Colors	3,365.60	
QA926D	72MI13SQA	MI Misc.Colors	4,950.00	
QA926E	72MI13SQA	MI Misc.Colors	2,250.00	
QA926F	72MI13SQA	MI Misc.Colors	1,200.00	
W100A	70UF10TW	UF Black	43.70	
XC629C	72UF10TXC	UF Misc Colors	445.75	

LOT NUMBER	ITEM NUMBER	DESCRIPTION	ON HAND	SOLD:GLS
XC639D	32NH40TKC	NH DARK BROWN	278.25	
XE650A	51FF13TIE	FF Navy	28.25	
XE915A	24NA10TIE	NA Brandy	87.70	
XE915A	24NA10TIE	NA Brandy	109.50	
XE915A	24NA10TIE	NA Brandy	113.00	
XE919A	31NA11TIE	NA Brown	4.25	
XE919A	31NA11TIE	NA Brown	44.00	
XE919B	24NA11TIE	NA Brandy	57.75	
ZZ001F	40VM14TZZ	VM SADDLE	59.90	
ZZ002B-2V2	21VF18TGP	VF MED. BROWN	500.30	
ZZ002E	21VS12TZZ	VS MED. BROWN	187.80	
ZZ004D	51VP19TZZ	VP Navy	1,048.10	
ZZ004D	51VP13TZZ	VP Navy	126.00	
ZZ004D	70VP13TZZ	VP BLACK	1,387.95	
ZZ007A-1V2	70VM19TZZ	VM BLACK	1,044.25	
ZZ007A-2V7	70VF16TGP	VF BLACK	211.75	
ZZ007A-2V7	70VF17TGP	VF BLACK	96.25	
ZZ007A-V2	70VM12TZZ	VM BLACK	41.20	
ZZ009K-1V4	40FF10TJX	FF BURGUNDY	1,380.50	
ZZ010A	21VM18TZZ	VM MED. BROWN	718.10	
ZZ012A	10VM14TZZ	VM RUSSETT	1,672.30	
ZZ012A	14VF14TGP	VF Cognac	195.80	
ZZ012A	14VF14TGP	VF Cognac	66.10	
ZZ014B-1V2	24VF18TGP	VF BROWN	2,560.25	
ZZ014B-1V2	30VF18TGP	VF CHOCOLATE	682.25	
ZZ015B-1V2	30VF14TGP	VF CHOCOLATE	159.40	
ZZ016A	10VS09TZZ	VS RUSSETT	44.00	
ZZ016A	10VS14TZZ	VS RUSSETT	582.85	
ZZ017A-1V1	11VF13TGP	VF Tan	1,479.50	
ZZ017B	10VM13TZZ	VM RUSSETT	1,177.00	
ZZ017B	10VM13TZZ	VM RUSSETT	308.90	
ZZ017B	10VM13TZZ	VM RUSSETT	20.90	
ZZ017C-1V1	10VM15TZZ	VM RUSSETT	531.30	
ZZ019A-1V2	21VF19TJX	VF MED. BROWN	1,042.50	
ZZ019A-1V2	40VF19TJX	VF BURGUNDY	1,265.00	
ZZ021A-1V2	30VF18TJX	VF CHOCOLATE	881.65	
ZZ021A-1V2	40FF18TJX	FF BURGUNDY	99.50	
ZZ022C	70VB11TZZ	VS BLACK	89.40	
ZZ022E	13VM18TZZ	VM TAN	84.00	
ZZ022I	70VS12TZZ	VS BLACK	41.00	
ZZ023E	72VS14TZZ	VS MISC.	91.70	
ZZ024A	10VS12TZZ	VS RUSSETT	477.20	
ZZ024B	10VS12TZZ	VS RUSSETT	107.25	
ZZ024B	10VB18TZZ	VS RUSSETT	366.10	
ZZ024B	10VS16TZZ	VS RUSSETT	91.10	

LOT NUMBER	ITEM NUMBER	DESCRIPTION	ON HAND	SOLD:BLS
11024J	21VS1471Z	VS MED. BROWN	1,502.80	
11025B-1V2	35VF1611J	VF DARK BROWN	741.50	
11025E	72VS1471Z	VS MISC.	102.00	
11025F-1V1	10VM1371Z	VM RUSSETT	2,548.70	
11025F-1V1	14VF1370P	VF COGNAC	82.00	
11026E	21VS1471Z	VS MED. BROWN	45.00	
11026J	72VF1871Z	VF MISC.	192.50	
11028A	70VM1471Z	MI MISC.	542.30	
11029A	70VM1471Z	MI MISC.	234.90	
11028A-1V7	70VF1470P	VF BLACK	61.00	
11029A-1V7	70VM1271Z	VM BLACK	1,176.40	
11746A	10SP1271Z	SP RUSSETT	69.00	
11895A	70VF1470P	VF BLACK	1,400.70	
11899A	70VF1870P	VF BLACK	866.70	
11899A	70VF1870P	VF BLACK	61.75	
11913C	30VF1870P	VF CHOCOLATE	489.50	
11913D	30VF1880P	VF Chocolate	1,308.20	
11925A	40VM1207Z	VM Burgundy	7,575.35	
11925B	21VM1607Z	VM Medium Brown	1,940.40	
11925B	21VM1607Z	VM Medium Brown	4,615.20	
11925B	21VM1607Z	VM Medium Brown	164.30	
11925C	10VS1271Z	VS RUSSETT	3,725.70	
11925D	21VM1607Z	VM Medium Brown	389.40	
11925E	70VM1671Z	VM Black	439.10	
11925F	70VM1271Z	VM BLACK	326.40	
11925G	70VM1271Z	VM BLACK	780.65	
11925H	70VM1471Z	VM BLACK	712.50	
11925H	70VM1471Z	VM BLACK	180.80	
11925D	13VM1171Z	VM Tan	1,506.60	
11925P	70VM1407Z	VM Black	492.40	
11925P	70VM1407Z	VM Black	85.20	
11925S	70VF1307Z	VF Black	1,452.00	
11925T	70VM1307Z	VM Black	648.70	

143,685.60 FEET AVAILABLE IN 213 VALUE LOTS

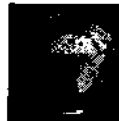


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U N D E R C O N S T R U C T I O N

<p>SOVEREIGN BANK,</p> <p style="text-align: center;"><i>Plaintiff</i></p> <p style="text-align: center;">v.</p> <p>LEATHERSOURCE, INC., and LEATHER U.S.A., LLC,</p> <p style="text-align: center;"><i>Defendants</i></p>	<p>COURT OF COMMON PLEAS OF COLUMBIA COUNTY, PENNSYLVANIA</p> <p>No. _____</p> <p>ACTION IN REPLEVIN</p>
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REPLEVIN BOND

Given by Sovereign Bank, as Obligor, to the Commonwealth of Pennsylvania, as Obligee. The Obligor is bound unto the Obligee in the sum of \$100,000.00, for the payment of which the Obligor binds itself and its successors and assigns.

The condition of this obligation is such that if the Obligor shall fail to maintain its right to possession of certain property pursuant to that certain Writ of Seizure before judgment issued in the pending, above-captioned civil action, which property is all of Defendant LeatherSource, Inc.'s inventory, chattel paper, accounts, equipment and general intangibles and all of Leather U.S.A., LLC's inventory and accounts, as averred in the underlying civil complaint, and which property is in the possession of Defendants LeatherSource, Inc. and Defendant Leather U.S.A., LLC, Obligor shall pay to the party entitled thereto the value of the property and all legal costs and damages sustained by reason of the issuance of said Writ of Seizure before judgment in this civil action.

IN WITNESS WHEREOF, the Obligor has executed and delivered this Replevin Bond
on July 8, 2004.

SOVEREIGN BANK

By: [Signature] VP

"Obligor"

VERIFICATION

I, RICHARD SPINICCI, hereby verify that I am a
VICE PRESIDENT of Sovereign Bank, the Plaintiff in the within
matter, that I am authorized to execute this Verification on its behalf, and that the facts set forth
in the within Motion are true and correct to the best of my knowledge, information and belief. I
understand that false statements herein are made subject to the penalties of 18 Pa. C.S. Section
4904 relating to unsworn falsification to authorities.

Date: 7/8/04Richard Spinicci, VP

Certified from the records this
9th Day of July A.D. 2004
TAMI B. KLINE, PROTHONOTARY
Per [Signature]

BARLEY SNYDER
George J. Shoop, Esquire
Shawn M. Long, Esquire
Court I.D. No. 25367
Court I.D. No. 83774
501 Washington Street, P.O. Box 942
Reading, PA 19603
(610) 376-6651

Proth. & Clk. Of Sev. Courts
My Com. Ex. 1st Mon. Jan 2008

Attorneys for Plaintiff
Sovereign Bank

<p>SOVEREIGN BANK,</p> <p style="text-align: right;"><i>Plaintiff</i></p> <p style="text-align: center;">v.</p> <p>LEATHERSOURCE, INC., and LEATHER U.S.A., LLC,</p> <p style="text-align: right;"><i>Defendants</i></p>	<p>COURT OF COMMON PLEAS OF COLUMBIA COUNTY, PENNSYLVANIA</p> <p>No. <u>2004 - CV - 743</u></p> <p>ACTION IN REPLEVIN</p>
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NOTICE TO DEFEND
Pursuant to PA RCP No. 1018.1

YOU HAVE BEEN SUED IN COURT. If you wish to defend against the claims set forth in the following pages, you must take action within twenty (20) days after this Complaint and Notice are served, by entering a written appearance personally or by attorney and filing in writing with the Court your defenses or objections to the claims set forth against you. You are warned that if you fail to do so the case may proceed without you and a judgment may be entered against you by the Court without further notice to you for any money claimed in the Complaint or for any other claim or relief requested by Plaintiff(s). You may lose money or property or other rights important to you.

YOU SHOULD TAKE THIS PAPER TO YOUR LAWYER AT ONCE. IF YOU DO NOT HAVE A LAWYER, GO TO OR TELEPHONE THE OFFICE SET FORTH BELOW. THIS OFFICE CAN PROVIDE YOU WITH INFORMATION ABOUT HIRING A LAWYER.

IF YOU CANNOT AFFORD TO HIRE A LAWYER, THIS OFFICE MAY BE ABLE TO PROVIDE YOU WITH INFORMATION ABOUT AGENCIES THAT MAY OFFER LEGAL SERVICES TO ELIGIBLE PERSONS AT A REDUCED FEE OR NO FEE.

Susquehanna Valley Legal Services
168 East Fifth Street
Bloomsburg, PA 17815
(717) 784-8760

Pennsylvania Lawyer Referral Service
Pennsylvania Bar Association
P.O. Box 186
Harrisburg, PA 17108
(717) 692-7375

Effective September 1, 2003

2004 JUL -9 A 9 17

BARLEY SNYDER
George J. Shoop, Esquire
Shawn M. Long, Esquire
Court I.D. No. 25367
Court I.D. No. 83774
501 Washington Street, P.O. Box 942
Reading, PA 19603
(610) 376-6651

Attorneys for Plaintiff
Sovereign Bank

<p>SOVEREIGN BANK,</p> <p style="text-align: right;"><i>Plaintiff</i></p> <p style="text-align: center;">v.</p> <p>LEATHERSOURCE, INC., and LEATHER U.S.A., LLC,</p> <p style="text-align: right;"><i>Defendants</i></p>	<p>COURT OF COMMON PLEAS OF COLUMBIA COUNTY, PENNSYLVANIA</p> <p>No. _____</p> <p>ACTION IN REPLEVIN</p>
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COMPLAINT

1. Plaintiff, Sovereign Bank ("Sovereign"), is a federal savings bank, with an address of 601 Penn Street, Reading, Berks County, Pennsylvania.
2. Defendant, LeatherSource, Inc. ("LeatherSource"), is a Pennsylvania corporation, with an address of 480 West Fifth Street, Bloomsburg, Columbia County, Pennsylvania.
3. Defendant, Leather U.S.A., LLC ("Leather U.S.A."), is a Pennsylvania limited liability company, with an address of 480 West Fifth Street, Bloomsburg, Columbia County, Pennsylvania.
4. Both LeatherSource and Leather U.S.A. have a place of business at 480 West Fifth Street, Bloomsburg, Columbia County, Pennsylvania.

5. Both LeatherSource and Leather U.S.A. engage in the business of buying and selling leather.

6. The President of both LeatherSource and Leather U.S.A. is Bruce Carmel.

7. LeatherSource executed and delivered to Sovereign a Promissory Note in favor of Sovereign dated March 23, 2001 in the original principal amount of \$750,000.00, a Promissory Note Addendum One dated March 23, 2001, and a Note Modification Agreement dated August 12, 2002 increasing the principal amount of such Promissory Note to \$900,000.00 (collectively, the "LeatherSource Note"). A true and correct copy of the LeatherSource Note is attached hereto as Exhibit "A" and incorporated herein by reference.

8. Under the LeatherSource Note, the unpaid principal balance and all accrued unpaid interest is payable immediately upon Sovereign's demand.

9. All of LeatherSource's indebtedness to Sovereign including, but not limited to, the indebtedness under the LeatherSource Note is secured by a Commercial Security Agreement (the "LeatherSource Security Agreement") which grants Sovereign a security interest in all of LeatherSource's inventory, chattel paper, accounts, equipment and general intangibles (the "LeatherSource Collateral"). A true and correct copy of the LeatherSource Security Agreement is attached hereto as Exhibit "B" and incorporated herein by reference.

10. Sovereign's perfected security interest in the LeatherSource Collateral is evidenced by a U.C.C. filing with the Commonwealth of Pennsylvania, a copy of which is attached hereto as Exhibit "C" and incorporated herein by reference.

11. By letter dated May 10, 2004, Sovereign demanded LeatherSource's payment of

the entire balance of the LeatherSource Note in the amount of \$891,335.00, which included the principal balance of \$890,000.00 and accrued and unpaid interest of \$1,335.00. A true and correct copy of Sovereign's May 10, 2004 demand letter is attached hereto as Exhibit "D" and incorporated herein by reference.

12. Despite Sovereign's demand and despite the terms and conditions of the LeatherSource Note, LeatherSource has failed to pay Sovereign the balance of the LeatherSource Note.

13. The balance due and owing on the LeatherSource Note, as of July 1, 2004, is \$894,456.18, which includes a principal balance of \$890,000.00 and accrued and unpaid interest of \$4,456.18.

14. LeatherSource's failure to pay Sovereign the balance of the LeatherSource Note constitutes a default under the LeatherSource Note.

15. As a result of LeatherSource's default under the LeatherSource Note, Sovereign is entitled to immediate possession of the LeatherSource Collateral.

16. Leather U.S.A. executed and delivered to Sovereign a Promissory Note in favor of Sovereign dated April 24, 2002 in the original principal amount of \$500,000.00 (the "Leather U.S.A. Note"). A true and correct copy of the Leather U.S.A. Note is attached hereto as Exhibit "E" and incorporated herein by reference.

17. Under the Leather U.S.A. Note, the unpaid principal balance and all accrued unpaid interest is payable immediately upon Sovereign's demand.

18. All of Leather U.S.A.'s indebtedness to Sovereign including, but not limited to,

the indebtedness under the Leather U.S.A. Note is secured by a Commercial Security Agreement (the "Leather U.S.A. Security Agreement") which grants Sovereign a security interest in all of Leather U.S.A.'s inventory and accounts (the "Leather U.S.A. Collateral"). A true and correct copy of the Leather U.S.A. Security Agreement is attached hereto as Exhibit "F" and incorporated herein by reference.

19. Sovereign's perfected security interest in the Leather U.S.A. Collateral is evidenced by a U.C.C. filing with the Commonwealth of Pennsylvania, a copy of which is attached hereto as Exhibit "G" and incorporated herein by reference.

20. By letter dated May 10, 2004, Sovereign demanded Leather U.S.A.'s payment of the entire balance of the Leather U.S.A. Note in the amount of \$500,687.50, which included the principal balance of \$500,000.00 and accrued and unpaid interest of \$687.50. A true and correct copy of Sovereign's May 10, 2004 demand letter is attached hereto as Exhibit "H" and incorporated herein by reference.

21. Despite Sovereign's demand and despite the terms and conditions of the Leather U.S.A. Note, Leather U.S.A. has failed to pay Sovereign the balance of the Leather U.S.A. Note.

22. The balance due and owing on the Leather U.S.A. Note, as of July 1, 2004, is \$502,440.97, which includes a principal balance of \$500,000.00 and accrued and unpaid interest of \$2,440.97.

23. Leather U.S.A.'s failure to pay Sovereign the balance of the Leather U.S.A. Note constitutes a default under the Leather U.S.A. Note.

24. As a result of Leather U.S.A.'s default under the Leather U.S.A. Note, Sovereign

is entitled to immediate possession of the Leather U.S.A. Collateral.

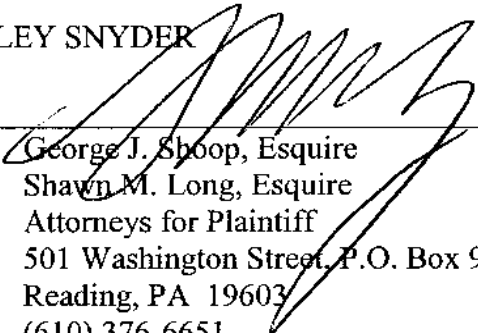
25. Upon information and belief, the present fair market wholesale value of the LeatherSource Collateral and the Leather U.S.A. Collateral (collectively, the "Collateral") is approximately \$50,000.00.

26. Upon information and belief, LeatherSource and Leather U.S.A. have possession and control of the Collateral at 480 West Fifth Street, Bloomsburg, Columbia County, Pennsylvania.

WHEREFORE, Plaintiff, Sovereign Bank, demands judgment in replevin in its favor and against Defendants, LeatherSource, Inc. and Leather U.S.A., LLC, for possession of the Collateral, plus costs, special damages thereon in an amount to be determined, reasonable attorneys' fees, and such other relief as this Court deems just.

BARLEY SNYDER

By: _____


George J. Shoop, Esquire
Shawn M. Long, Esquire
Attorneys for Plaintiff
501 Washington Street, P.O. Box 942
Reading, PA 19603
(610) 376-6651
I.D. No. 25367
I.D. No. 83774

PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call	Collateral	Account	Officer	Initials
\$750,000.00	03-23-2001						66900	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: LeatherSource, Inc. (TIN: 23-2562902)
480 West Fifth Street
Bloomsburg, PA 17815

Lender: Sovereign Bank
Lewisburg Office
239 Market Street
Lewisburg, PA 17837

Principal Amount: \$750,000.00

Initial Rate: 8.500%

Date of Note: March 23, 2001

PROMISE TO PAY. LeatherSource, Inc. ("Borrower") promises to pay to Sovereign Bank ("Lender"), or order, in lawful money of the United States of America, on demand, the principal amount of Seven Hundred Fifty Thousand & 00/100 Dollars (\$750,000.00) or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment of each advance.

PAYMENT. Borrower will pay this loan immediately upon Lender's demand. In addition, Borrower will pay regular monthly payments of all accrued unpaid interest due as of each payment date, beginning April 23, 2001, with all subsequent interest payments to be due on the same day of each month after that. The annual interest rate for this Note is computed on a 365/360 basis; that is, by applying the ratio of the annual interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. Borrower will pay Lender at Lender's address shown above or at such other place as Lender may designate in writing. Unless otherwise agreed or required by applicable law, payments will be applied first to accrued unpaid interest, then to principal, and any remaining amount to any unpaid collection costs and late charges.

VARIABLE INTEREST RATE. The interest rate on this Note is subject to change from time to time based on changes in an index which is Lender's Prime Rate (the "Index"). This is the rate Lender charges, or would charge, on 90-day unsecured loans to the most creditworthy corporate customers. This rate may or may not be the lowest rate available from Lender at any given time. Lender will tell Borrower the current index rate upon Borrower's request. Borrower understands that Lender may make loans based on other rates as well. The interest rate change will not occur more often than each DAY. The index currently is 8.000% per annum. The interest rate to be applied to the unpaid principal balance of this Note will be at a rate of 0.500 percentage points over the Index, resulting in an initial rate of 8.500% per annum. NOTICE: Under no circumstances will the interest rate on this Note be more than the maximum rate allowed by applicable law.

PREPAYMENT. Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments of accrued unpaid interest. Rather, they will reduce the principal balance due.

LATE CHARGE. If a regularly scheduled interest payment is 10 days or more late, Borrower will be charged 5.000% of the unpaid portion of the regularly scheduled payment or \$25.00, whichever is greater. If Lender demands payment of this loan, and Borrower does not pay the loan within 10 days after Lender's demand, Borrower also will be charged either 5.000% of the unpaid portion of the sum of the unpaid principal plus accrued unpaid interest or \$25.00, whichever is greater.

DEFAULT. Borrower will be in default if any of the following happens: (a) Borrower fails to make any payment when due. (b) Borrower breaks any promise Borrower has made to Lender, or Borrower fails to comply with or to perform when due any other term, obligation, covenant, or condition contained in this Note or any agreement related to this Note, or in any other agreement or loan Borrower has with Lender. (c) Borrower defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the Related Documents. (d) Any representation or statement made or furnished to Lender by Borrower or on Borrower's behalf is false or misleading in any material respect either now or at the time made or furnished. (e) Borrower becomes insolvent, a receiver is appointed for any part of Borrower's property, Borrower makes an assignment for the benefit of creditors, or any proceeding is commenced either by Borrower or against Borrower under any bankruptcy or insolvency laws. (f) Any creditor tries to take any of Borrower's property on or in which Lender has a lien or security interest. This includes a garnishment of any of Borrower's accounts with Lender. (g) Any guarantor dies or any of the other events described in this default section occurs with respect to any guarantor of this Note. (h) A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the indebtedness is impaired. (i) Lender in good faith deems itself insecure.

LENDER'S RIGHTS. Upon default, Lender may, after giving such notices as required by applicable law, declare the entire unpaid principal balance on this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount. Upon default, including failure to pay upon final maturity, Lender, at its option, may also, if permitted under applicable law, increase the variable interest rate on this Note to 5.500 percentage points over the Index. The interest rate will not exceed the maximum rate permitted by applicable law. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower also will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law. If judgment is entered in connection with this Note, interest will continue to accrue on this Note after judgment at the interest rate applicable to this Note at the time judgment is entered. This Note has been delivered to Lender and accepted by Lender in the Commonwealth of Pennsylvania. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of Union County, the Commonwealth of Pennsylvania. This Note shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

RIGHT OF SETOFF. Borrower grants to Lender a contractual security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to Lender all Borrower's right, title and interest in and to, Borrower's accounts with Lender (whether checking, savings, or some other account), including without limitation all accounts held jointly with someone else and all accounts Borrower may open in the future, excluding however all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Borrower authorizes Lender, to the extent permitted by applicable law, to charge or sell off all sums owing on this Note against any and all such accounts.

COLLATERAL. This Note is secured by UCC's filed with the Secretary of the Commonwealth of Pennsylvania and Prothonotary of Columbia County Clerk's office with a lien on business assets of the Borrower; Assignment of Key-Man life insurance I/N/O Bruce Carmel I/A/O \$750,000.00; Personal guarantees of Bruce Carmel and Sherry Carmel; Cross-Collateralized and Cross-Defaulted with existing loans.

LINE OF CREDIT. This Note evidences a revolving line of credit. Advances under this Note may be requested orally by Borrower or by an authorized person. Lender may, but need not, require that all oral requests be confirmed in writing. All communications, instructions, or directions by telephone or otherwise to Lender are to be directed to Lender's office shown above. The following party or parties are authorized to request advances under the line of credit until Lender receives from Borrower at Lender's address shown above written notice of revocation of their authority: Bruce Carmel, President. Borrower agrees to be liable for all sums either: (a) advanced in accordance with the Instructions of an authorized person or (b) credited

03-23-2001

Loan No

PROMISSORY NOTE
(Continued)

Page 2

to any of Borrower's accounts with Lender. The unpaid principal balance owing on this Note at any time may be evidenced by endorsements on this Note or by Lender's internal records, including daily computer print-outs. Lender will have no obligation to advance funds under this Note if: (a) Borrower or any guarantor is in default under the terms of this Note or any agreement that Borrower or any guarantor has with Lender, including any agreement made in connection with the signing of this Note; (b) Borrower or any guarantor ceases doing business or is insolvent; (c) any guarantor seeks, claims or otherwise attempts to limit, modify or revoke such guarantor's guarantee of this Note or any other loan with Lender; (d) Borrower has applied funds provided pursuant to this Note for purposes other than those authorized by Lender; or (e) Lender in good faith deems itself insecure under this Note or any other agreement between Lender and Borrower.

THIS NOTE HAS AN ANNUAL 30 DAY CONSECUTIVE CLEAN UP PERIOD. It is a requirement of the Note that the Line of Credit maintains a zero balance for thirty (30) consecutive days during each twelve (12) month period following the closing date.

REQUEST FOR FINANCIALS. Borrower and Guarantor(s) agree to provide signed financial statements and tax returns on an annual basis. Failure to provide updated financial statements and tax returns shall be considered as a default of the Note.

COVENANTS AND CONDITIONS. Borrower will provide a monthly borrowing base certificate with advances limited to 80% of qualified receivables (less than 90 days past invoice date) and 60% of inventory. Inventory will exclude anything over 700 days old.

Borrower will provide a copy of their FYE statements on a "Compiled" basis on an annual basis.

Borrower will provide a copy of their corporate federal income tax return on an annual basis.

Borrower will provide company prepared financial statements. *QUARTERLY*

Borrower will provide accounts receivable aging on a quarterly basis.

Bruce Carmel will provide the bank with \$750M in life insurance assigned to the Bank.

~~Leather USA, LLC will provide a copy of their federal income tax return on an annual basis.~~ *COM*

Bruce and Sherry will provide a current PFS and a copy of their personal income tax return on an annual basis.

Borrower shall maintain a Debt Service Coverage Ratio of 1.20x.

GENERAL PROVISIONS. This Note is payable on demand. The inclusion of specific default provisions or rights of Lender shall not preclude Lender's right to declare payment of this Note on its demand. Lender may delay or forego enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, protest and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan, or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. If any portion of this Note is for any reason determined to be unenforceable, it will not affect the enforceability of any other provisions of this Note.

CONFESSION OF JUDGMENT. BORROWER HEREBY IRREVOCABLY AUTHORIZES AND EMPOWERS ANY ATTORNEY OR THE PROTHONOTARY OR CLERK OF ANY COURT IN THE COMMONWEALTH OF PENNSYLVANIA, OR ELSEWHERE, TO APPEAR AT ANY TIME FOR BORROWER AFTER A DEFAULT UNDER THIS NOTE, AND WITH OR WITHOUT COMPLAINT FILED, AS OF ANY TERM, CONFESS OR ENTER JUDGMENT AGAINST BORROWER FOR THE ENTIRE PRINCIPAL BALANCE OF THIS NOTE, ALL ACCRUED INTEREST, LATE CHARGES, AND ANY AND ALL AMOUNTS EXPENDED OR ADVANCED BY LENDER RELATING TO ANY COLLATERAL SECURING THIS NOTE TOGETHER WITH INTEREST ON SUCH AMOUNTS, TOGETHER WITH COSTS OF SUIT, AND AN ATTORNEY'S COMMISSION OF TEN PERCENT (10%) OF THE UNPAID PRINCIPAL BALANCE AND ACCRUED INTEREST FOR COLLECTION, BUT IN ANY EVENT NOT LESS THAN FIVE HUNDRED DOLLARS (\$500) ON WHICH JUDGMENT OR JUDGMENTS ONE OR MORE EXECUTIONS MAY ISSUE IMMEDIATELY; AND FOR SO DOING, THIS NOTE OR A COPY OF THIS NOTE VERIFIED BY AFFIDAVIT SHALL BE SUFFICIENT WARRANT. THE AUTHORITY GRANTED IN THIS NOTE TO CONFESS JUDGMENT AGAINST BORROWER SHALL NOT BE EXHAUSTED BY ANY EXERCISE OF THAT AUTHORITY, BUT SHALL CONTINUE FROM TIME TO TIME AND AT ALL TIMES UNTIL PAYMENT IN FULL OF ALL AMOUNTS DUE UNDER THIS NOTE. BORROWER HEREBY WAIVES ANY RIGHT BORROWER MAY HAVE TO NOTICE OR TO A HEARING IN CONNECTION WITH ANY SUCH CONFESSION OF JUDGMENT, EXCEPT ANY NOTICE AND/OR HEARING REQUIRED UNDER APPLICABLE LAW WITH RESPECT TO EXECUTION OF THE JUDGMENT, AND STATES THAT EITHER A REPRESENTATIVE OF LENDER SPECIFICALLY CALLED THIS CONFESSION OF JUDGMENT PROVISION TO BORROWER'S ATTENTION OR BORROWER HAS BEEN REPRESENTED BY INDEPENDENT LEGAL COUNSEL.

03-23-2001

Loan No

PROMISSORY NOTE

(Continued)

Page 3

PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE, INCLUDING THE VARIABLE INTEREST RATE PROVISIONS. BORROWER AGREES TO THE TERMS OF THE NOTE AND ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THE NOTE.

THIS NOTE HAS BEEN SIGNED AND SEALED BY THE UNDERSIGNED.

BORROWER:

LeatherSource, Inc.

By:

Bruce Carmel, President

(SEAL)

ATTEST:

Secretary or Assistant Secretary

(Corporate Seal)

LENDER:

Sovereign Bank

By:

Authorized Officer

Variable Rate. Line of Credit.

LASER PNO, Reg. U.S. Pat. & T.M. Off., Ver. 5.20c (C) Concoctrex 2001 All rights reserved. [PA-D20 F3.29a P3.29a LCATHER.LN C1.DVL]

**PROMISSORY NOTE
ADDENDUM ONE****750,000 LINE OF CREDIT
DATED 3-23-01***me
DSM***SECTION****COLLATERAL**

The last period "." is replaced with a semicolon (;) and the following text is added – or in place of the Key-Man life insurance policy, the Surety may assign a personal life insurance policy I/N/O Bruce Carmel I/A/O \$750,000.00.

SECTION**THIS NOTE HAS AN ANNUAL 30 DAY CLEAN UP PERIOD**

This section is deleted in its entirety.

SECTION**COVENANTS AND CONDITIONS****Sentence 4**

Insert the word "quarterly" between the words "Borrower will provide" and "company prepared financial statements".

Sentence 7

The sentence "Leather USA, LLC will provide a copy of their federal income tax return on an annual basis." is deleted in its entirety.

**THIS ADDENDUM TO THE PROMISSORY NOTE HAS BEEN SIGNED AND SEALED BY THE
UNDERSIGNED****BORROWER:****LeatherSource, Inc.****By:***Bruce Carmel*
Bruce Carmel President**ATTEST:***Bruce Carmel*
Secretary**(Corporate Seal)****LENDER:****Sovereign Bank****By:***Alanna May*
Authorized Officer

LeatherSource, Inc.
000051166010-18/34

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NOTE MODIFICATION AGREEMENT

This Agreement made this 12 day of August, 2002 by and between LeatherSource, Inc., having an address of 480 West Fifth Street, Bloomsburg, PA 17815 (the "Borrower") and Sovereign Bank, having an address of 239 Market Street, Lewisburg, PA 17837 (the "Lender").

Whereas, on March 23, 2001, the Borrower obtained from Lender a Line of Credit evidenced by a Promissory Note in the sum of Seven Hundred Fifty Thousand and 00/100 Dollars (\$750,000.00) (the "Original Amount") bearing the same date (the "Note"). The Note has a maturity date due and payable on Demand (the "Maturity Date"); and

Whereas, the outstanding principal balance on the Note as of August 7, 2002 is Seven Hundred Fifty Thousand and 00/100 Dollars (\$750,000.00) (the "Outstanding Balance"); and

Whereas, it is mutually beneficial and agreeable to the Borrower and Lender that the Note be modified.

Now Therefore, in consideration of the mutual benefits inuring to Borrower and Lender and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged and intending to be legally bound hereby, it is agreed that the Note is hereby modified as described below.

1. Upon execution of this agreement the amount of the Note shall be increased to Nine Hundred Thousand and 00/100 Dollars (\$900,000.00).
2. The Guarantor acknowledges and consents to the Borrower's execution and delivery of this Note Modification Agreement and hereby ratify and affirm the actions taken therein. The Guarantor affirms that as of the date herein the obligations and liability of the Guarantors under the Guaranty remains absolute, unconditional and in full force and effect.
3. All terms of the Note will continue to be fully effective, except to the extent that any of them are expressly changed by this Agreement. The undersigned hereby confirms and acknowledge that he has no defense, counterclaim or setoff which could effect the enforceability of the Note and all other Loan Documents and hereby reaffirm the validity of the Note and all other Loan Documents.

In Witness hereof, the parties hereto have hereunto set their hands and seal this 12 day of August, 2002

ATTEST:



LENDER:
Sovereign Bank

By: 
Dennis Martz, Vice President

LeatherSource, Inc.
000051166010-18/34

2

ATTEST:

Brenda L. Christensen

WITNESS BY ALL:

Brenda L. Christensen

BORROWER:

LeatherSource, Inc.

By:

Bruce Carmel
Bruce Carmel, President

PERSONAL GUARANTORS:

Bruce Carmel
Bruce Carmel

Sherry Carmel
Sherry Carmel

COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No.	Call	Collateral	Account	Officer	Initials
\$750,000.00	03-23-2001						66900	

References in the shaded area are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Borrower: LeatherSource, Inc. (TIN: 23-2562902)
440 West Fifth Street
Bloomsburg, PA 17815

Lender: Sovereign Bank
Lewisburg Office
239 Market Street
Lewisburg, PA 17837

THIS COMMERCIAL SECURITY AGREEMENT is entered into between LeatherSource, Inc. (referred to below as "Grantor"); and Sovereign Bank (referred to below as "Lender"). For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

DEFINITIONS. The following words shall have the following meanings when used in this Agreement. Terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. All references to dollar amounts shall mean amounts in lawful money of the United States of America.

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Collateral. The word "Collateral" means the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

All inventory, chattel paper, accounts, equipment and general intangibles

In addition, the word "Collateral" includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

(a) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.

(b) All products and produce of any of the property described in this Collateral section.

(c) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this Collateral section.

(d) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section.

(e) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Event of Default. The words "Event of Default" mean and include without limitation any of the Events of Default set forth below in the section titled "Events of Default."

Grantor. The word "Grantor" means LeatherSource, Inc., its successors and assigns.

Guarantor. The word "Guarantor" means and includes without limitation each and all of the guarantors, sureties, and accommodation parties in connection with the Indebtedness.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note, including all principal and interest, together with all other indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents. In addition, the word "Indebtedness" includes all other obligations, debts and liabilities, plus interest thereon, of Grantor, or any one or more of them, to Lender, as well as all claims by Lender against Grantor, or any one or more of them, whether existing now or later; whether they are voluntary or involuntary, due or not due, direct or indirect, absolute or contingent, liquidated or unliquidated; whether Grantor may be liable individually or jointly with others; whether Grantor may be obligated as guarantor, surety, accommodation party or otherwise; whether recovery upon such indebtedness may be or hereafter may become barred by any statute of limitations; and whether such indebtedness may be or hereafter may become otherwise unenforceable. (Initial Here *MLC*)

Lender. The word "Lender" means Sovereign Bank, its successors and assigns.

Note. The word "Note" means the note or credit agreement dated March 23, 2001, in the principal amount of \$750,000.00 from LeatherSource, Inc. to Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for the note or credit agreement.

Related Documents. The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, environmental agreements, guarantees, security agreements, mortgages, deeds of trust, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

RIGHT OF SETOFF. Grantor hereby grants Lender a contractual security interest in and hereby assigns, conveys, delivers, pledges, and transfers all of Grantor's right, title and interest in and to Grantor's accounts with Lender (whether checking, savings, or some other account), including all accounts held jointly with someone else and all accounts Grantor may open in the future, excluding, however, all IRA and Keogh accounts, and all trust accounts for which the grant of a security interest would be prohibited by law. Grantor authorizes Lender, to the extent permitted by applicable law, to charge or setoff all indebtedness against any and all such accounts.

OBLIGATIONS OF GRANTOR. Grantor warrants and covenants to Lender as follows:

Perfection of Security Interest. Grantor agrees to execute such financing statements and to take whatever other actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper if not delivered to Lender for possession by Lender. Grantor hereby irrevocably authorizes Lender to execute any documents necessary to perfect or to continue the security interest granted in this Agreement. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral. Grantor promptly

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COMMERCIAL SECURITY AGREEMENT (Continued)

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will notify Lender before any change in Grantor's name including any change to the assumed business names of Grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its certificate or articles of incorporation and bylaws do not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies with applicable laws concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or theretofore shipped or delivered pursuant to a contract of sale, or for services theretofore performed by Grantor with or for the account debtor; there shall be no setoffs or counterclaims against any such account; and no agreement under which any deductions or discounts may be claimed shall have been made with the account debtor except those disclosed to Lender in writing.

Location of the Collateral. Grantor, upon request of Lender, will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (a) all real property owned or being purchased by Grantor; (b) all real property being rented or leased by Grantor; (c) all storage facilities owned, rented, leased, or being used by Grantor; and (d) all other properties where Collateral is or may be located. Except in the ordinary course of its business, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender.

Removal of Collateral. Grantor shall keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts, the records concerning the Collateral) at Grantor's address shown above, or at such other locations as are acceptable to Lender. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from its existing locations without the prior written consent of Lender. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the Commonwealth of Pennsylvania, without the prior written consent of Lender.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that it holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Collateral Schedules and Locations. As often as Lender shall require, and insofar as the Collateral consists of accounts and general intangibles, Grantor shall deliver to Lender schedules of such Collateral, including such information as Lender may require, including without limitation names and addresses of account debtors and agings of accounts and general intangibles. Insofar as the Collateral consists of inventory and equipment, Grantor shall deliver to Lender, as often as Lender shall require, such lists, descriptions, and designations of such Collateral as Lender may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

Maintenance and Inspection of Collateral. Grantor shall maintain all tangible Collateral in good condition and repair. Grantor will not commit or permit damage to or destruction of the Collateral or any part of the Collateral. Lender and its designated representatives and agents shall have the right at all reasonable times to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify Lender of all cases involving the return, rejection, repossession, loss or damage of or to any Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral; and generally of all happenings and events affecting the Collateral or the value or the amount of the Collateral.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings.

Compliance With Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any hazardous waste or substance, as those terms are defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing. The terms "hazardous waste" and "hazardous substance" shall also include, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for hazardous wastes and substances. Grantor hereby (a) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any such laws, and (b) agrees to indemnify and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify shall survive the payment