
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 28, 2017

CODA OCTOPUS GROUP, INC.

(Name of Small Business Issuer in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

000-52815
(Commission
File Number)

34-200-8348
(I.R.S. Employer
Identification Number)

7380 Sand Lake Road, Suite #500
Orlando, FL 32819
(Address, Including Zip Code of Principal Executive Offices)

801-973-9136
(Issuer's telephone number)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On April 28, 2017, Coda Octopus Group, Inc. (the “Company”) together with its wholly-owned subsidiaries, Coda Octopus Products, Inc. and Coda Octopus Colmek, Inc. (together, the “Subsidiaries”), entered into a loan agreement with HSBC Bank NA (the “Lender”) for a loan in the principal amount of \$8,000,000 (the “Loan”). The annual interest rate is fixed at 4.5566%. Commencing on May 28, 2017 and continuing on the 28th day of each month thereafter, the Company is required to make monthly principal and interest payments of \$149,350 until April 28, 2022. In addition, within 30 days after the delivery to the Lender of the Company’s annual audited financial statements, the Company is required to make an annual principal payment of \$700,000 during the term of the Loan. Such annual payments will reduce the principal balance of the principal outstanding. As a result, it is expected that the Loan will be repaid within a period of approximately 45 months. The Loan may be prepaid in whole or in part at any time subject to a break funding charge as detailed in the promissory note evidencing the Loan.

The obligations in connection with the repayment of the Loan are secured by all assets of the Company and the Subsidiaries. In addition, the repayment of the Loan is guaranteed by three of the Company’s overseas subsidiaries.

The proceeds from the Loan were used to repay in its entirety the outstanding principal balance of \$8,000,000 under secured debentures (the “Debentures”) that were issued by the Company in February 2007 and that were most recently held by CCM Holdings, LLC. (“CCM”). Accrued and unpaid interest under the Debentures of approximately \$1,133,261 was satisfied through the issuance to CCM of 1,000 shares of Series C Convertible Preferred Stock, par value \$0.001, with a stated value of \$1,000 each (the “Preferred Stock”). The Company paid the balance in cash.

Item 3.02 Unregistered Sales of Equity Securities.

On April 28, 2017, the Company issued 1,000 shares of Series C Preferred Stock to CCM. The Preferred Stock was issued in exchange for the extinguishment of \$1,000,000 of accrued and unpaid interest under the Debentures held by CCM.

The Preferred Stock has no voting or dividend rights. In the event the Company is liquidated, holders of the Preferred Stock are entitled to receive out of the Company’s assets an amount equal to the as-if converted into Common Stock value of any unconverted Preferred Stock. The holders of the Preferred Stock may convert the shares of Preferred Stock into shares of Common Stock of the Company at \$5.00 per share. The conversion price is subject to standard adjustment in the event of a stock dividend or stock split. The Company has the right to redeem the Preferred Stock at any time at the stated value.

The Preferred Stock was issued pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 4(2) thereunder as they were issued in reliance on the recipients’ representation that they were accredited (as such term is defined in Regulation D), without general solicitation and represented by certificates that were imprinted with a restrictive legend. In addition, all recipients were provided with sufficient access to Company information.

Item 9.01 Financial Statements and Exhibits.

- (a) Financial Statements.

None.

- (b) Exhibits.

3.3 Certificate of Designation for the Series C Preferred Convertible Stock

10.33 Loan Agreement, dated as of April 28, 2017, by and between Coda Octopus Group, Inc., Coda Octopus Products, Inc., Coda Octopus Colmek, Inc. and HSBC Bank USA, N.A.

10.34 Form of Security Agreement, dated April 28, 2017

10.35 Promissory Note dated April 28, 2017

99.1 Press Release dated May 2, 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 2, 2017

Coda Octopus Group, Inc.

By: /s/ Annmarie Gayle

Chief Executive Officer

CODA OCTOPUS GROUP, INC.

**CERTIFICATE OF DESIGNATION OF PREFERENCES,
RIGHTS AND LIMITATIONS
OF
SERIES C CONVERTIBLE PREFERRED STOCK**

PURSUANT TO SECTION 151 OF THE
DELAWARE GENERAL CORPORATION LAW

The undersigned, Annmarie Gayle does hereby certify that:

1. She is the Chief Executive Office of Coda Octopus Group, Inc. a Delaware corporation (the “Corporation”).
2. The Corporation is authorized to issue 5,000,000 shares of preferred stock, none of which have been issued.
3. The following resolutions were duly adopted by the board of directors of the Corporation (the “Board of Directors”):

WHEREAS, the certificate of incorporation of the Corporation provides for a class of its authorized stock known as preferred stock, consisting of 5,000,000 shares, \$0.001 par value per share, issuable from time to time in one or more series;

WHEREAS, the Board of Directors is authorized to fix the dividend rights, dividend rate, voting rights, conversion rights, rights and terms of redemption and liquidation preferences of any wholly unissued series of preferred stock and the number of shares constituting any series and the designation thereof, of any of them; and

WHEREAS, it is the desire of the Board of Directors, pursuant to its authority as aforesaid, to fix the rights, preferences, restrictions and other matters relating to a series of the preferred stock, which shall consist of 1,000 shares of the preferred stock (to be designated as “Series C Preferred Stock”) which the Corporation has the authority to issue, as follows:

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors does hereby provide for the issuance of a series of preferred stock for cash or exchange of other securities, rights or property and does hereby fix and determine the rights, preferences, restrictions and other matters relating to such series of preferred stock as follows:

TERMS OF THE SERIES C PREFERRED STOCK

Section 1. Definitions. For the purposes hereof, the following terms shall have the following meanings:

“Affiliate” means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 of the Securities Act.

“Alternate Consideration” shall have the meaning set forth in Section 7(e).

“Business Day” means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

“Closing” means the issuance of the Preferred Stock pursuant to the Exchange Agreement.

“Commission” means the United States Securities and Exchange Commission.

“Common Stock” means the Corporation’s common stock, par value \$0.001 per share, and stock of any other class of securities into which such securities may hereafter be reclassified or changed.

“Common Stock Equivalents” means any securities of the Corporation or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, preferred stock, rights, options, warrants or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

“Conversion Amount” means the sum of the Stated Value at issue.

“Conversion Date” shall have the meaning set forth in Section 6(a).

“Conversion Price” shall have the meaning set forth in Section 6(b).

“Conversion Shares” means, collectively, the shares of Common Stock issuable upon conversion of the shares of Preferred Stock in accordance with the terms hereof.

“Exchange Agreement” means the Exchange Agreement, dated April __, 2017, pursuant to which the Holder and the Company have agreed to exchange shares of the Company’s outstanding Series A Convertible Preferred Stock for the Preferred Stock.

“Fundamental Transaction” shall have the meaning set forth in Section 7(b).

“Holder” shall have the meaning given such term in Section 2.

“Liquidation” shall have the meaning set forth in Section 5.

“Notice of Conversion” shall have the meaning set forth in Section 6(a).

“Original Issue Date” means the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

“Person” means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

“Preferred Stock” shall have the meaning set forth in Section 2.

“Rule 144” means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Share Delivery Date” shall have the meaning set forth in Section 6(c).

“Stated Value” shall have the meaning set forth in Section 2, as the same may be increased pursuant to Section 3.

“Subsidiary” means any subsidiary of the Corporation, including any direct or indirect subsidiary of the Corporation formed or acquired after the date hereof.

“Successor Entity” shall have the meaning set forth in Section 7(e).

“Trading Day” means a day on which the principal Trading Market is open for business.

“Trading Market” means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange, the OTCQB Market operated by OTC Markets Group Inc., the OTCQX Market operated by OTC Markets Group Inc. or the OTC Pink Market operated by OTC Markets Group Inc. (or any successors to any of the foregoing).

“Transaction Documents” means this Certificate of Designation and the Exchange Agreement, and any other documents or agreements executed in connection with the transactions contemplated by the Exchange Agreement.

“Transfer Agent” means Olde Monmouth Stock Transfer Co., Inc. the current transfer agent of the Corporation with a mailing address of 200 Memorial Pkwy., Atlantic Heights, NJ 07716, and a facsimile number of (732) 872-2728, and any successor transfer agent of the Corporation.

Section 2. Designation, Amount and Par Value. The series of preferred stock shall be designated as its Series C Convertible Preferred Stock (the “Preferred Stock”) and the number of shares so designated shall be 1,000 (which shall not be subject to increase without the written consent of all of the holders of the Preferred Stock (each, a “Holder” and collectively, the “Holders”). Each share of Preferred Stock shall have a par value of \$0.001 per share and a stated value equal to \$1,000, subject to increase as set forth in Section 3 below (the “Stated Value”).

Section 3. Dividends. No dividends shall be paid or shall accrue on shares of Preferred Stock.

Section 4. Voting Rights. Except as otherwise provided herein or as otherwise required by law, the Preferred Stock shall have no voting rights. However, as long as any shares of Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote of the Holders of a majority of the then outstanding shares of the Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock or alter or amend this Certificate of Designation, (b) amend its certificate of incorporation or other charter documents in any manner that adversely affects any rights of the Holders, (c) increase the number of authorized shares of Preferred Stock, or (d) enter into any agreement with respect to any of the foregoing.

Section 5. Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a “Liquidation”), the Holders shall be entitled to receive out of the assets, whether capital or surplus, of the Corporation an amount equal to the as-if converted into Common Stock value of any unconverted Preferred Stock. The Corporation shall mail written notice of any such Liquidation, not less than 45 days prior to the payment date stated therein, to each Holder.

Section 6. Conversion.

a) (i) Conversions at Option of Holder or Corporation. Each share of Preferred Stock shall be convertible, at any time and from time to time from and after the Original Issue Date at the option of the Corporation or the Holder, into that number of shares of Common Stock determined by dividing the Stated Value of such share of Preferred Stock by the Conversion Price. Either Party may serve a conversion notice by providing the other party with the form of conversion notice attached hereto as Annex A (a “Notice of Conversion”). Each Notice of Conversion shall specify the number of shares of Preferred Stock to be converted, the number of shares of Preferred Stock owned prior to the conversion at issue, the number of shares of Preferred Stock owned subsequent to the conversion at issue and the date on which such conversion is to be effected, which date may not be prior to the date the applicable Holder delivers by facsimile such Notice of Conversion to the Corporation (such date, the “Conversion Date”). No ink-original Notice of Conversion shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Conversion form be required. Where it is the Holder effecting the conversion it shall not be required to surrender the certificate(s) representing the shares of Preferred Stock to the Corporation unless all of the shares of Preferred Stock represented thereby are so converted, in which case such Holder shall deliver the certificate representing such shares of Preferred Stock promptly following the Conversion Date at issue. Shares of Preferred Stock converted into Common Stock or redeemed in accordance with the terms hereof shall be canceled and shall not be reissued.

b) Conversion Price. The conversion price for the Preferred Stock shall equal United States **\$5.00**, subject to adjustment herein (the “Conversion Price”).

c) Mechanics of Conversion

i. Delivery of Conversion Shares Upon Conversion. Not later than three (3) Trading Days after each Conversion Date (the “Share Delivery Date”), the Corporation shall deliver, or cause to be delivered, to the converting Holder Conversion Shares which, on or after the twelve month anniversary of the Original Issue Date shall be free of restrictive legends and trading restrictions representing the number of Conversion Shares being acquired upon the conversion of the Preferred Stock.

ii. Failure to Deliver Conversion Shares. If, in the case of any Notice of Conversion, such Conversion Shares are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to the Corporation at any time on or before its receipt of such Conversion Shares, to rescind such Conversion, in which event the Corporation shall promptly return to the Holder any original Preferred Stock certificate delivered to the Corporation and the Holder shall promptly return to the Corporation the Conversion Shares issued to such Holder pursuant to the rescinded Conversion Notice.

iii. Reservation of Shares Issuable Upon Conversion. The Corporation covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock for the sole purpose of issuance upon conversion of the Preferred Stock as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder (and the other holders of the Preferred Stock), not less than such aggregate number of shares of the Common Stock as shall be issuable upon the conversion of the then outstanding shares of Preferred Stock. The Corporation covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and non-assessable.

iv. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of the Preferred Stock. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such conversion, the Corporation shall at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

v. Transfer Taxes and Expenses. The issuance of Conversion Shares on conversion of this Preferred Stock shall be made without charge to any Holder for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such Conversion Shares, provided that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such Conversion Shares upon conversion in a name other than that of the Holders of such shares of Preferred Stock and the Corporation shall not be required to issue or deliver such Conversion Shares unless or until the Person or Persons requesting the issuance thereof shall have paid to the Corporation the amount of such tax or shall have established to the satisfaction of the Corporation that such tax has been paid.

Section 7. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Corporation, at any time while this Preferred Stock is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any other Common Stock Equivalents (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Corporation upon conversion of, or payment of a dividend on, this Preferred Stock), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of the Corporation, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of the Corporation) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section 7(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Fundamental Transaction. If, at any time while this Preferred Stock is outstanding, (i) the Corporation, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Corporation with or into another Person, (ii) the Corporation, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Corporation or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Corporation, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Corporation, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person whereby such other Person acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent conversion of this Preferred Stock, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction on the conversion of this Preferred Stock), the number of shares of Common Stock of the successor or acquiring corporation or of the Corporation, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Preferred Stock is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Corporation shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Preferred Stock following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Corporation or surviving entity in such Fundamental Transaction shall file a new Certificate of Designation with the same terms and conditions and issue to the Holders new preferred stock consistent with the foregoing provisions and evidencing the Holders' right to convert such preferred stock into Alternate Consideration. The Corporation shall cause any successor entity in a Fundamental Transaction in which the Corporation is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Corporation under this Certificate of Designation in accordance with the provisions of this Section 7(b). Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Certificate of Designation and the other Transaction Documents referring to the "Corporation" shall refer instead to the Successor Entity), and may exercise every right and power of the Corporation and shall assume all of the obligations of the Corporation under this Certificate of Designation with the same effect as if such Successor Entity had been named as the Corporation herein.

c) Calculations. All calculations under this Section 7 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 7, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of the Corporation) issued and outstanding.

d) Notice to the Holders.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 7, the Corporation shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) the Corporation shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Corporation shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Corporation shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Corporation shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Corporation is a party, any sale or transfer of all or substantially all of the assets of the Corporation, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) the Corporation shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Corporation, then, in each case, the Corporation shall cause to be filed at each office or agency maintained for the purpose of conversion of this Preferred Stock, and shall cause to be delivered to each Holder at its last address as it shall appear upon the stock books of the Corporation, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder shall remain entitled to convert the Conversion Amount of this Preferred Stock (or any part hereof) during the 20-day period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 8. Optional Redemption at Election of Corporation.

The Corporation reserves the right to redeem all or any part of the Series C Preferred Stock at its Stated Value at any time without penalty. All redeemed Series C Preferred Stock shall be retired.

Section 9. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holders hereunder including, without limitation, any Notice of Conversion, shall be in writing and delivered as provided for in the Exchange Agreement, personally, by facsimile, or sent by a nationally recognized overnight courier service, addressed to the Corporation, at the address set forth above Attention: Coda Octopus Group Chief Executive Officer by email or such other facsimile number, e-mail address or address as the Corporation may specify for such purposes by notice to the Holders delivered in accordance with this Section 9. Any and all notices or other communications or deliveries to be provided by the Corporation hereunder shall be in writing and delivered personally, by facsimile, or sent by a nationally recognized overnight courier service addressed to each Holder at the facsimile number or address of such Holder appearing on the books of the Corporation, or if no such facsimile number or address appears on the books of the Corporation, at the principal place of business of such Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth in this Section prior to 5:30 p.m. (London time) on any date, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth in this Section on a day that is not a Trading Day or later than 5:30 p.m. (London time) on any Trading Day, (iii) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

b) Lost or Mutilated Preferred Stock Certificate. If a Holder's Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Corporation shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated certificate, or in lieu of or in substitution for a lost, stolen or destroyed certificate, a new certificate for the shares of Preferred Stock so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such certificate, and of the ownership hereof reasonably satisfactory to the Corporation.

c) Governing Law; Fees. All questions concerning the construction, validity, enforcement and interpretation of this Certificate of Designation shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Transaction Documents shall be brought and adjudicated as provided for in the Exchange Agreement. If any party shall commence an action or proceeding to enforce any provisions of this Certificate of Designation, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

d) Waiver. Any waiver by the Corporation or a Holder of a breach of any provision of this Certificate of Designation shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Certificate of Designation or a waiver by any other Holders. The failure of the Corporation or a Holder to insist upon strict adherence to any term of this Certificate of Designation on one or more occasions shall not be considered a waiver or deprive that party (or any other Holder) of the right thereafter to insist upon strict adherence to that term or any other term of this Certificate of Designation on any other occasion. Any waiver by the Corporation or a Holder must be in writing.

e) Severability. If any provision of this Certificate of Designation is invalid, illegal or unenforceable, the balance of this Certificate of Designation shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law.

f) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

g) Headings. The headings contained herein are for convenience only, do not constitute a part of this Certificate of Designation and shall not be deemed to limit or affect any of the provisions hereof.

h) Status of Converted or Redeemed Preferred Stock. If any shares of Preferred Stock shall be converted, redeemed or reacquired by the Corporation, such shares shall resume the status of authorized but unissued shares of preferred stock and shall no longer be designated as Series C Convertible Preferred Stock.

RESOLVED, FURTHER, that the Chief Executive Officer, Chairman, the president or any vice-president, and the secretary or any assistant secretary of the Corporation be and they hereby are authorized and directed to prepare and file this Certificate of Designation of Preferences, Rights and Limitations in accordance with the foregoing resolution and the provisions of Delaware law.

IN WITNESS WHEREOF, the undersigned have executed this Certificate this 28 day of April, 2017.

Name: Annmarie Gayle
Title: Chief Executive Officer

ANNEX A

NOTICE OF CONVERSION

(TO BE EXECUTED BY THE REGISTERED HOLDER IN ORDER TO CONVERT SHARES OF PREFERRED STOCK)

The undersigned hereby elects to convert the number of shares of Series C Convertible Preferred Stock indicated below into shares of common stock, par value \$0.001 per share (the "Common Stock"), of Coda Octopus Group, Inc., a Delaware corporation (the "Corporation"), according to the conditions hereof, as of the date written below. If shares of Common Stock are to be issued in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as may be required by the Corporation. No fee will be charged to the Holders for any conversion, except for any such transfer taxes.

Conversion calculations:

Date to Effect Conversion: _____

Number of shares of Preferred Stock owned prior to Conversion: _____

Number of shares of Preferred Stock to be Converted: _____

Stated Value of shares of Preferred Stock to be Converted: _____

Number of shares of Common Stock to be Issued: _____

Applicable Conversion Price: _____

Number of shares of Preferred Stock subsequent to Conversion: _____

Address for Delivery: _____

or

DWAC Instructions:

Broker no: _____

Account no: _____

[HOLDER]

By: _____

Name: _____

Title: _____

LOAN AGREEMENT

THIS LOAN AGREEMENT (this “Agreement”), is dated as of this 28th day of April, 2017, by and between CODA OCTOPUS GROUP, INC., a Delaware corporation, CODA OCTOPUS PRODUCTS, INC., a Delaware corporation, and CODA OCTOPUS COLMEK, INC., a Utah Corporation (individually and/or collectively, the “Borrower”), and HSBC BANK USA, N.A., its successors and/or assigns (the “Lender”).

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, Borrower and Lender agree as follows:

1. **DEFINITIONS**. As used in this Agreement the terms listed below shall have the following meanings unless otherwise required by the context:

a) **Affiliate**: An Affiliate of the Borrower shall mean any entity which, directly or indirectly, controls or is controlled by or is under common control with the Borrower. An entity shall be deemed to be “controlled by” another entity if such other entity possesses, directly or indirectly, power to direct or cause the direction of the management and policies of such entity whether by contract, ownership of voting securities, membership interests or otherwise.

b) **Business Day**: Shall mean any day on which commercial banks are open for domestic and international business, including dealings in Dollar deposits, in London, England and New York, New York, and with respect to all other matters, any day other than a day on which commercial banks in New York, New York are authorized or required by law to close.

c) **Capital Expenditures**: Shall mean, for any period, the aggregate of all expenditures made by Borrower during such period that, in conformity with GAAP, required to be included in or reflected on the balance sheet as a capital asset of Borrower.

d) **Capital Lease**: Shall mean any lease of any property (whether real, personal or mixed) that, in conformity with GAAP, should be accounted for as a capital lease. For avoidance of doubt, the determination of whether a lease is a Capital Lease shall be based upon GAAP as in effect on the date hereof and without giving effect to any future modification of GAAP resulting in operating leases being recharacterized as capital lease obligations for accounting purposes.

e) **Capital Lease Obligations**: Shall have the meaning provided in sub-clause (c) of the definition of “Indebtedness”.

f) **Chief Financial Officer**: Shall mean the person who is the senior manager or officer of Borrower who is responsible for overseeing the financial activities of Borrower and the preparation of the Borrower’s financial statements.

g) **Collateral**: Shall have the meaning ascribed to such term in the Security Agreement.

h) **Equity Interests**: Of any Person shall mean any and all shares, rights to purchase, options, warrants, general, limited or limited liability partnership interests, member interests, participation or other equivalents of or interest in (regardless of how designated) equity of such Person, whether voting or nonvoting including common stock, preferred stock, convertible securities or any other “equity security” (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the SEC under the Exchange Act).

i) Fixed Charge Coverage Ratio: shall mean (A) the sum of (i) earnings before interest, taxes, depreciation and amortization of Borrower, less (ii) income taxes, less (iii) distributions and dividends of Borrower, less (iv) maintenance Capital Expenditures and other unfinanced Capital Expenditures, divided by (B) the sum of principal and interest payments due under indebtedness.

j) GAAP: Shall mean generally accepted accounting principles in the United States of America in effect from time to time.

k) Governmental Authority: Any governmental or quasi-governmental authority, agency, authority, board, commission, or governing body authorized by federal, state or local laws or regulations as having jurisdiction over the Lender, or the Borrower.

l) Guarantor: Shall mean collectively, CODA OCTOPUS MARTECH LIMITED, a UK limited liability company, CODA OCTOPUS PRODUCTS PTY LTD, an Australian limited liability company, and CODA OCTOPUS PRODUCTS LIMITED, a UK limited liability company, and any other Person who may hereafter guarantee payment or performance of the whole or any part of the obligations due under any Loan Document and "Guarantors" shall mean collectively all such Persons.

m) Guaranty: Shall mean any guaranty of the obligations due under any Loan Document of Borrower executed by a Guarantor in favor of Lender, including, without limitation, that certain Guaranty Agreement dated of even date herewith, as the same may be amended or modified from time to time.

n) Indebtedness: Of a Person at a particular date shall mean all obligations of such Person which in accordance with GAAP would be classified upon a balance sheet as liabilities (except capital stock and surplus earned or otherwise) and in any event, without limitation by reason of enumeration, shall include (a) all indebtedness, debt and similar monetary obligations of such Person whether direct or guaranteed, and all premiums, if any, due at the required prepayment dates of such indebtedness; (b) all indebtedness for borrowed money; (c) Capital Lease Obligations; (d) notes payable and drafts accepted representing extensions of credit whether or not representing obligations for borrowed money; (e) any obligation owed for all or any part of the deferred purchase price of property or services if the purchase price is due more than six (6) months from the date the obligation is incurred or is evidenced by a note or similar written instrument; (f) all guaranties of such Person with respect to Indebtedness described in subparagraphs (a) through (e) of this definition; (g) the net amount of all obligations then due of such Person under any interest rate hedge; and (h) all indebtedness secured by any lien on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is nonrecourse to the credit of that Person.

o) Interest Expense: Shall mean, for any period, as to any Person, as determined in accordance with GAAP, the total interest expense of such Person, whether paid or accrued during such period but without duplication (including the interest component of Capital Leases for such period), excluding interest paid in property other than cash.

p) Loan: That certain loan in the original principal amount of up to EIGHT MILLION AND 00/100 DOLLARS (\$8,000,000.00), as evidenced by the Note and secured by the Security Agreement and the other Loan Documents as provided herein.

q) Loan Document(s): Any and all documents evidencing, securing, or executed in connection with the Loan, including, without limitation, the Note, the Security Agreement and this Agreement.

r) Maturity Date: Means April __, 2022.

s) Note: That certain Promissory Note dated as of even date herewith from Borrower in favor of Lender in the original principal amount of EIGHT MILLION AND 00/100 DOLLARS (\$8,000,000.00) (as the same may be amended, restated, modified or replaced from time to time, the "Note").

t) Permitted Liens: Means:

(a) liens in favor of Lender;

(b) liens for taxes or assessments or other governmental charges or levies if not yet due and payable or the non-payment of which is being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on the Borrowers' or the applicable Subsidiarys' books, but only so long as no foreclosure, distraint, sale or similar proceedings have been commenced with respect thereto and remain unstayed for a period of thirty (30) days after their commencement;

(c) liens on leased equipment granted in connection with the leasing of such equipment in favor of the lessor of such equipment;

(d) liens of record as of the date hereof listed on Schedule 4(f) attached hereto; and

(e) liens securing the Subordinated Debt.

u) Person: A natural person, a partnership, a joint venture, an unincorporated association, a limited liability company, a corporation, a trust, any other legal entity, or any Governmental Authority.

v) Receivables: Shall mean and include as to Borrower, all of Borrower's accounts, contract rights, instruments (including promissory notes and other instruments evidencing Indebtedness owed to Borrower by their Affiliates), documents, chattel paper (whether tangible or electronic), general intangibles relating to accounts, drafts and acceptances, and all other forms of obligations owing to Borrower arising out of or in connection with the sale, lease or other disposition of Inventory or the rendition of services, all guarantees and other security therefor, whether secured or unsecured, now existing or hereafter created, and whether or not specifically sold or assigned to Lender hereunder.

w) Security Agreement: Collectively, (i) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS GROUP, INC. in favor of Lender, (ii) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS PRODUCTS, INC. in favor of Lender, (iii) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS COLMEK, INC. in favor of Lender, and any replacements or additions, and all modifications and amendments to any of the foregoing.

x) Subordinated Debt: Shall mean Indebtedness of the Borrower approved by Lender from time to time, which shall be subordinated to the obligations under any Loan Document on terms satisfactory to Lender in its sole discretion, and all modifications, extensions or renewals thereof.

y) Subsidiary: Shall mean, with respect to any Person, a corporation or other entity of whose equity interests having ordinary voting power (other than Equity Interests having such power only by reason of the happening of a contingency) to elect a majority of the directors or managers of such corporation or other entity, or other Persons performing similar functions for such entity, are owned, directly or indirectly, by such Person.

2. THE LOAN.

(a) The proceeds of the Loan shall be advanced on the date hereof to Borrower to be used to refinance existing indebtedness and for other business purposes of Borrower. Funds repaid under the Loan may not be reborrowed.

(b) Borrower shall pay principal and interest on the Loan in accordance with the terms of the Note. In addition, within thirty (30) days after Borrower's delivery of its annual financial statements as required under Section 6(a) hereof, Borrower shall make an annual principal payment under the Loan in an amount equal to \$700,000 each during the term of the Loan.

3. EXPENSES: Borrower shall pay all fees and charges incurred in the procuring and making of the Loan and all other expenses incurred by Lender during the term of the Loan, including without limitation Florida Documentary Stamp Taxes, if applicable, Florida Intangible Taxes, if applicable, recording expenses and the reasonable fees of the attorneys for Lender. The Borrower shall also pay any and all insurance premiums, taxes, assessments, and other charges, liens and encumbrances upon the Collateral. Such amounts, unless sooner paid, shall be paid from time to time as Lender shall request either to the Person to whom such payments are due or to Lender if Lender has paid the same.

4. WARRANTIES AND REPRESENTATIONS OF BORROWER. Borrower represents and warrants (which representations and warranties shall be deemed continuing) as follows:

a) Organization Status. Each Borrower is a corporation, (i) duly organized and existing under the laws of the jurisdiction of its formation, (ii) is in good standing under the laws of the jurisdiction of its formation, and (iii) Coda Octopus Products, Inc. is qualified to do business in the State of Florida.

b) Compliance with Laws. Borrower is in compliance in all material respects with all laws, regulations, ordinances and orders of all Governmental Authorities.

c) Accurate Information. All information now and hereafter furnished to Lender is and will be true, correct and complete in all material respects. Any such information relating to Borrower's financial condition has and will accurately reflect such financial condition as of the date(s) thereof, (including all contingent liabilities of every type), and Borrower further represents that its financial condition has not changed materially and adversely since the date(s) of such documents.

d) Authority to Enter into Loan Documents. Borrower has full power and authority to enter into the Loan Documents and consummate the transactions contemplated hereby, and the facts and matters expressed or implied in the opinions of its legal counsel are true and correct.

e) Validity of Loan Documents. The Loan Documents have been approved by those Persons having proper authority, and are in all respects legal, valid and binding according to their terms.

f) Priority of Lien on Personalty. Except for Permitted Liens, no chattel mortgage, bill of sale, security agreement, financing statement or other title retention agreement has been or will be executed with respect to any of the Collateral unless otherwise approved by Lender in accordance with the Security Agreement.

g) Conflicting Transactions of Borrower. The consummation of the transaction hereby contemplated and the performance of the obligations of Borrower under and by virtue of the Loan Documents will not result in any breach of, or constitute a default under, any lease, loan or credit agreement, or other instrument to which Borrower is a party or by which they may be bound or affected.

h) Pending Litigation. There are no actions, suits or proceedings pending against Borrower, the Collateral, or, to its knowledge, circumstances which could lead to such action, suits or proceedings against or affecting Borrower, the Collateral, or involving the validity or enforceability of any of the Loan Documents, before or by any Governmental Authority, except actions, suits and proceedings which have been specifically disclosed to and approved by Lender in writing, as more particularly provided on Exhibit "A" attached hereto; and Borrower is not in default with respect to any order, writ, injunction, decree or demand of any court or any Governmental Authority.

i) Condition of Collateral. The Collateral is not now damaged or injured as a result of any fire, explosion, accident, flood or other casualty.

j) Discharge of Liens and Taxes. Borrower has duly filed, paid and/or discharged all taxes or other claims that may become a lien on any of its property or assets, except to the extent that such items are being appropriately contested in good faith and an adequate reserve for the payment thereof is being maintained.

k) Sufficiency of Capital. Neither Borrower is, and after consummation of this Agreement and after giving effect to all indebtedness incurred and liens created by Borrower in connection with the Note and any other Loan Documents, will be, insolvent within the meaning of 11 U.S.C. § 101, as in effect from time to time.

l) ERISA. Each employee pension benefit plan, as defined in Employee Retirement Income Security Act of 1974, as amended ("ERISA"), maintained by Borrower meets, as of the date hereof, the minimum funding standards of ERISA and all applicable regulations thereto and requirements thereof, and of the Internal Revenue Code of 1986, as amended. No "Prohibited Transaction" or "Reportable Event" (as both terms are defined by ERISA) has occurred with respect to any such plan.

m) Indemnity. Borrower will indemnify Lender and its affiliates from and against any losses, liabilities, claims, damages, penalties or fines imposed upon, asserted or assessed against or incurred by Lender arising out of the inaccuracy or breach of any of the representations contained in this Agreement or any other Loan Document, except for claims arising from the gross negligence or willful misconduct of Lender.

n) No Default. There is no Event of Default or default on the part of Borrower under this Agreement, the Note, or the Security Agreement, and no event has occurred and is continuing which with notice, or the passage of time, or either, would constitute an Event of Default under any provision thereof.

o) Anti-Terrorism Laws.

a) General. Neither Borrower nor any subsidiary or affiliate of Borrower is in violation of any anti-terrorism law or engages in or conspires to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any anti-terrorism law.

b) Executive Order No. 13224. Neither Borrower nor any affiliate of Borrower or their respective agents acting or benefiting in any capacity in connection with the Loan or other transactions hereunder, is any of the following (each a "Blocked Person"):

(i) a person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(ii) a person owned or controlled by, or acting for or on behalf of, any person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order No. 13224;

(iii) a person or entity with which Lender is prohibited from dealing or otherwise engaging in any transaction by any anti-terrorism law;

(iv) a person or entity that commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order No. 13224;

(v) a person or entity that is named as a "specially designated national" on the most current list published by the U.S. Treasury Department Office of Foreign Asset Control at its official website or any replacement website or other replacement official publication of such list, or

(vi) a person or entity who is affiliated or associated with a person or entity listed above.

Neither Borrower nor any of its agents acting in any capacity in connection with the Loan or other transactions hereunder (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person, or (ii) deals in, or otherwise engages in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

c) Sanctions. None of the Borrower, any of its Subsidiaries, any director or officer, or any employee, agent, or Affiliate, of the Borrower or any of its Subsidiaries is an individual or entity that is, or is owned or controlled by Persons that are, (i) the subject of any sanctions administered or enforced by the US Department of the Treasury's Office of Foreign Assets Control, the US Department of State, the United Nations Security Council, the European Union, Her Majesty's Treasury or the Hong Kong Monetary Authority (collectively, "Sanctions"), or (ii) located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, including, without limitation, currently, the Crimea region of Ukraine, Cuba, Iran, North Korea, Sudan and Syria.

d) Anti-Bribery. None of the Borrower or any of its Subsidiaries nor to the knowledge of the Borrower, any director, officer, agent, employee, Affiliate or other person acting on behalf of the Borrower or any of its Subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of any applicable anti-bribery law, including but not limited to, the United Kingdom Bribery Act 2010 (the “UK Bribery Act”) and the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”). Furthermore, the Borrower and, to the knowledge of the Borrower, its Affiliates have conducted their businesses in compliance with the UK Bribery Act, the FCPA and similar laws, rules or regulations and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith, and

The Borrower will not, directly or indirectly, use the proceeds of the Loan, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (i) to fund any activities or business of or with any person, or in any country or territory, that, at the time of such funding, is, or whose government is, the subject of Sanctions, or (ii) in any other manner that would result in a violation of Sanctions by any person (including any person participating in the Loan, whether as underwriter, advisor, investor, or otherwise).

5. COVENANTS. Borrower covenants and agrees with Lender as follows:

a) Taxes. Borrower certifies that it has filed or caused to be filed all federal, state and other tax returns which are required to be filed, and has paid or caused to be paid all taxes as shown on said returns or in any manner due to be paid (including, but not limited to, ad valorem and personal property taxes) or on any assessment received by Borrower and not being contested in good faith, to the extent that such taxes have become due. Borrower further certifies that Borrower has paid all other taxes, levies and charges of any nature, including any governmental charges.

b) Notice of Litigation. Borrower shall promptly give Lender written notice of (a) a judgment entered against Borrower, or (b) the commencement of any action, suit, claim, counterclaim or proceeding against or investigation of Borrower which, if adversely determined, would materially adversely affect the business of Borrower, or which questions the validity of this Agreement, the Note, the Security Agreement, or any other actions or agreements taken or to be made pursuant to any of the foregoing.

c) Notice of Default. Borrower shall promptly give Lender written notice of any act of default under any agreement with Lender or under any other material contract to which Borrower is a party and of any acceleration of indebtedness caused thereby which would have a materially adverse effect to the business of Borrower.

d) Reports. Borrower shall promptly furnish Lender with copies of all stockholder, governmental agency, and other special reports pertaining to or affecting Borrower, which would materially adversely affect the business of Borrower.

e) Change in Management of Borrower. Borrower shall not change its key management during the term of the Loan without the prior written consent of Lender, which shall not be unreasonably withheld.

f) Change in Fiscal Year. No Borrower shall change its fiscal year without the prior written consent of Lender. Borrower's fiscal year ends on October 31.

g) Title to Collateral. Borrower will deliver to Lender, on demand, copies of any contracts, bills of sale, statements, receipted vouchers or agreements under which Borrower claims title to any of the Collateral.

h) Payment of Debts. Borrower shall pay and discharge when due, and before subject to penalty or further charge, and otherwise satisfy before maturity or delinquency, all obligations, debts, taxes, and liabilities of whatever nature or amount, except those which Borrower in good faith disputes.

i) Collection of Insurance Proceeds. Borrower will cooperate with Lender in obtaining for Lender the benefits of any insurance or other proceeds lawfully or equitably payable to it in connection with the transaction contemplated hereby and the collection of any indebtedness or obligation of Borrower to Lender incurred hereunder.

j) Indebtedness. Borrower shall not issue any evidence of Indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist Indebtedness in addition to Indebtedness to the Lender other than trade debt, value added tax (VAT), import duty and other similar tax obligations in the ordinary course of business. Guarantor shall not issue any evidence of Indebtedness or create, assume, guarantee, become contingently liable for, or suffer to exist Indebtedness in addition to Indebtedness to the Lender in excess of \$250,000.

k) No Defaults. Borrower is not in default in the payment of the principal of or interest on any Indebtedness, including any Subordinated Debt, or under any instrument or agreement under or subject to which any Indebtedness has been issued and no event has occurred under the provisions of any such instrument or agreement which with or without the lapse of time or the giving of notice, or both, constitutes or would constitute an event of default thereunder.

l) Sale of Interest. There shall not be any sale or transfer of ownership of any interest in the Borrower without the Lender's prior written consent unless such transfer shall not result in change in control of Borrower.

m) Loans or Advances. Borrower shall not make any loans or advance to any individual, partnership, corporation, limited liability company, trust or other organization or person, including without limitation, its officers and employees; provided, however, that Borrower may make advances to its employees, including its members or officers, with respect to expenses incurred or to be incurred by such employees in the ordinary course of business which expenses are reimbursable by Borrower; and provided further, however, that Borrower may extend credit in the ordinary course of business in accordance with customary trade practices.

n) Distributions. Borrower shall not, without prior written permission of the Lender, make any distribution (including dividends or other one-time payments to any shareholders) to any of Borrower's members, managers or shareholders in cash or in property or redeem, purchase or otherwise acquire, directly or indirectly, any interests, provided, so long as Borrower is not in default hereunder, such distributions may be made to the members, managers or shareholders of Borrower in such amounts as are necessary to pay the tax liability of such members, managers or shareholders due as a result of such member's, manager's or shareholder's interest in the Borrower. Notwithstanding the foregoing, so long as no Event of Default shall exist, Borrower may make immaterial equity repurchases from employees upon the termination of their employment with Borrower; provided, however, Borrower shall remain in proforma compliance with the financial covenants contained herein after giving effect to any such repurchase and provide evidence satisfactory to Lender in its sole discretion of such compliance.

o) Investments. The Borrower shall not make investments in, or advances to, any individual, partnership, corporation, limited liability company, trust or other organization or person other than as previously specifically consented to in writing by the Lender. The Borrower will not purchase or otherwise invest in or hold securities, nonoperating real estate or other nonoperating assets or purchase all of substantially all of the assets of any entity other than as previously specifically consented to in writing by the Lender.

p) Merger. Borrower shall not merge or consolidate or be merged or consolidated with or into any other entity; provided, however, so long as no Event of Default shall have occurred, the co-Borrowers party to this Agreement may consolidate or merge entities so long as (i) the surviving entity remains in good standing and active, and (ii) Borrower provides Lender with prior written notice and copies of all proposed merger documentation.

q) Capital Expenditures. The Borrower shall not, directly or indirectly, make or commit to make Capital Expenditures by lease, purchase, or otherwise, except in the ordinary and usual course of business for the purpose of (i) replacing or upgrading machinery, equipment, software or other personal property, and (ii) research and development.

r) Sale of Assets. Borrower shall not sell, lease or otherwise dispose of any of its assets, except in the ordinary and usual course of business and except for the purpose of replacing machinery, equipment or other personal property which, as a consequence of wear, duplication or obsolescence, is no longer used or necessary in the Borrower's business, provided that fair consideration is received therefor.

s) Restriction on Liens. Except for Permitted Liens, Borrower shall not grant any security interest in, or mortgage of, any of its properties or assets including the Collateral. Borrower shall not enter into any agreement with any person other than the Lender that prohibits the Borrower from granting any security interest in, or mortgage of, any of its properties or assets including the Collateral.

t) Guaranties. Borrower shall not guarantee or otherwise in any way become or be responsible for obligations of any other Person, whether by agreement to purchase the indebtedness of any other Person, or agreement for the furnishing of funds to any other Person through the purchase of goods, supplies or services (or by way of stock purchase, capital contribution, advance or loan) for the purpose of paying or discharging indebtedness of any other Person, or otherwise.

u) Further Assurances and Preservation of Security. Borrower will do all acts and execute all documents for the better and more effective carrying out of the intent and purposes of this Agreement, as Lender shall reasonably require from time to time, and will do such other acts necessary or desirable to preserve and protect the collateral at any time securing or intending to secure the Note, as Lender may require.

v) No Assignment. Borrower shall not assign this Agreement or any interest therein and any such assignment is void and of no effect. Lender may assign this Agreement and any other Agreements contemplated hereby, and all of its rights hereunder and thereunder, and all provisions of this Agreement shall continue to apply to the Loan. Lender also shall have the right to participate the Loan with any other lending institution. Lender agrees to notify Borrower of any such assignment or participation.

w) Access to Books and Records. Borrower shall allow Lender, or its agents, after reasonable prior notice and during reasonable normal business hours, to access to Borrower's books, records and such other documents, and allow Lender, at Borrower's expense, to inspect, audit and examine the same and to make extracts therefrom and to make copies thereof.

x) Business Continuity. Borrower shall conduct its business in substantially the same manner and locations as such business is now and has previously been conducted during the term of the Loan.

y) Insurance.

a) Borrower shall obtain, maintain and keep in full force and effect during the term of the Loan adequate insurance coverage, with all premiums paid thereon and without notice or demand, with respect to its properties and business against loss or damage of the kinds and in the amounts customarily insured against by companies of established reputation engaged in the same or similar businesses including, without limitation:

(i) Public liability insurance insuring against all claims for personal or bodily injury, death, or property damage in such amounts as Lender may require. Such policy shall include an additional insured endorsement naming the Lender; and

(ii) Insurance in such amounts and against such other casualties and contingencies as may from time to time be reasonably required by Lender.

b) All policies of insurance required hereunder shall: (i) be written by carriers which are licensed or authorized to transact business in the State of Florida, and are rated "A" or higher, Class XII or higher, according to the latest published Best's Key Rating Guide and which shall be otherwise acceptable to Lender in all other respects, (ii) provide that the Lender shall receive notice in accordance with industry standard principles from the insurer before a cancellation, modification, material change or non-renewal of the policy becomes effective, and (iii) be otherwise reasonably satisfactory to Lender.

c) Borrower shall not, without the prior written consent of Lender, take out separate insurance concurrent in form or contributing with regard to any insurance coverage required by Lender.

d) At all times during the term of the Loan, Borrower shall have delivered to Lender the original (or a certified copy) of all policies of insurance required hereby, together with receipts or other evidence that the premiums therefor have been paid (or are otherwise in full force and effect subject to a timely periodic payment plan).

e) Not less than thirty (30) days prior to the expiration date of any insurance policy, Borrower shall deliver to Lender the original (or certified copy), or the original certificate, as applicable, of each renewal policy, together with receipts or other evidence that the premiums therefor have been paid (or are otherwise in full force and effect subject to a timely periodic payment plan).

f) The delivery of any insurance policy and any renewals thereof, shall constitute an assignment thereof to Lender, and Borrower hereby grants to Lender a security interest in all such policies, in all proceeds thereof and in all unearned premiums therefor.

z) Indemnification. Borrower hereby indemnifies and holds Lender, its directors, officers, agents, employees and attorneys harmless from and against any liability, loss, expenses, damage of any nature, and claims, including, without limitation, any and all present or future environmental liability or costs related to the Premises, brokers' claims, arising in connection with the Loan, except for claims arising from the gross negligence or willful misconduct of Lender, its directors, officers, agents, employees or attorneys.

aa) Primary Deposit Relationship. At all times during the term of the Loan, Borrower shall maintain a deposit relationship with Lender.

bb) Anti-Terrorism Laws. Borrower shall not nor shall it permit any subsidiary, affiliate or agent to:

a) conduct any business or engage in any transaction or dealing with any Blocked Person, including the making or receiving any contribution of funds, goods or services to or for the benefit of any Blocked Person.

b) deal in, or otherwise engage in any transaction relating to, any property or interests in property blocked pursuant to the Executive Order No. 13224.

c) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in the Executive Order No. 13224, the USA PATRIOT Act or any other anti-terrorism law. Borrower shall deliver to Lender any certification or other evidence requested from time to time by Lender in its sole discretion, confirming Borrower's compliance with this Section.

d) Borrower will not, directly or indirectly, use the proceeds of the Loans, or lend, contribute or otherwise make available such proceeds to any Subsidiary, joint venture partner or other Person, (i) to fund any activities or business of or with any Person, or in any country or territory, that, at the time of such funding, is, or whose government is, the subject of Sanctions or (ii) in any other manner that would result in a violation of Sanctions by any Person (including any Person participating in the Loan, whether as underwriter, advisor, investor or otherwise).

e) No part of the proceeds of the Loan will be used, directly or indirectly, for any payments that could constitute a violation of any applicable anti-bribery law.

6. FINANCIAL STATEMENTS. Each Borrower and/or Guarantor, as applicable, will furnish to Lender:

- a) As soon as available to CODA OCTOPUS, INC., but in any event within 150 days after the close of each fiscal year, annual audited financial statements, including consolidated and consolidating information, if applicable, prepared in form acceptable to Lender, which shall be prepared by a certified public accountant acceptable to Lender;
- b) As soon as available to CODA OCTOPUS, INC., but in any event within 45 days after the close of each fiscal quarter, a full and complete signed copy of internally prepared financial statements, including consolidated and consolidating information, prepared in form acceptable to Lender, which shall include a balance sheet of the Borrower, as of the end of such quarter, and statement of profit and loss of the Borrower reflecting the results of its operations during such quarter. Such statements shall include a detailed schedule of accounts receivable aging, accounts payable aging, construction in progress report, and completed contracts report in form acceptable to Lender. Together with the submission of such financial statements, Borrower shall deliver a Covenant Compliance Certificate in the form attached hereto as Exhibit B verifying Borrower's compliance with all financial covenants contained herein and certifying that no Event of Default then exists.
- c) As soon as available to CODA OCTOPUS, INC., but in any event within 150 days after the close of each fiscal year, filed Federal business tax returns, including all schedules thereto, prepared by a certified public accountant acceptable to Lender on an accrual basis for the prior year on or before March 31 of each year, or by such other date approved by the Lender; provided, however, in the event the Borrower files an extension to the tax returns, the tax return shall be due on or before 30 days of such filing, but not later than November 15 of each year.
- d) From time to time, such financial data and information about Borrower as Lender may reasonably request, to be delivered concurrently with the financial data and information required under this Section 6; and
- e) Any financial data and information about the Guarantor of the obligations as Lender may reasonably request, to be delivered concurrently with the financial data and information required under this Section 6.

7. FINANCIAL COVENANTS. The Borrower will not at any time or during any fiscal period (as applicable) fail to be in compliance with any of the financial covenants in this Section, which financial covenants shall be tested on an annual basis at Borrower's fiscal year end unless specified otherwise in this Section 7.

a) Minimum Fixed Charge Coverage Ratio. At all times during the term of the Loan, Borrower shall maintain a combined Fixed Charge Coverage Ratio of not less than 1.50 to 1.00. This covenant shall be tested quarterly on a trailing twelve (12) month basis.

b) Total Liabilities to Tangible Net Worth. Borrower shall maintain an aggregate ratio of total liabilities to tangible net worth not to exceed 3.00 to 1.00. This covenant shall be tested quarterly.

8. DEFAULT. "Event of Default" shall mean the occurrence of one or more of any of the following events:

a) default of any liability, obligation covenant or undertaking of the Borrower or any guarantor of the obligations to the Lender, hereunder or otherwise, including, without limitation, failure to pay in full when due any installment of principal or interest or default of the Borrower or any guarantor of the obligations under any other Loan Document or any other agreement with the Lender continuing for 15 days with respect to any default (other than with respect to the payment of money for which there is no grace period;

c) failure of the Borrower to maintain aggregate collateral security value satisfactory to the Lender continuing for 15 days;

d) default of any material liability, obligation or undertaking of the Borrower or any guarantor of the obligations to any other party continuing for 15 days;

e) if any statement, representation or warranty heretofore, now or hereafter made by the Borrower or any guarantor of the obligations in connection with this Agreement or in any supporting financial statement of the Borrower or any guarantor of the obligations shall be determined by the Lender to have been false or misleading in any material respect when made;

f) if the Borrower, or any guarantor hereof is a corporation, trust, partnership or limited liability company, the liquidation, termination or dissolution of any such organization, or the merger or consolidation of such organization into another entity (except as permitted under Section 4(p) above), or its ceasing to carry on actively its present business or the appointment of a receiver for its property;

g) the institution by or against the Borrower, any endorser or any guarantor hereof of any proceedings under the Bankruptcy Code 11 USC Section 101 et seq. or any other law in which the Borrower, any endorser or any guarantor hereof is alleged to be insolvent or unable to pay its debts as they mature, or the making by the Borrower, any endorser or any guarantor hereof of an assignment for the benefit of creditors or the granting by the Borrower, any endorser or any guarantor hereof of a trust mortgage for the benefit of creditors (each of the foregoing in this subclause an "Insolvency Default");

h) the service upon the Lender of a writ in which the Lender is named as trustee of the Borrower or any guarantor hereof;

i) a judgment or judgments for the payment of money shall be rendered against the Borrower or any guarantor hereof, and any such judgment shall remain unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;

j) any levy, lien (including mechanics lien) except as permitted under any of the other loan documents between the Lender and the Borrower, seizure, attachment, execution or similar process shall be issued or levied on any of the property of the Borrower or any guarantor hereof;

k) the termination or revocation of any guaranty hereof; or

l) the occurrence of such a change in the condition or affairs (financial or otherwise) of the Borrower, any endorser or any guarantor hereof, or the occurrence of any other event or circumstance, such that the Lender, in its sole discretion, deems that it is insecure or that the prospects for timely payment or performance of any obligation of the Borrower, any endorser or any guarantor hereof to the Lender has or may be impaired.

9. REMEDIES OF LENDER. Upon the happening of an Event of Default, then Lender may, at its option, upon written notice to Borrower:

a) Cancel this Agreement;

b) Commence an appropriate legal or equitable action to enforce performance of this Agreement;

c) Accelerate the payment of the Note and the Loan and any other sums secured by the Security Agreement, apply all or any portion of any equity funds toward payment of the Loan, and commence appropriate legal and equitable action to collect all such amounts due Lender; and

d) Exercise any other rights or remedies Lender may have under the Security Agreement or other Loan Documents referred to in this Agreement or executed in connection with the Loan or which may be available under applicable law.

10. GENERAL TERMS. The following shall be applicable throughout the period of this Agreement or thereafter as provided herein:

a) Rights of Third Parties. All conditions of the Lender hereunder are imposed solely and exclusively for the benefit of Lender and its successors and assigns, and no other Person shall have standing to require satisfaction of such conditions or be entitled to assume that Lender will make advances in the absence of strict compliance with any or all thereof, and no other Person shall, under any circumstances, be deemed to be a beneficiary of this Agreement or the Loan Documents, any provisions of which may be freely waived in whole or in part by the Lender at any time if, in its sole discretion, it deems it desirable to do so.

b) Borrower is not Lender's Agent. Nothing in this Agreement, the Note, the Security Agreement or any other Loan Document shall be construed to make the Borrower the Lender's agent for any purpose whatsoever, or the Borrower and Lender partners, or joint or co-venturers, and the relationship of the parties shall, at all times, be that of debtor and creditor.

c) Evidence of Satisfaction of Conditions. Lender shall, at all times, be free independently to establish to its good faith and satisfaction, and in its absolute discretion, the existence or nonexistence of a fact or facts which are disclosed in documents or other evidence required by the terms of this Agreement.

d) Headings. The headings of the sections, paragraphs and subdivisions of this Agreement are for the convenience of reference only, and shall not limit or otherwise affect any of the terms hereof.

e) Invalid Provisions to Affect No Others. If performance of any provision hereof or any transaction related hereto is limited by law, then the obligation to be performed shall be reduced accordingly; and if any clause or provision herein contained operates or would prospectively operate to invalidate this Agreement in part, then the invalid part of said clause or provision only shall be held for naught, as though not contained herein, and the remainder of this Agreement shall remain operative and in full force and effect.

f) Application of Interest to Reduce Principal Sums Due. In the event that any charge, interest or late charge is above the maximum rate provided by law, then any excess amount over the lawful rate shall be applied by Lender to reduce the principal sum of the Loan or any other amounts due Lender hereunder.

g) Governing Law. The laws of the State of Florida shall govern the interpretation and enforcement of this Agreement, without regard to its principles of conflict of law.

h) Number and Gender. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the others and shall apply jointly and severally.

i) Waiver. If Lender shall waive any provisions of the Loan Documents, or shall fail to enforce any of the conditions or provisions of this Agreement, such waiver shall not be deemed to be a continuing waiver and shall never be construed as such; and Lender shall thereafter have the right to insist upon the enforcement of such conditions or provisions. Furthermore, no provision of this Agreement shall be amended, waived, modified, discharged or terminated, except by instrument in writing signed by the parties hereto.

j) Notices. All notices from the Borrower to Lender and Lender to Borrower required or permitted by any provision of this Agreement shall be in writing and sent by registered or certified mail or nationally recognized overnight delivery service and addressed as follows:

| | |
|--------------|--|
| TO LENDER: | HSBC Bank USA, N.A. 2929 Walden Avenue, C-111 Depew, New York 14043 Attention: Commercial Banking |
| TO BORROWER: | 7380 Sand Lake Suite, Suite 500 Orlando, Florida 32819 |

Such addresses may be changed by such notice to the other party. Notice given as hereinabove provided shall be deemed given on the date of its deposit in the United States Mail and, unless sooner actually received, shall be deemed received by the party to whom it is addressed on the third calendar day following the date on which said notice is deposited in the mail, or if a courier system is used, on the date of delivery of the notice.

k) Successors and Assigns. This Agreement shall inure to the benefit of and be binding on the parties hereto and their heirs, legal representatives, successors and assigns; but nothing herein shall authorize the assignment hereof by the Borrower.

l) USA Patriot Act Notice. Lender hereby notifies Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), Lender is required to obtain, verify and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow Lender to identify Borrower in accordance with the Act.

m) Counterparts, Facsimiles. This Agreement and any of the Loan Documents may be executed in counterparts. Each executed counterpart of this Agreement or any Loan Document will constitute an original document, and all executed counterparts, together, will constitute the same agreement. Any counterpart evidencing signature by one party that is delivered by facsimile by such party to the other party hereto shall be binding on the sending party when such facsimile is sent, and such sending party shall within ten (10) days thereafter deliver to the other parties a hard copy of such executed counterpart containing the original signature of such party or its authorized representative.

n) Conflict. In the event of a conflict between the terms of this Agreement and the other Loan Documents, the terms of this agreement shall control.

o) WAIVER OF JURY TRIAL. LENDER AND BORROWER HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE THE RIGHT ANY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT AND ANY AGREEMENT TO BE CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER ENTERING INTO THIS AGREEMENT.

IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be executed on the date first above written.

BORROWER:

CODA OCTOPUS GROUP, INC., a Delaware corporation

By: /s/

Mike Midgley, Acting Chief Financial Officer

CODA OCTOPUS PRODUCTS, INC., a Delaware corporation

By: /s/

Mike Midgley, Acting Chief Financial Officer

CODA OCTOPUS COLMEK, INC., a Utah corporation

By: /s/

Mike Midgley, Chief Executive Officer

LENDER:

HSBC BANK USA, N.A.

By: /s/

Joseph A. Davis, Senior Vice President

Exhibit “A”

Existing Litigation of Borrower

None.

Exhibit "B"

FORM OF COMPLIANCE CERTIFICATE (BORROWER)

_____, 201__

I refer to the Loan Agreement dated April __, 2017, between CODA OCTOPUS, INC., a Delaware corporation, CODA OCTOPUS PRODUCTS, INC., a Delaware corporation, and CODA OCTOPUS COLMEK, INC., a Utah corporation (individually and/or collectively the "Borrower"), and HSBC BANK USA, N.A. ("HSBC" or "Lender") (as amended, restated, supplemented or modified from time to time, the "**Loan Agreement**"). Unless otherwise defined herein, terms defined in the Loan Agreement are used herein with the same meanings.

I, _____, holding the office of each Borrower set forth below, do hereby certify on behalf of the Borrower as of the quarter ending _____, (the "**Report Date**"), as follows:

(1) The Borrower has performed and complied in all material respects with all covenants and conditions contained in the Loan Documents;

(2) No Event of Default (as defined in the Loan Agreement) has occurred and is continuing or exists under the Note and the other Loan Documents;

(3) All representations and warranties of the Borrower are true and correct in all material respects on the date hereof, except to the extent that such representations and warranties expressly relate solely to an earlier date (in which case such representations and warranties were true and accurate on and as of such earlier date) or by their nature can no longer be true and correct as the result of events not prohibited by the Loan Documents;

(4) Borrower has maintained an aggregate Fixed Charge Coverage Ratio of not less than 1.50 to 1.00 [actual of _____ to 1.00 based on calculations attached];

(5) Borrower has maintained an aggregate ratio of total liabilities to tangible net worth of less than 3.00 to 1.00 [actual of _____ to 1.00 based on calculations attached]; and

(6) Borrower has made all principal payments, including the annual \$700,000 payment, under the Loan when due.

Supporting financial information and covenant calculations are included in the financial statements and other information attached hereto.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this ____ day of _____, 20__.

BORROWER:

CODA OCTOPUS GROUP, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

CODA OCTOPUS PRODUCTS, INC., a Delaware corporation

By: _____
Name: _____
Title: _____

CODA OCTOPUS COLMEK, INC., a Utah corporation

By: _____
Name: _____
Title: _____

SECURITY AGREEMENT

This SECURITY AGREEMENT (this "Security Agreement"), dated as of this ____ day of April, 2017, is executed by and between CODA OCTOPUS GROUP, INC., a Delaware corporation (the "Debtor"), whose notice address is 7380 Sand Lake Road, Suite 500, Orlando, Florida 32819, and HSBC BANK USA, N.A., its successors and/or assigns (the "Bank"), whose address is 2929 Walden Avenue, C-111, Depew New York 14043.

RECITALS

A. Debtor has requested and Bank has agreed to make a loan (the "Loan") to Debtor, CODA OCTOPUS PRODUCTS, INC., a Delaware corporation, and CODA OCTOPUS COLMEK, INC., a Utah corporation (individually and/or collectively, the "Borrower") as evidenced by that certain Promissory Note dated as of even date herewith from Borrower in favor of Bank in the original principal amount of \$8,000,000.00 (as the same may be amended or modified from time to time, the "Note"), which Note is secured, in part, by (i) this Security Agreement, (ii) that certain Security Agreement dated of even date herewith from CODA OCTOPUS PRODUCTS, INC., a Delaware corporation in favor of Bank, (iii) that certain Security Agreement dated of even date herewith from CODA OCTOPUS COLMEK, INC., a Utah corporation in favor of Bank, and (iv) all other documents executed in connection with the Loan.

B. As a condition to the Bank's making the Loan to Debtor, the Bank requires that the Debtor enter into this Security Agreement in order to secure the obligations and performance of the Debtor under the Loan.

NOW THEREFORE, in consideration of the premises, and the mutual covenants and agreements set forth herein, the Debtor and the Bank hereby agree as follows:

AGREEMENTS:

Section 1 DEFINITIONS.

1.1 Defined Terms. For the purposes of this Security Agreement, the following capitalized words and phrases shall have the meanings set forth below.

"Affiliate" of the Bank shall mean (a) any entity which, directly or indirectly, controls or is controlled by or is under common control with the Bank, and (b) any entity administered or managed by the Bank, or an Affiliate or investment advisor thereof and which is engaged in making, purchasing, holding or otherwise investing in commercial loans. An entity shall be deemed to be "controlled by" another entity if such other entity possesses, directly or indirectly, power to direct or cause the direction of the management and policies of such entity whether by contract, ownership of voting securities, membership interests or otherwise.

"Bank Product Agreements" shall mean those certain cash management service agreements entered into from time to time by an Obligor or any Subsidiary with the Bank or any Affiliate of the Bank concerning Bank Products.

"Bank Product Obligations" shall mean all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by an Obligor or any Subsidiary to the Bank or any Affiliate of the Bank pursuant to or evidenced by the Bank Product Agreements and irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

“Bank Products” shall mean any service or facility extended to an Obligor or any Subsidiary by the Bank or any Affiliate of the Bank, including: (a) credit cards, (b) credit card processing services, (c) debit cards, (d) purchase cards, (e) ACH transactions, (f) cash management, including controlled disbursement, accounts or services, or (g) Hedging Agreements.

“Bankruptcy Code” shall mean the United States Bankruptcy Code, as now existing or hereafter amended.

“Business Day” shall mean any day other than a Saturday, Sunday or a legal holiday on which banks are authorized or required to be closed for the conduct of commercial banking business in Orlando, Florida.

“Capital Lease” shall mean, as to any Person, a lease of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, by such Person, as lessee, that is, or should be, in accordance with Financial Accounting Standards Board Statement No. 13, as amended from time to time, or, if such statement is not then in effect, such statement of GAAP as may be applicable, recorded as a “capital lease” on the financial statements of such Person prepared in accordance with GAAP.

“Capital Securities” shall mean, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent of such ownership interest.

“Capitalized Lease Obligations” shall mean, as to any Person, all rental obligations of such Person, as lessee under a Capital Lease which are or will be required to be capitalized on the books of such Person.

“Collateral” shall have the meaning set forth in Section 2.1 hereof.

“Collateral Access Agreement” shall mean an agreement in form and substance reasonably satisfactory to the Bank pursuant to which a mortgagee or lessor of real property on which Collateral is stored or otherwise located, or a warehouseman, processor or other bailee of Inventory or other property owned by the Debtor or any Subsidiary, acknowledges the Liens of the Bank and waives any Liens held by such Person on such property, and, in the case of any such agreement with a mortgagee or lessor, permits the Bank reasonable access to and use of such real property following the occurrence and during the continuance of an Event of Default to assemble, complete and sell any collateral stored or otherwise located thereon.

“Default Rate” shall mean a per annum rate of interest equal to lesser of (i) the “Interest Rate” (as defined in the Note) plus four percent (4.00%) per annum, or (ii) the highest rate authorized by applicable law.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Event of Default” shall have the meaning set forth in Section 5 hereof.

“GAAP” shall mean generally accepted accounting principles consistently applied, as adopted in the United States, and as amended from time to time.

“Hedging Agreements” shall mean any interest rate, currency or commodity swap agreement, cap agreement or collar agreement, and any other agreement or arrangement designed to protect a Person against fluctuations in interest rates, currency exchange rates or commodity prices.

“Hedging Obligation” shall mean, with respect to any Person, any liability of such Person under any Hedging Agreement.

“Letter of Credit” and “Letters of Credit” shall mean, respectively, a letter of credit and all such letters of credit issued by the Bank, in its sole discretion, for the account of an Obligor.

“Lien” shall mean, with respect to any Person, any interest granted by such Person in any real or personal property, asset or other right owned or being purchased or acquired by such Person (including an interest in respect of a Capital Lease) which secures payment or performance of any obligation and shall include any mortgage, lien, encumbrance, title retention lien, charge or other security interest of any kind, whether arising by contract, as a matter of law, by judicial process or otherwise.

“Loan Documents” shall mean each of the agreements, documents, instruments and certificates from time to time executed and delivered by an Obligor or any of their Subsidiaries for the benefit of the Bank in connection with the Obligations, and all amendments, restatements, supplements and other modifications thereto.

“Material Adverse Effect” shall mean (a) a material adverse change in, or a material adverse effect upon, the assets, business, properties, condition (financial or otherwise) or results of operations of an Obligor taken as a whole, (b) a material impairment of the ability of an Obligor to perform any of the Obligations under any of the Loan Documents, or (c) a material adverse effect on (i) any substantial portion of the Collateral, (ii) the legality, validity, binding effect or enforceability against an Obligor and its Subsidiaries of any of the Loan Documents, (iii) the perfection or priority of any Lien granted to the Bank under any Loan Document, or (iv) the rights or remedies of the Bank under any Loan Document.

“Obligations” shall mean all loans, advances and other financial accommodations of any Obligor, including, but not limited to, the Loan (as defined in Recital “A” above), all interest accrued thereon (including interest which would be payable as post-petition in connection with any bankruptcy or similar proceeding, whether or not permitted as a claim thereunder), any fees due the Bank under the Loan Documents, any expenses incurred by the Bank under the Loan Documents and any and all other liabilities and obligations of any Obligor to the Bank, including any reimbursement obligations of an Obligor in respect of Letters of Credit and surety bonds, all Hedging Obligations of an Obligor which are owed to the Bank or any Affiliate of the Bank, and all Bank Product Obligations of an Obligor, all in each case howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, now or hereafter existing, or due or to become due, together with any and all renewals or extensions thereof.

“Obligor” shall mean the Debtor, any guarantor, accommodation endorser, third party pledgor, or any other party liable with respect to the Obligations.

“Organizational Identification Number” means, with respect to Debtor, the organizational identification number assigned to such Debtor by the applicable governmental unit or agency of the jurisdiction of organization of such Debtor.

“Permitted Liens” shall mean (a) Liens for Taxes, assessments or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and, in each case, for which it maintains adequate reserves in accordance with GAAP and in respect of which no Lien has been filed; (b) Liens arising in connection with Capitalized Lease Obligations (and attaching only to the property being leased); (c) Liens granted to the Bank hereunder and under the Loan Documents; and (d) Liens referred to on Exhibit A attached hereto and made a part hereof,

“Person” shall mean any natural person, partnership, limited liability company, corporation, trust, joint venture, joint stock company, association, unincorporated organization, government or agency or political subdivision thereof, or other entity, whether acting in an individual, fiduciary or other capacity.

“Subsidiary” and “Subsidiaries” shall mean, respectively, with respect to any Person, each and all such corporations, partnerships, limited partnerships, limited liability companies, limited liability partnerships, joint ventures or other entities of which or in which such Person owns, directly or indirectly, such number of outstanding Capital Securities as have more than fifty percent (50.00%) of the ordinary voting power for the election of directors or other managers of such corporation, partnership, limited liability company or other entity. Unless the context otherwise requires, each reference to Subsidiaries herein shall be a reference to Subsidiaries of the Debtor.

“Taxes” shall mean any and all present and future taxes, duties, levies, imposts, deductions, assessments, charges or withholdings, and any and all liabilities (including interest and penalties and other additions to taxes) with respect to the foregoing.

“UCC” shall mean the Uniform Commercial Code in effect in the state of Florida from time to time.

1.2 Other Terms Defined in UCC. All other capitalized words and phrases used herein and not otherwise specifically defined herein shall have the respective meanings assigned to such terms in the UCC, to the extent the same are used or defined therein.

1.3 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms. Whenever the context so requires, the neuter gender includes the masculine and feminine, the single number includes the plural, and vice versa, and in particular the word “Debtor” shall be so construed.

(b) Section and Schedule references are to this Security Agreement unless otherwise specified. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Security Agreement shall refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement.

(c) The term “including” is not limiting, and means “including, without limitation”.

(d) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding”, and the word “through” means “to and including”.

(e) Unless otherwise expressly provided herein, (i) references to agreements (including this Security Agreement and the other Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, supplements and other modifications thereto, but only to the extent such amendments, restatements, supplements and other modifications are not prohibited by the terms of any Loan Document, and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

(f) To the extent any of the provisions of the other Loan Documents are inconsistent with the terms of this Security Agreement, the provisions of this Security Agreement shall govern.

(g) This Security Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and each shall be performed in accordance with its terms.

Section 2 SECURITY FOR THE OBLIGATIONS.

2 . 1 Security for Obligations. As security for the payment and performance of the Obligations, Debtor does hereby pledge, assign, transfer, deliver and grant to the Bank, for its own benefit and as agent for its Affiliates, a continuing and unconditional first priority security interest in and to any and all property of Debtor, of any kind or description, tangible or intangible, wherever located and whether now existing or hereafter arising or acquired, including the following (all of which property, along with the products and proceeds therefrom, are individually and collectively referred to as the “Collateral”):

(a) the property of Debtor, whether now existing or hereafter arising or acquired, and wherever now or hereafter located, together with all additions and accessions thereto, substitutions, betterments and replacements therefor, products and Proceeds therefrom, and all of Debtor’s books and records and recorded data relating thereto (regardless of the medium of recording or storage), together with all of Debtor’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, identified and set forth as follows:

(i) All Accounts and all Goods whose sale, lease or other disposition by Debtor has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, any Debtor, or rejected or refused by an Account Debtor;

(ii) All Inventory, including raw materials, work-in-process and finished goods;

(iii) All Goods (other than Inventory), including embedded software, Equipment, vehicles, furniture and Fixtures;

- (iv) All Software and computer programs, trademarks, patents, licensing agreements and other General Intangibles;
- (v) All Securities, Investment Property, Financial Assets and Deposit Accounts;
- (vi) All Chattel Paper, Electronic Chattel Paper, Instruments, Documents, Letter of Credit Rights, all proceeds of letters of credit, Health-Care-Insurance Receivables, Supporting Obligations, notes secured by real estate, Commercial Tort Claims and General Intangibles, including Payment Intangibles; and
- (vii) All Proceeds (whether Cash Proceeds or Noncash Proceeds) of the foregoing property, including all insurance policies and proceeds of insurance payable by reason of loss or damage to the foregoing property, including unearned premiums, and of eminent domain or condemnation awards.

Notwithstanding the foregoing, the Collateral shall not include the Equipment described on Exhibit A attached hereto.

2.2 Possession and Transfer of Collateral. Debtor shall be entitled to possession or use of the Collateral (other than Instruments or Documents including Tangible Chattel Paper and Investment Property consisting of certificated securities) and other Collateral required to be delivered to the Bank pursuant to this Section 2. The cancellation or surrender of any promissory note evidencing an Obligation, upon payment or otherwise, shall not affect the right of the Bank to retain the Collateral for any other of the Obligations. Debtor shall not sell, assign (by operation of law or otherwise), license, lease or otherwise dispose of, or grant any option with respect to any of the Collateral, except that Debtor may sell Inventory in the ordinary course of business.

2.3 Financing Statements. Debtor shall, at the Bank's request, at any time and from time to time, execute and deliver to the Bank such financing statements, amendments and other documents and do such acts as the Bank deems necessary in order to establish and maintain valid, attached and perfected first priority security interests in the Collateral in favor of the Bank, for its own benefit and as agent for its Affiliates, free and clear of all Liens and claims and rights of third parties whatsoever, except Permitted Liens. Debtor hereby irrevocably authorizes the Bank at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto without the signature of Debtor that (a) indicate the Collateral (i) is comprised of all assets of Debtor or words of similar effect, regardless of whether any particular asset comprising a part of the Collateral falls within the scope of Article 9 of the Uniform Commercial Code of the jurisdiction wherein such financing statement or amendment is filed, or (ii) as being of an equal or lesser scope or within greater detail as the grant of the security interest set forth herein, and (b) contain any other information required by Section 5 of Article 9 of the Uniform Commercial Code of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether Debtor is an organization, the type of organization and any Organizational Identification Number issued to Debtor, and (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of the real property to which the Collateral relates. Debtor hereby agrees that a photogenic or other reproduction of this Security Agreement is sufficient for filing as a financing statement and Debtor authorizes the Bank to file this Security Agreement as a financing statement in any jurisdiction. Debtor agrees to furnish any such information to the Bank promptly upon request. Debtor further ratifies and affirms its authorization for any financing statements and/or amendments thereto, executed and filed by the Bank in any jurisdiction prior to the date of this Security Agreement. In addition, Debtor shall make appropriate entries on its books and records disclosing the security interests of the Bank, for its own benefit and as agent for its Affiliates, in the Collateral.

2.4 Preservation of the Collateral. The Bank may, but is not required, to take such actions from time to time as the Bank deems appropriate to maintain or protect the Collateral. The Bank shall have exercised reasonable care in the custody and preservation of the Collateral if the Bank takes such action as Debtor shall reasonably request in writing which is not inconsistent with the Bank's status as a secured party, but the failure of the Bank to comply with any such request shall not be deemed a failure to exercise reasonable care; provided, however, the Bank's responsibility for the safekeeping of the Collateral shall (i) be deemed reasonable if such Collateral is accorded treatment substantially equal to that which the Bank accords its own property, and (ii) not extend to matters beyond the control of the Bank, including acts of God, war, insurrection, riot or governmental actions. In addition, any failure of the Bank to preserve or protect any rights with respect to the Collateral against prior or third parties, or to do any act with respect to preservation of the Collateral, not so requested by the Debtor, shall not be deemed a failure to exercise reasonable care in the custody or preservation of the Collateral. Debtor shall have the sole responsibility for taking such action as may be necessary, from time to time, to preserve all rights of Debtor and the Bank in the Collateral against prior or third parties. Without limiting the generality of the foregoing, where Collateral consists in whole or in part of securities, Debtor represents to, and covenants with, the Bank that Debtor has made arrangements for keeping informed of changes or potential changes affecting the securities (including rights to convert or subscribe, payment of dividends, reorganization or other exchanges, tender offers and voting rights), and Debtor agrees that the Bank shall have no responsibility or liability for informing Debtor of any such or other changes or potential changes or for taking any action or omitting to take any action with respect thereto.

2.5 Other Actions as to any and all Collateral. Within ten (10) days of written notice from Bank, Debtor further agrees to take any other action reasonably requested by the Bank to ensure the attachment, perfection and first priority of, and the ability of the Bank to enforce, the security interest of the Bank, for its own benefit and as agent for its Affiliates, in any and all of the Collateral including (a) causing the Bank's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Bank to enforce, the security interest of the Bank, for its own benefit and as agent for its Affiliates, in such Collateral, (b) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Bank to enforce, the security interest of the Bank, for its own benefit and as agent for its Affiliates, in such Collateral, (c) obtaining governmental and other third party consents and approvals, including any consent of any licensor, lessor or other Person obligated on Collateral, (d) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Bank (provided, however, such waivers shall only be required from the mortgagees and landlords of the Debtor's main offices located in Orlando, Florida, unless otherwise required by Bank in its sole and absolute discretion), and (e) taking all actions required by the UCC in effect from time to time or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction. Debtor further agrees to indemnify and hold the Bank harmless against claims of any Persons not a party to this Security Agreement concerning disputes arising over the Collateral.

2.6 Collateral in the Possession of a Warehouseman or Bailee. If any of the Collateral at any time is in the possession of a warehouseman or bailee, Debtor shall promptly notify the Bank thereof, and shall promptly obtain a Collateral Access Agreement.

2.7 Letter-of-Credit Rights. If any Debtor at any time is a beneficiary under a letter of credit now or hereafter issued in favor of such Debtor, such Debtor shall promptly notify the Bank thereof and, upon the occurrence of an Event of Default, at the request and option of the Bank, such Debtor shall, pursuant to an agreement in form and substance satisfactory to the Bank, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Bank, for its own benefit and as agent for its Affiliates, of the proceeds of any drawing under the letter of credit, or (ii) arrange for the Bank, for its own benefit and as agent for its Affiliates, to become the transferee beneficiary of the letter of credit, with the Bank agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in this Security Agreement.

2 . 8 Commercial Tort Claims. If any Debtor shall at any time hold or acquire a Commercial Tort Claim, such Debtor shall immediately notify the Bank in writing signed by such Debtor of the details thereof and grant to the Bank, for its own benefit and as agent for its Affiliates, in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Security Agreement, in each case in form and substance satisfactory to the Bank, and shall execute any amendments hereto deemed reasonably necessary by the Bank to perfect the security interest of the Bank, for its own benefit and as agent for its Affiliates, in such Commercial Tort Claim.

2.9 Electronic Chattel Paper and Transferable Records. If any Debtor at any time holds or acquires an interest in any electronic chattel paper or any "transferable record", as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, such Debtor shall promptly notify the Bank thereof and, at the request of the Bank, shall take such action as the Bank may reasonably request to vest in the Bank control under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, §16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. The Bank agrees with Debtor that the Bank will arrange, pursuant to procedures satisfactory to the Bank and so long as such procedures will not result in the Bank's loss of control, for any Debtor to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act for a party in control to make without loss of control.

Section 3 REPRESENTATIONS AND WARRANTIES.

Debtor makes the following representations and warranties to the Bank:

3.1 Debtor Organization and Name. Debtor is a corporation duly organized, existing and in good standing under the laws of the State of Delaware, with full and adequate power to carry on and conduct its business as presently conducted and each of its Subsidiaries is validly existing and in good standing under the laws of the jurisdiction of its incorporation. Debtor and each of its Subsidiaries are duly licensed or qualified in all foreign jurisdictions wherein the nature of its activities requires such qualification or licensing. The Organizational Identification Number of Debtor is 2867192. The exact legal name of each Debtor is as set forth in the first paragraph of this Security Agreement, and each Debtor and its Subsidiaries currently do not conduct, nor have they, during the last five (5) years, conducted business under any other name or trade name.

3 . 2 Authorization. Debtor has full right, power and authority to enter into this Security Agreement and to perform all of its duties and obligations under this Security Agreement. The execution and delivery of this Security Agreement and the other Loan Documents will not, nor will the observance or performance of any of the matters and things herein or therein set forth, violate or contravene any provision of law or of the articles of incorporation or bylaws of Debtor. All necessary and appropriate action has been taken on the part of Debtor to authorize the execution and delivery of this Security Agreement.

3 . 3 Validity and Binding Nature. This Security Agreement is the legal, valid and binding obligation of Debtor, enforceable against Debtor in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

3 . 4 Consent; Absence of Breach. The execution, delivery and performance of this Security Agreement and any other documents or instruments to be executed and delivered by Debtor in connection herewith, do not and will not (a) require any consent, approval, authorization, or filings with, notice to or other act by or in respect of, any governmental authority or any other Person (other than any consent or approval which has been obtained and is in full force and effect); (b) conflict with (i) any provision of law or any applicable regulation, order, writ, injunction or decree of any court or governmental authority, (ii) the articles of incorporation or bylaws of Debtor or any of its Subsidiaries, or (iii) any material agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon Debtor or any of its Subsidiaries or any of its respective properties or assets; or (c) require, or result in, the creation or imposition of any Lien on any asset of any Debtor or any of its Subsidiaries, other than Liens in favor of the Bank created pursuant to this Security Agreement.

3 . 5 Ownership of Collateral; Liens. Debtor is the sole owner or has other rights in all of the Collateral, free and clear of all Liens, charges and claims (including infringement claims with respect to patents, trademarks, service marks, copyrights and the like), other than Permitted Liens.

3 . 6 Adverse Circumstances. No condition, circumstance, event, agreement, document, instrument, restriction, litigation or proceeding (or threatened litigation or proceeding or basis therefor) exists which (a) would have a Material Adverse Effect upon any Debtor, or (b) would constitute an Event of Default.

3.7 Security Interest. This Security Agreement creates a valid security interest in favor of the Bank in the Collateral and, when properly perfected by filing in the appropriate jurisdictions, or by possession or Control of such Collateral by the Bank or delivery of such Collateral to the Bank, shall constitute a valid, perfected, first-priority security interest in such Collateral.

3 . 8 Place of Business. The principal place of business and books and records of Debtor is set forth in the preamble to this Security Agreement, and the location of all Collateral, if other than at such principal place of business, is as set forth on the Debtor's information certificates provided in connection herewith, and Debtor shall promptly notify the Bank of any change in such locations. Debtor will not remove or permit the Collateral to be removed from such locations without the prior written consent of the Bank, except for Inventory sold in the usual and ordinary course of the Debtor's business.

3 . 9 Complete Information. This Security Agreement and all financial statements, schedules, certificates, confirmations, agreements, contracts, and other materials and information heretofore or contemporaneously herewith furnished in writing by Debtor to the Bank for purposes of, or in connection with, this Security Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of Debtor to the Bank pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by the Bank that any projections and forecasts provided by Debtor are based on good faith estimates and assumptions believed by Debtor to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

Section 4 AFFIRMATIVE COVENANTS.

4.1 Debtor Existence. Debtor shall at all times preserve and maintain (a) its existence and good standing in the jurisdiction of its incorporation, and (b) its qualification to do business and good standing in each jurisdiction where the nature of its business makes such qualification necessary (other than such jurisdictions in which the failure to be qualified or in good standing could not reasonably be expected to have a Material Adverse Effect), and shall at all times continue as a going concern in the business which the Debtor is presently conducting.

4.2 Compliance With Laws. Debtor shall comply, and cause each Subsidiary to comply, in all respects, including the conduct of its business and operations and the use of the Collateral, with all applicable laws, rules, regulations, decrees, orders, judgments, licenses and permits, except where failure to comply could not reasonably be expected to have a Material Adverse Effect.

4.3 Payment of Taxes and Liabilities. Debtor shall pay, and cause each Subsidiary to pay, and discharge, prior to delinquency and before penalties accrue thereon, all property and other taxes, and all governmental charges or levies against it or any of the Collateral, as well as claims of any kind which, if unpaid, could become a Lien on any of its property; provided that the foregoing shall not require any Debtor or any Subsidiary to pay any such tax or charge so long as it shall contest the validity thereof in good faith by appropriate proceedings and shall set aside on its books adequate reserves with respect thereto in accordance with GAAP and, in the case of a claim which could become a Lien on any of the Collateral, such contest proceedings stay the foreclosure of such Lien or the sale of any portion of the Collateral to satisfy such claim.

4.4 Maintain Property. Debtor shall at all times maintain, preserve and keep the Collateral, in good repair, working order and condition, normal wear and tear excepted, and shall from time to time make all needful and proper repairs, renewals, replacements, and additions thereto so that at all times the efficiency thereof shall be fully preserved and maintained. Debtor shall permit the Bank to examine and inspect such Collateral, at all reasonable times.

4.5 Maintain Insurance. Debtor shall at all times maintain, and cause each Subsidiary to maintain, with insurance companies reasonably acceptable to the Bank, such insurance coverage as may be required by any law or governmental regulation or court decree or order applicable to it and such other insurance, to such extent and against such hazards and liabilities, including credit insurance maintained with a company acceptable to Bank, employers', public and professional liability risks, as is customarily maintained by companies similarly situated, and shall have insured amounts no less than, and deductibles no higher than, are reasonably acceptable to the Bank. Debtor shall furnish to the Bank a certificate setting forth in reasonable detail the nature and extent of all insurance maintained by the Debtor, which shall be reasonably acceptable in all respects to the Bank. Debtor shall cause each issuer of an insurance policy to provide the Bank with an endorsement (i) showing the Bank as loss payee with respect to each policy of property or casualty insurance; and (ii) providing that notice will be given to the Bank in accordance with industry standard principles prior to any cancellation of, material reduction or change in coverage provided by or other material modification to such policy. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, the existing insurance maintained by the Debtor, evidence of which has been provided to Bank, has been approved by the Bank and is acceptable in all respects, and Bank shall not require any changes to such insurance or require any additional coverages other than to add Bank as mortgagee as to casualty and additional insured as to liability coverage.

In the event any Debtor either fails to provide the Bank with evidence of the insurance coverage required by this Section or at any time hereafter shall fail to obtain or maintain any of the policies of insurance required above, or to pay any premium in whole or in part relating thereto, then the Bank, without waiving or releasing any obligation or default by any Debtor hereunder, may, at any time (but shall be under no obligation to so act), obtain and maintain such policies of insurance and pay such premiums and take any other action with respect thereto, which the Bank deems advisable. This insurance coverage (a) may, but need not, protect any Debtor's interests in such property, including the Collateral, and (b) may not pay any claim made by, or against, any Debtor in connection with such property, including the Collateral. Any Debtor may later cancel any such insurance purchased by the Bank, but only after providing the Bank with evidence that the Debtor has obtained the insurance coverage required by this Section. If the Bank purchases insurance for the Collateral, the Debtor will be responsible for the costs of that insurance, including interest and any other charges that may be imposed with the placement of the insurance, until the effective date of the cancellation or expiration of the insurance. The costs of the insurance may be added to the principal amount of the Loans owing hereunder. The costs of the insurance may be more than the cost of the insurance the Debtor may be able to obtain on its own.

4.6 Collateral Records. If requested in writing by Bank, Debtor shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate the Bank's Lien in the Collateral including placing a legend, in form and content acceptable to the Bank, on all Chattel Paper (unless otherwise required by Bank, excluding certificates of title with respect to vehicles owned by Debtor) created by the Debtor indicating that the Bank has a Lien in such Chattel Paper.

Section 5 REMEDIES.

Upon the occurrence of an event of default under any of the Obligations or any default in the payment or performance of any of the covenants, conditions and agreements contained in this Security Agreement (an "Event of Default"), the Bank shall have all rights, powers and remedies set forth in this Security Agreement or the other Loan Documents or in any other written agreement or instrument relating to any of the Obligations or any security therefor, as a secured party under the UCC or as otherwise provided at law or in equity. Without limiting the generality of the foregoing, the Bank may, at its option upon the occurrence of an Event of Default, declare its commitments to the Debtor to be terminated and all Obligations to be immediately due and payable, or, if provided in the Loan Documents, all commitments of the Bank to the Debtor shall immediately terminate and all Obligations shall be automatically due and payable, all without demand, notice or further action of any kind required on the part of the Bank. Debtor hereby waives any and all presentment, demand, notice of dishonor, protest, and all other notices and demands in connection with the enforcement of Bank's rights under the Loan Documents, and hereby consents to, and waives notice of release, with or without consideration, of any Collateral, notwithstanding anything contained herein or in the Loan Documents to the contrary; provided, however, the Bank shall give Debtor prompt notice of the taking of any such Collateral. In addition to the foregoing:

5.1 Possession and Assembly of Collateral. The Bank may, without notice, demand or legal process of any kind, take possession of any or all of the Collateral (in addition to Collateral of which the Bank already has possession), wherever it may be found, and for that purpose may pursue the same wherever it may be found, and may at any time enter into any of the Debtor's premises where any of the Collateral may be or is supposed to be, and search for, take possession of, remove, keep and store any of the Collateral until the same shall be sold or otherwise disposed of and the Bank shall have the right to store and conduct a sale of the same in any of the Debtor's premises without cost to the Bank. At the Bank's request, the Debtor will, at the Debtor's sole expense, assemble the Collateral and make it available to the Bank at a place or places to be designated by the Bank which is reasonably convenient to the Bank and the Debtor.

5.2 Sale of Collateral. The Bank may sell any or all of the Collateral at public or private sale, upon such terms and conditions as the Bank may deem proper, and the Bank may purchase any or all of the Collateral at any such sale. Debtor acknowledges that the Bank may be unable to effect a public sale of all or any portion of the Collateral because of certain legal and/or practical restrictions and provisions which may be applicable to the Collateral and, therefore, may be compelled to resort to one or more private sales to a restricted group of offerees and purchasers. Debtor consents to any such private sale so made even though at places and upon terms less favorable than if the Collateral was sold at public sale. The Bank shall have no obligation to clean-up or otherwise prepare the Collateral for sale. The Bank may apply the net proceeds, after deducting all costs, expenses, attorneys' and paralegals' fees incurred or paid at any time in the collection, protection and sale of the Collateral and the Obligations, to the payment of the Obligations, returning the excess proceeds, if any, to the Debtor. The Debtor shall remain liable for any amount remaining unpaid after such application, with interest at the Default Rate. Any notification of intended disposition of the Collateral required by law shall be conclusively deemed reasonably and properly given if given by the Bank at least ten (10) calendar days before the date of such disposition. Debtor hereby confirms, approves and ratifies all acts and deeds of the Bank relating to the foregoing, and each part thereof, and expressly waives any and all claims of any nature, kind or description which it has or may hereafter have against the Bank or its representatives, by reason of taking, selling or collecting any portion of the Collateral. Debtor consents to releases of the Collateral at any time (including prior to default) and to sales of the Collateral in groups, parcels or portions, or as an entirety, as the Bank shall deem appropriate. Debtor expressly absolves the Bank from any loss or decline in market value of any Collateral by reason of delay in the enforcement or assertion or nonenforcement of any rights or remedies under this Security Agreement.

5.3 Standards for Exercising Remedies. To the extent that applicable law imposes duties on the Bank to exercise remedies in a commercially reasonable manner, Debtor acknowledges and agrees that it is not commercially unreasonable for the Bank (a) to fail to incur expenses reasonably deemed significant by the Bank to prepare Collateral for disposition or otherwise to complete raw material or work-in-process into finished goods or other finished products for disposition, (b) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against Account Debtors or other Persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against Account Debtors and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other Persons, whether or not in the same business as the Debtor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, (j) to disclaim disposition warranties, including any warranties of title, (k) to purchase insurance or credit enhancements to insure the Bank against risks of loss, collection or disposition of Collateral or to provide to the Bank a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Bank, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist the Bank in the collection or disposition of any of the Collateral. Debtor acknowledges that the purpose of this section is to provide non-exhaustive indications of what actions or omissions by the Bank would not be commercially unreasonable in the Bank's exercise of remedies against the Collateral and that other actions or omissions by the Bank shall not be deemed commercially unreasonable solely on account of not being indicated in this section. Without limitation upon the foregoing, nothing contained in this section shall be construed to grant any rights to the Debtor or to impose any duties on the Bank that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this section.

5.4 UCC and Offset Rights. The Bank may exercise, from time to time, any and all rights and remedies available to it under the UCC or under any other applicable law in addition to, and not in lieu of, any rights and remedies expressly granted in this Security Agreement or in any other agreements between any Obligor and the Bank, and may, without demand or notice of any kind, appropriate and apply toward the payment of such of the Obligations, whether matured or unmatured, including costs of collection and attorneys' and paralegals' fees, and in such order of application as the Bank may, from time to time, elect, any indebtedness of the Bank to any Obligor, however created or arising, including balances, credits, deposits, accounts or moneys of such Obligor in the possession, control or custody of, or in transit to the Bank. Debtor, on behalf of itself and each Obligor, hereby waives the benefit of any law that would otherwise restrict or limit the Bank in the exercise of its right, which is hereby acknowledged, to appropriate at any time hereafter any such indebtedness owing from the Bank to any Obligor.

5.5 Additional Remedies. The Bank shall have the right and power to:

(a) instruct Debtor, at its own expense, to notify any parties obligated on any of the Collateral, including any Account Debtors, to make payment directly to the Bank of any amounts due or to become due thereunder, or, the Bank may directly notify such obligors of the security interest of the Bank, and/or of the assignment to the Bank of the Collateral and direct such obligors to make payment to the Bank of any amounts due or to become due with respect thereto, and thereafter, collect any such amounts due on the Collateral directly from such Persons obligated thereon;

(b) enforce collection of any of the Collateral, including any Accounts, by suit or otherwise, or make any compromise or settlement with respect to any of the Collateral, or surrender, release or exchange all or any part thereof, or compromise, extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder;

(c) take possession or control of any proceeds and products of any of the Collateral, including the proceeds of insurance thereon;

(d) extend, renew or modify for one or more periods (whether or not longer than the original period) the Obligations or any obligation of any nature of any other obligor with respect to the Obligations;

(e) grant releases, compromises or indulgences with respect to the Obligations, any extension or renewal of any of the Obligations, any security therefor, or to any other obligor with respect to the Obligations;

(f) transfer the whole or any part of securities which may constitute Collateral into the name of the Bank or the Bank's nominee without disclosing, if the Bank so desires, that such securities so transferred are subject to the security interest of the Bank, and any corporation, association, or any of the managers or trustees of any trust issuing any of such securities, or any transfer agent, shall not be bound to inquire, in the event that the Bank or such nominee makes any further transfer of such securities, or any portion thereof, as to whether the Bank or such nominee has the right to make such further transfer, and shall not be liable for transferring the same;

(g) vote the Collateral;

(h) make an election with respect to the Collateral under Section 1111 of the Bankruptcy Code or take action under Section 364 or any other section of the Bankruptcy Code; provided, however, that any such action of the Bank as set forth herein shall not, in any manner whatsoever, impair or affect the liability of any Debtor hereunder, nor prejudice, waive, nor be construed to impair, affect, prejudice or waive the Bank's rights and remedies at law, in equity or by statute, nor release, discharge, nor be construed to release or discharge, any Debtor, any guarantor or other Person liable to the Bank for the Obligations; and

(i) at any time, and from time to time, accept additions to, releases, reductions, exchanges or substitution of the Collateral, without in any way altering, impairing, diminishing or affecting the provisions of this Security Agreement, the Loan Documents, or any of the other Obligations, or the Bank's rights hereunder, under the Obligations.

Debtor hereby ratifies and confirms whatever the Bank may do with respect to the Collateral and agrees that the Bank shall not be liable for any error of judgment or mistakes of fact or law with respect to actions taken in connection with the Collateral.

5.6 Attorney-in-Fact. Debtor hereby irrevocably makes, constitutes and appoints the Bank (and any officer of the Bank or any Person designated by the Bank for that purpose) as the Debtor's true and lawful proxy and attorney-in-fact (and agent-in-fact) in the Debtor's name, place and stead, with full power of substitution, to (i) take such actions as are permitted in this Security Agreement, (ii) execute such financing statements and other documents and to do such other acts as the Bank may require to perfect and preserve the Bank's security interest in, and to enforce such interests in the Collateral, and (iii) carry out any remedy provided for in this Security Agreement, including endorsing the Debtor's name to checks, drafts, instruments and other items of payment, and proceeds of the Collateral, executing change of address forms with the postmaster of the United States Post Office serving the address of the Debtor, changing the address of the Debtor to that of the Bank, opening all envelopes addressed to the Debtor and applying any payments contained therein to the Obligations. The Debtor hereby acknowledges that the constitution and appointment of such proxy and attorney-in-fact are coupled with an interest and are irrevocable. Debtor hereby ratifies and confirms all that such attorney-in-fact may do or cause to be done by virtue of any provision of this Security Agreement.

5.7 No Marshaling. The Bank shall not be required to marshal any present or future collateral security (including this Security Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order. To the extent that it lawfully may, Debtor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of the Bank's rights under this Security Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, Debtor hereby irrevocably waives the benefits of all such laws.

5 . 8 Application of Proceeds. The Bank will within three (3) Business Days after receipt of cash or solvent credits from collection of items of payment, proceeds of Collateral or any other source, apply the whole or any part thereof against the Obligations secured hereby. The Bank shall further have the exclusive right to determine how, when and what application of such payments and such credits shall be made on the Obligations, and such determination shall be conclusive upon the Obligor. Any proceeds of any disposition by the Bank of all or any part of the Collateral may be first applied by the Bank to the payment of expenses incurred by the Bank in connection with the Collateral, including attorneys' fees and legal expenses as provided for in Section 6.13 hereof.

5.9 No Waiver. No Event of Default shall be waived by the Bank except in writing. No failure or delay on the part of the Bank in exercising any right, power or remedy hereunder shall operate as a waiver of the exercise of the same or any other right at any other time; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. There shall be no obligation on the part of the Bank to exercise any remedy available to the Bank in any order. The remedies provided for herein are cumulative and not exclusive of any remedies provided at law or in equity. Debtor agrees that in the event that any Debtor fails to perform, observe or discharge any of its Obligations or liabilities under this Security Agreement or any other agreements with the Bank, no remedy of law will provide adequate relief to the Bank, and further agrees that the Bank shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

Section 6 MISCELLANEOUS.

6.1 Entire Agreement. This Security Agreement and the other Loan Documents (i) are valid, binding and enforceable against the Debtor and the Bank in accordance with their respective provisions and no conditions exist as to their legal effectiveness; (ii) constitute the entire agreement between the parties with respect to the subject matter hereof and thereof; and (iii) are the final expression of the intentions of the Debtor and the Bank. No promises, either expressed or implied, exist between the Debtor and the Bank, unless contained herein or therein. This Security Agreement, together with the other Loan Documents, supersedes all negotiations, representations, warranties, commitments, term sheets, discussions, negotiations, offers or contracts (of any kind or nature, whether oral or written) prior to or contemporaneous with the execution hereof with respect to any matter, directly or indirectly related to the terms of this Security Agreement and the other Loan Documents. This Security Agreement and the other Loan Documents are the result of negotiations among the Bank, the Debtor and the other parties thereto, and have been reviewed (or have had the opportunity to be reviewed) by counsel to all such parties, and are the products of all parties. Accordingly, this Security Agreement and the other Loan Documents shall not be construed more strictly against the Bank merely because of the Bank's involvement in their preparation.

6.2 Amendments; Waivers. No delay on the part of the Bank in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by the Bank of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Security Agreement or the other Loan Documents shall in any event be effective unless the same shall be in writing and acknowledged by the Bank, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6 . 3 WAIVER OF DEFENSES. DEBTOR, ON BEHALF OF ITSELF AND ANY GUARANTOR OF ANY OF THE OBLIGATIONS, WAIVES EVERY PRESENT AND FUTURE DEFENSE, CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH ANY DEBTOR MAY NOW HAVE OR HEREAFTER MAY HAVE TO ANY ACTION BY THE BANK IN ENFORCING THIS SECURITY AGREEMENT. PROVIDED THE BANK ACTS IN GOOD FAITH, DEBTOR RATIFIES AND CONFIRMS WHATEVER THE BANK MAY DO PURSUANT TO THE TERMS OF THIS SECURITY AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTOR.

6 . 4 FORUM SELECTION AND CONSENT TO JURISDICTION. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT, SHALL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE COURTS OF BROWARD COUNTY, THE STATE OF FLORIDA OR IN THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA; PROVIDED THAT NOTHING IN THIS SECURITY AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE THE BANK FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION. DEBTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF BROWARD COUNTY, STATE OF FLORIDA AND OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF FLORIDA FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE. DEBTOR FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF FLORIDA. DEBTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

6 . 5 WAIVER OF JURY TRIAL. THE BANK AND DEBTOR, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS SECURITY AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT, ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH THE BANK AND ANY DEBTOR ARE ADVERSE PARTIES, AND EACH AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTOR.

6.6 Assignability. The Bank may at any time assign the Bank's rights in this Security Agreement, the other Loan Documents, the Obligations, or any part thereof and transfer the Bank's rights in any or all of the Collateral, and the Bank thereafter shall be relieved from all liability with respect to such Collateral. This Security Agreement shall be binding upon the Bank and Debtor and their respective legal representatives and successors. All references herein to the Debtor shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "Debtor" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

6 . 7 Binding Effect. This Security Agreement shall become effective upon execution by the Debtor and the Bank. If this Security Agreement is not dated or contains any blanks when executed by the Debtor, the Bank is hereby authorized, without notice to the Debtor, to date this Security Agreement as of the date when it was executed by the Debtor, and to complete any such blanks according to the terms upon which this Security Agreement is executed.

6 . 8 Governing Law. This Security Agreement shall be delivered and accepted in and shall be deemed to be a contract made under and governed by the internal laws of the State of Florida (but giving effect to federal laws applicable to national banks) applicable to contracts made and to be performed entirely within such state, without regard to conflict of laws principles.

6.9 Enforceability. Wherever possible, each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by, unenforceable or invalid under any jurisdiction, such provision shall as to such jurisdiction, be severable and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provisions of this Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

6.10 Time of Essence. Time is of the essence in making payments of all amounts due the Bank under this Security Agreement and in the performance and observance by the Debtor of each covenant, agreement, provision and term of this Security Agreement.

6.11 Counterparts; Facsimile Signatures. This Security Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Security Agreement. Receipt of an executed signature page to this Security Agreement by facsimile or other electronic transmission shall constitute effective delivery thereof. Electronic records of executed Loan Documents maintained by the Bank shall be deemed to be originals thereof.

6.12 Notices. Except as otherwise provided herein, Debtor waives all notices and demands in connection with the enforcement of the Bank's rights hereunder. All notices, requests, demands and other communications provided for hereunder shall be in writing and addressed as follows:

If to the Debtor: 7380 Sand Lake Road, Suite 500
Orlando, Florida 32819

If to the Bank: HSBC BANK USA, N.A.
2929 Walden Avenue, C-111
Depew, New York 14043
Attention: Commercial Banking

or, as to each party, at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this subsection. All notices addressed as above shall be deemed to have been properly given (i) if served in person, upon acceptance or refusal of delivery; (ii) if mailed by certified or registered mail, return receipt requested, postage prepaid, on the third (3rd) day following the day such notice is deposited in any post office station or letter box; or (iii) if sent by recognized overnight courier, on the first (1st) day following the day such notice is delivered to such carrier. No notice to or demand on the Debtor in any case shall entitle the Debtor to any other or further notice or demand in similar or other circumstances.

6.13 Costs, Fees and Expenses. The Debtor shall pay or reimburse the Bank for all reasonable costs, fees and expenses incurred by the Bank or for which the Bank becomes obligated in connection with the enforcement of this Security Agreement, including reasonable attorneys' fees and time charges of counsel to the Bank; search fees, costs and expenses; and all taxes payable in connection with this Security Agreement. In furtherance of the foregoing, the Debtor shall pay any and all stamp and other taxes, UCC search fees, filing fees and other costs and expenses in connection with the execution and delivery of this Security Agreement and the other Loan Documents to be delivered hereunder, and agrees to save and hold the Bank harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such costs and expenses. That portion of the Obligations consisting of costs, expenses or advances to be reimbursed by the Debtor to the Bank pursuant to this Security Agreement or the other Loan Documents which are not paid on or prior to the date hereof shall be payable by the Debtor to the Bank on demand. If at any time or times hereafter the Bank: (a) employs counsel for advice or other representation (i) with respect to this Security Agreement or the other Loan Documents, (ii) to represent the Bank in any litigation, contest, dispute, suit or proceeding or to commence, defend, or intervene or to take any other action in or with respect to any litigation, contest, dispute, suit, or proceeding (whether instituted by the Bank, the Debtor, or any other Person in any way or respect relating to this Security Agreement, or (iii) to enforce any rights of the Bank against the Debtor or any other Person under of this Security Agreement; (b) takes any action to protect, collect, sell, liquidate, or otherwise dispose of any of the Collateral; and/or (c) attempts to or enforces any of the Bank's rights or remedies under this Security Agreement, the costs and expenses incurred by the Bank in any manner or way with respect to the foregoing, shall be part of the Obligations, payable by the Debtor to the Bank on demand.

[CONTINUES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the Debtor and the Bank have executed this Security Agreement as of the date first above written.

DEBTOR:

CODA OCTOPUS GROUP, INC., a Delaware corporation

By: _____
Mike Midgley, Acting Chief Financial Officer

BANK:

HSBC BANK USA, N.A

By: _____
Joseph A. Davis, Senior Vice President

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of April, 2017, by Mike Midgley, as Acting Chief Financial Officer of CODA OCTOPUS GROUP, INC., a Delaware corporation, on behalf of the corporation, who is personally known to me or who has produced a _____ identification, and who did take an oath.

Print or Stamp Name: _____
Notary Public, State of Florida
Commission No.: _____
My Commission Expires: _____

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of April, 2017, by Joseph A. Davis, as Senior Vice President of HSBC BANK USA, N.A., on behalf of the bank. He is known to me personally or has produced a driver's license as identification.

Print or Stamp Name: _____
Notary Public, State of Florida
Commission No.: _____
My Commission Expires: _____

Exhibit A

Permitted Liens

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PROMISSORY NOTE

Date of Note: April 28, 2017

Amount of Note: EIGHT MILLION AND NO/100 DOLLARS (\$8,000,000.00)

Maturity Date: April 28, 2022

CODA OCTOPUS GROUP, INC., a Delaware corporation, CODA OCTOPUS PRODUCTS, INC., a Delaware corporation, and CODA OCTOPUS COLMEK, INC., a Utah Corporation (individually and/or collectively, the “Borrower, do hereby covenant and promise to pay to the order of HSBC BANK USA, N.A., its successors and/or assigns (the “Lender”), at 2929 Walden Avenue, C-111, Depew, New York 14043, or at such other place as Lender may designate to Borrower in writing from time to time, in legal tender of the United States, up to EIGHT MILLION AND NO/100 DOLLARS (\$8,000,000.00), pursuant to the terms and conditions of that certain Loan Agreement dated as of even date herewith between Borrower and Lender (as the same may be amended or modified from time to time, the “Loan Agreement”), together with all accrued interest, which shall be due and payable upon the following terms and conditions contained in this Promissory Note (this “Note”) and the Loan Agreement.

A. Interest Rate.

(a) Interest shall accrue under this Note at a rate of interest per annum equal to 4.5566 (the “Interest Rate”).

(b) Interest shall be calculated at the rate of Actual/360 of the annual rate of interest for each day that principal is outstanding (i.e., interest will accrue and be paid on the actual number of calendar days elapsed from the date hereof and based on a 360-day year).

This Note shall continue in full force and effect until all obligations and liabilities evidenced by this Note are paid in full. Nothing contained in this Note or otherwise is intended, nor shall constitute, an obligation of the Lender to make any loan or advance.

B. Payment Terms:

Commencing on May 28, 2017 and continuing on the twenty-eighth (28th) day of each month thereafter, Borrower shall make monthly payments of principal and interest in an amount equal to \$149,350.14, until April 28, 2022 (the “Maturity Date”). In addition, within thirty (30) days after the delivery to Lender of the financial statements required under Section 6(a) of the Loan Agreement, Borrower shall make an annual principal payment under the Loan in an amount equal to \$700,000 each during the term of the Loan. Unless this Note is otherwise accelerated in accordance with the terms and conditions hereof, the entire outstanding principal balance of this Note plus all accrued interest shall be due and payable in full on the Maturity Date.

If any payment under this Note shall become due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing interest in connection with such payment. The Borrower hereby authorizes the Lender to charge the Borrower’s deposit account at the Lender for any payment when due. “Business Day” shall mean any day other than a Saturday or Sunday or a legal holiday on which commercial banks are authorized or required by law to be closed for business in New York, New York or in Miami, Florida.

C. Prepayment:

Borrower may prepay the Note in whole or in part at any time during the term of the Note without penalty or premium, except as set forth below; provided, however, Borrower acknowledges that such prepayment may result in Lender incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrower, therefore, agrees to pay all of Lender's out-of-pocket costs associated with such prepayment, including, but not limited to, outside counsel reasonable attorneys' fees, any swap transaction breakage fees or termination fees and any other yield maintenance fees of Lender.

Borrower may prepay this Note in whole or in part at any time during the term of this Note upon sixty (60) days' prior written notice to the Lender. Prepayment in part or in full of the principal amount, whether made voluntarily by Borrower or by reason of Lender's exercise of its rights, upon Borrower's default, to accelerate the unpaid principal amount (irrespective of whether or not foreclosure proceedings have been commenced), will be accompanied by the following:

(a) The Borrower will pay Lender, on the same date the prepayment is made, a break funding charge to cover loss, cost and expense attributable to such an event. Such loss, cost or expense to the Lender shall be deemed to include, but not be limited to an amount determined by the Lender as follows:

(i) Calculate the Lender's remaining interest cost based on (a) the most current Lender funding rate assigned upon origination, last repricing date or last prepayment date, times (b) the principal amount of the prepayment amortized accordingly times (c) the remaining period of time until the earlier of this Note's expiration or next repricing date, dayweighted accordingly.

Notwithstanding the foregoing, the Borrower's annual principal payments of \$700,000 required in accordance with the terms of Section B above and Section 6(a) of the Loan Agreement shall not be subject to any prepayment penalty or premium as contemplated under this Section C.

D. Security:

This Note is secured, in part, by the collateral granted under (i) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS GROUP, INC. in favor of Lender (as the same may be amended or modified from time to time, the "Coda Octopus Group Security Agreement"), (ii) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS PRODUCTS, INC. in favor of Lender (as the same may be amended or modified from time to time, the "Coda Octopus Products Security Agreement"), (iii) that certain Security Agreement dated as of even date herewith from CODA OCTOPUS COLMEK, INC. in favor of Lender (as the same may be amended or modified from time to time, the "Coda Octopus Colmek Security Agreement"; and together with the Coda Octopus Group Security Agreement and the Coda Octopus Products Security Agreement, individually and/or collectively, the "Security Agreement"), and (iv) all other security instruments executed in connection therewith.

E. Loan Documents:

This Note, the Loan Agreement, the Security Agreement and all other documents and instruments executed in connection with this Note are hereinafter individually and/or collectively referred to as the "Loan Documents".

F. Default Interest Rate:

If Borrower fails to make timely payment of any amounts due hereunder, Lender, at its option, may, if permitted under applicable law, increase the interest rate on this Note by adding four percent (4%) per annum (the "Default Rate"). However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

G. Late Charges:

Lender may collect a late charge not to exceed an amount equal to five percent (5%) of any installment which is not paid within ten (10) days of the due date thereof, to cover the extra expense involved in handling delinquent payments, provided that collection of said late charge shall not be deemed a waiver by Lender of any of its rights under this Note. Notwithstanding the foregoing, there shall be no grace period or late charges for payments due on the outstanding principal balance due on the Maturity Date or upon acceleration, as set forth in Section H below, but such outstanding balance shall accrue interest at the Default Rate.

H. Default and Acceleration:

If any of the "Events of Default" (as defined in the Loan Agreement) occur and are not cured within any applicable cure period set forth in the Loan Agreement, at the Lender's option, exercisable in its sole discretion, all sums of principal and interest under this Note shall be accelerated and become immediately due and payable without notice of default, presentment or demand for payment, protest or notice of nonpayment or dishonor, or other notices or demands of any kind or character, except as specifically provided in the Loan Agreement.

All persons now or at any time liable for payment of this Note hereby waive presentment, protest, notice of protest and dishonor. The Borrower expressly consents to any extension or renewal, in whole or in part, and all delays in time of payment or other performance which Lender may grant at any time and from time to time without limitation and without any notice or further consent of the undersigned.

The remedies of Lender as provided herein, or in the Security Agreement, the Mortgage, the Loan Agreement or the other Loan Documents shall be cumulative and concurrent and may be pursued singularly, successively or together, at the sole discretion of Lender, and may be exercised as often as the occasion therefor shall arise.

The Lender may, in the sole discretion of Lender, accept payments made by Borrower after any default has occurred, without waiving any of Lender's rights herein.

I. Costs:

In the event that this Note is collected by law or through attorneys at law, or under advice therefrom (whether such attorneys are employees of Lender or an affiliate of Lender or are outside counsel), Borrower and any endorser, guarantor or other person primarily or secondarily liable for payment hereof hereby, severally and jointly agree to pay all costs of collection, including reasonable attorneys' fees including reasonable charges for paralegals, appraisers, experts and consultants working under the direction or supervision of Lender's attorneys, whether or not suit is brought, and whether incurred in connection with collection, trial, appeal, bankruptcy or other creditors' proceedings or otherwise.

J. Loan Charges:

Nothing herein contained, nor any transaction related thereto, shall be construed or so operate as to require Borrower or any person liable for the repayment of same, to pay interest in an amount or at a rate greater than the maximum allowed by applicable law. Should any interest or other charges paid by Borrower, or any parties liable for the payment of the Loan made pursuant to this Note, result in the computation or earning of interest in excess of the maximum legal rate of interest permitted under the law in effect while said interest is being earned, then any and all of such excess shall be and is waived by Lender, and all such excess shall be automatically credited against and in reduction of the principal balance, and any portion of the excess that exceeds the principal balance shall be paid by Lender to Borrower or any parties liable for the payment of the Loan made pursuant to this Note so that under no circumstances shall the Borrower, or any parties liable for the payment of the Loan hereunder, be required to pay interest in excess of the maximum rate allowed by applicable law.

K. Jurisdiction:

The laws of the State of Florida shall govern the interpretation and enforcement of this Note. In the event that legal action is instituted to collect any amounts due under, or to enforce any provision of, this instrument, Borrower and any endorser, guarantor or other person primarily or secondarily liable for payment hereof consent to, and by execution hereof submit themselves to, the jurisdiction of the courts of the State of Florida, and, notwithstanding the place of residence of any of them or the place of execution of this instrument, such litigation may be brought in or transferred to a court of competent jurisdiction in and for Broward County, Florida.

IN ANY ACTION, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS NOTE, BORROWER AND EACH ENDORSER WAIVE (I) THE RIGHT TO INTERPOSE ANY SET-OFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION, (II) ANY OBJECTION BASED ON FORUM NON CONVENIENS OR VENUE AND (III) ANY CLAIM FOR CONSEQUENTIAL, PUNITIVE OR SPECIAL DAMAGES.

The Borrower and each endorser and guarantor of this Note each irrevocably submits to the nonexclusive jurisdiction of any Federal or state court sitting in Florida, over any suit, action or proceeding arising out of or relating to this Note. Each of the Borrower and each endorser and guarantor irrevocably waives to the fullest extent it may effectively do under applicable law, any objection it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that the same has been brought in an inconvenient forum. Each of the Borrower and each endorser and guarantor hereby consents to any and all process which may be served in any such suit, action or proceeding (i) by mailing a copy thereof by registered and certified mail, postage prepaid, return receipt requested, to the Borrower's, endorser's or guarantor's address shown below or as notified to the Lender and (ii) by serving the same upon the Borrower(s), endorser(s) or guarantor(s) in any other manner otherwise permitted by law, and agrees that such service shall in every respect be deemed effective service upon the Borrower or such endorser or guarantor.

L. Miscellaneous:

1. TIME IS OF THE ESSENCE OF THIS NOTE.
2. It is agreed that the granting to Borrower or any other party of an extension or extensions of time for the payment of any sum or sums due under this Note or under the Loan Agreement or the Security Agreement or for the performance of any covenant or stipulation thereof or the taking of other or additional security shall not in any way release or affect the liability of Borrower under this Note or any of the Loan Documents.

3. This Note may not be changed orally, but only by an agreement in writing, signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.
4. All parties to this Note, whether Borrower, principal, surety, guarantor or endorser, hereby waive presentment for payment, demand, notice, protest, notice of protest and notice of dishonor.
5. Anything herein to the contrary notwithstanding, the obligations of Borrower under this Note shall be subject to the limitation that payments of interest shall not be required to the extent that receipt of any such payment by Lender would be contrary to provisions of law applicable to Lender limiting the maximum rate of interest which may be charged or collected by Lender.
6. Borrower acknowledges that Lender shall have no obligation whatsoever to renew, modify or extend this Note or to refinance the indebtedness under this Note upon the maturity thereof, except as specifically provided herein.
7. Lender shall have the right to accept and apply to the outstanding balance of this Note any and all payments or partial payments received from Borrower after the due date therefor, whether this Note has been accelerated or not, without waiver of any of Lender's rights to continue to enforce the terms of this Note and to seek any and all remedies provided for herein or in any instrument securing the same, including, but not limited to, the right to foreclose on such security.
8. The term "Borrower" as used herein, in every instance shall include the makers of this Note, and its heirs, executors, administrators, successors, legal representatives and assigns, and shall denote the singular and/or plural, the masculine and/or feminine, and natural and/or artificial persons whenever and wherever the context so requires or admits.
9. If more than one party executes this Note, all such parties shall be jointly and severally liable for the payment of this Note.

M. Waiver of Jury Trial:

BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES THE RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE AND ANY AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONJUNCTION HERewith, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER TO EXTEND TO BORROWER THE LOAN EVIDENCED BY THIS NOTE.

[CONTINUED ON FOLLOWING PAGE]

Borrower has duly executed this Note effective as of the date set forth hereinabove.

BORROWER:

CODA OCTOPUS GROUP, INC., a Delaware corporation

By: /s/

Mike Midgley, Acting Chief Financial Officer

CODA OCTOPUS PRODUCTS, INC., a Delaware corporation

By: /s/

Mike Midgley, Acting Chief Financial Officer

CODA OCTOPUS COLMEK, INC., a Utah corporation

By: /s/

Mike Midgley, Chief Executive Officer

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of April, 2017, by Mike Midgley, as Acting Chief Financial Officer of CODA OCTOPUS GROUP, INC., a Delaware corporation, on behalf of the corporation, who is personally known to me or who has produced a _____ identification, and who did take an oath.

Print or Stamp Name: _____
Notary Public, State of Florida
Commission No.: _____
My Commission Expires: _____

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of April, 2017, by Mike Midgley, as Acting Chief Financial Officer of CODA OCTOPUS PRODUCTS, INC., a Delaware corporation, on behalf of the corporation, who is personally known to me or who has produced a _____ identification, and who did take an oath.

Print or Stamp Name: _____
Notary Public, State of Florida
Commission No.: _____
My Commission Expires: _____

STATE OF FLORIDA)
) SS:
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of April, 2017, by Mike Midgley, as Chief Executive Officer of CODA OCTOPUS COLMEK, INC., a Utah corporation, on behalf of the corporation, who is personally known to me or who has produced a _____ identification, and who did take an oath.

Print or Stamp Name: _____
Notary Public, State of Florida
Commission No.: _____
My Commission Expires: _____



Coda Octopus Group, Inc. and US Subsidiaries Enter Into Loan Agreement with HSBC Bank

ORLANDO, FL, May X, 2017 – Coda Octopus Group, Inc. (CODA) (OTCQX: COGI), a global leader in real-time 3D sonar technology, today announced that on April 28, 2017, the Company together with its wholly owned subsidiaries, Coda Octopus Products, Inc. and Coda Octopus Colmek, Inc., entered into a loan agreement with HSBC Bank NA for a loan in the principal amount of \$8,000,000. The annual interest rate is fixed at 4.5566%. Commencing on May 28, 2017 and continuing on the 28th day of each month thereafter, the Company is required to make monthly principal and interest payments of \$149,350 until April 28, 2022. In addition, within 30 days after the delivery to HSBC Bank of CODA's annual audited financial statements, the Company is required to make an annual principal payment of \$700,000 during the term of the loan. Such annual payments will reduce the principal balance of the principal outstanding. As a result, it is expected that the loan will be repaid within a period of approximately 45 months. The loan may be prepaid in whole or in part at any time, subject to a break funding charge as detailed in the promissory note evidencing the loan.

The obligations in connection with the repayment of the loan are secured by all assets of CODA and its subsidiaries. In addition, the repayment of the loan is guaranteed by three of the Company's overseas subsidiaries.

The proceeds from the loan were used to repay in its entirety the outstanding principal balance of \$8,000,000 under secured debentures that were issued by CODA in February 2007 and that were most recently held by CCM Holdings, LLC. Accrued and unpaid interest under the debentures of approximately \$1,133,261 was satisfied through the issuance to CCM Holdings of 1,000 shares of Series C Convertible Preferred Stock, par value \$0.001, with a stated value of \$1,000 each. The Company paid the balance in cash.

Annmarie Gayle, CODA's CEO commented, "The refinancing of the Company senior debt by a reputable global bank, along with the issuance of the Series C Convertible Preferred Stock (in satisfaction of outstanding interest) is a major achievement and vastly improves the Company's balance sheet, and reduces the amount of cash the Company pays in interest. This step combined with the recent return to being an SEC reporting Company and up-listing on the OTCQX are pivotal events in the progression of the Group,

About Coda Octopus Group, Inc.

Originally founded in 1994 as Coda Technologies, the Coda Octopus Group's patented real-time 3D subsea sonar technology, Echoscope®, enables real-time 3D imaging and mapping in zero visibility conditions underwater, and is used globally in numerous applications including defense, marine construction, oil and gas subsea infrastructure installation and surveys, and port and harbor security. For further information, please visit <http://www.codaoctopusgroup.com> or contact us at: info@codaoctopusgroup.com.

Forward Looking Statement

This press release contains forward-looking statements concerning Coda Octopus Group, Inc. within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Those forward-looking statements include, without limitation, statements regarding the Company's expectations for the growth of the Company's operations and revenue. Such statements are subject to certain risks and uncertainties, and actual circumstances, events or results may differ materially from those projected in such forward-looking statements. Factors that could cause or contribute to differences include, but are not limited to, customer demand for our products and market prices; the outcome of our ongoing research and developments efforts relating to our products including our patented real time 3D solutions; our ability to develop the sales force required to achieve our development and those other examples of forward looking statement set forth in our annual report for the year ended October 31, 2015 filed with the OTC Markets on February 26, 2016 and subsequently filed quarterly reports. Coda Octopus Group, Inc. does not undertake, and specifically disclaims any obligation to update or revise such statements to reflect new circumstances or unanticipated events as they occur.

Contact:

MDC Group

Investor Relations:

David Castaneda

Arsen Mugurdumov

414.351.9758

Media Relations:

Susan Roush

805.624.7624
