

No. 3 of 3

FREDERICK GOLDMAN, INC.  
154 West 14th Street  
New York, NY 10011

SERIAL NOTE

\$ 3,539.50

January 1, 1997  
New York, New York

FOR VALUE RECEIVED

Tallman & Tallman Jewelers, Inc.

having its principal place of business at

520 West 23rd Street Suite F

Lawrence, Kansas 66046

hereinafter referred to as the "maker," promises to pay to the order of FREDERICK GOLDMAN, INC. ("Goldman") at Mercantile Bank, 9th & Massachusetts, Lawrence, KS 66044 or at such other place as may be designated in writing by the holder of this note, on January 1, 1997, the principal sum of \$ 3,539.50 with interest thereon computed from the date hereof at the rate of 18% per annum, or such lesser rate as shall be the maximum permitted by any applicable usury law or regulation.

This note is one several notes of even date herewith aggregating \$ 10,542.50, or of other dates, by the same maker to Goldman. In the event of the occurrence of any default hereunder, under any such note, or under any agreement between the maker and the holder hereof, then, at the option of the holder, the entire principal balance and interest due hereunder, and all other obligations of any kind (whether under other notes, on open account, or otherwise) of the maker to the holder hereof, shall forthwith become due and payable. A waiver by the holder hereof of any right or remedy under the terms of this note, on any one occasion, shall not be construed as a bar to any right or remedy which the holder would otherwise have had on any future occasion. Upon the happening of any default the holder hereof shall have, in addition to all other rights and remedies, the remedies of a secured party under the Uniform Commercial Code of any relevant State with respect to any collateral security held pursuant to any security agreement between the maker and holder hereof, or hereunder.

This note shall be deemed secured under the terms of any security agreement which may be in effect between the maker and holder hereof from time to time, or in the absence thereof, this note shall itself constitute a security agreement, and to secure the maker's obligations to holder hereunder and all other liabilities, obligations or agreements with the holder hereof (present or future, absolute or contingent, secured or unsecured, matured or unmatured, several or joint, original or acquired), the maker hereof does hereby grant the holder hereof a continuing security interest in all the maker's personal property, including inventory and accounts receivable, now in the possession of the maker or hereafter acquired by the maker, wherever located and whether under the dominion and control of the maker or the dominion and control of any subsidiary, affiliated corporation, agent or representative of the maker, and the proceeds thereof. Such security interest shall survive the satisfaction hereof. The maker shall have the right to sell inventory in the ordinary course of the maker's business. The maker hereby authorizes the holder to sign and file financing statements at any time with respect to any security without the signature of the maker. The maker agrees to pay all filing fees and all other costs and expenses incident to the filing of such statements.

Any one of the following occurrences shall constitute a default under this note: The non-payment of any payment required to be made by the maker to the holder hereof, on the dates specified therein, and such default continues for a period of ten days; or failure to perform any agreement herein contained or contained in any security agreement, mortgage, or any other agreement delivered by the maker to the holder; or if any of the following events occurs with respect to the maker, or any endorser or any guarantor of the payment of the obligations of the maker: default in respect of any liability, obligation or agreement with the holder hereof (present or future, absolute or contingent, secured or unsecured, matured or unmatured, several or joint, original or acquired); death; insolvency; commission of an act of bankruptcy; assignment for the benefit of creditors; appointment of a committee of any creditors or liquidating agent; offering to or receiving from any creditors a composition or extension of any of their indebtedness; making or sending a notice of an intended bulk sale; the whole or partial suspension or liquidation of their usual business; failing to pay any tax when assessed or due; commencement of any proceeding, suit or action under any of the provisions of the Federal Bankruptcy Code for adjudication as a bankrupt or for the relief under any provision of the bankruptcy or similar laws; making any misrepresentation to the holder hereof for the purpose of obtaining credit or an extension of credit to the maker; default under any collateral, mortgage or security agreement given as security for this note or as security for the guaranty of payment of the obligations of the maker hereof, or under any extension or modification thereof; entry of a money judgment against any of them or commencement of any proceeding for enforcement of a money judgment against any of them; default with respect to any indebtedness for borrowed money (other than obligations owing to the holder hereof) or with respect to the payment of money pursuant to any agreement, lease or other instrument beyond any period of grace provided therein, or default in the performance of any other term, condition or covenant contained in any document under which such obligation is created.

The maker agrees to pay all costs and expenses of collection, enforcement or adjudication hereof, and that whenever an attorney is employed to collect or enforce this note or to enforce, declare or adjudicate any rights or obligations under this note or with respect to any collateral security therefor, whether by suit or any other means whatever, a reasonable attorney's fee shall also be payable by the maker, all of which shall constitute an additional part of the principal obligation hereunder.

Any party may send any notice required hereunder to any other party by regular first-class postage prepaid mail at the address given for such addressee above, or at such other address as the addressee party shall theretofore have designated by notice to the sending party given by certified mail, return receipt requested.

All parties to this note, whether maker, guarantor or endorser, waive presentment for payment, notice of dishonor, protest, notice of protest of this note or other notice of any kind and all demands whatsoever; and in