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03-22-2001

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



101644497

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

**RECORDATION FORM COVER SHEET
TRADEMARKS ONLY**

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

Submission Type

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

Conveyance Type

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

Conveying Party

☐ Mark if additional names of conveying parties attached

Name

Execution Date
Month Day Year

Formerly

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

Receiving Party

☐ Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)

City

State/Country

Zip Code

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

FOR OFFICE USE ONLY

03/20/2001 TDIAZ1 00000036 2013174

01 FC:481

40.00

02 FC:482

100.00

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Mail documents to be recorded with required cover sheet(s) information to:
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TRADEMARK
REEL: 002255 FRAME: 0325

Domestic Representative Name and Address

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

Correspondent Name and Address

Area Code and Telephone Number

503-778-2100

Name

ANNE W. GLAZER

Address (line 1)

LANE POWELL SPEARS LUBERSKY LLP

Address (line 2)

601 S.W. SECOND AVENUE, SUITE 2100

Address (line 3)

PORTLAND, OREGON 97204-3158

Address (line 4)

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

#

18

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

Mark if additional numbers attached

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

2013174

1478085

1881013

1395322

1582686

Number of Properties

Enter the total number of properties involved.

#

5

Fee Amount

Fee Amount for Properties Listed (37 CFR 3.41):

\$

140.00

Method of Payment:

Enclosed

☒

Deposit Account

☐

Deposit Account

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

Deposit Account Number:

#

12-0277

Authorization to charge additional fees:

Yes

☒

No

☐**Statement and Signature**

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document. Charges to deposit account are authorized, as indicated herein.

JEFFREY C. WOLFSTONE

Name of Person Signing

Signature

Mar. 1, 2001

Date Signed

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is entered into as of March 1, 2001 between HAC ACQUISITION CORP., a Delaware corporation (referred to below as "HAC"), which will change its name to HANNA ANDERSON CORPORATION (referred to below as "Grantor"), and NISSHO IWAI AMERICAN CORPORATION, a New York corporation (referred to below as "NIAC").

For valuable consideration, Grantor grants to NIAC a security interest in the Collateral to secure the Obligations and agrees that NIAC shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which NIAC may have by law. The parties further agree as follows:

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

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

b. **Assumption.** The word "Assumption" means that certain Partial Assignment and Assumption Agreement between Hanna Andersson Corporation and Debtor (for the benefit and with the consent of NIAC) dated as of March 1, 2001.

c. **Bank Liens.** The words "Bank Liens" means liens of foreign and domestic banks then extending credit to HAC, if any, in all of HAC's General Collateral.

d. **Collateral.** The word "Collateral" means the General Collateral and the In-Transit Goods.

e. **Event of Default.** The words "Event of Default" mean and include any of the events set forth below in the section titled "Events of Default."

f. **General Collateral.** The words "General Collateral" mean the following described property of Grantor, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located: All accounts, inventory, chattel paper, general intangibles, instruments, documents, contract rights, equipment, equipment leases, fixtures, furnishings, customer lists, trademarks, trade names, copyrights, assumed business names, deposit accounts, computer programs, letter of credit rights, investment property, and all proceeds of the same, and records related thereto.

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

- (1) All attachments, accessions, accessories, tools, parts, supplies, increases, and additions to and all replacements of and substitutions for any property described above.
- (2) All products and produce of any of the property described in this General Collateral section.
- (3) All accounts, contract rights, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, or other disposition of any of the property described in this General Collateral section.
- (4) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this General Collateral section.
- (5) All records and data relating to any of the property described in this General Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

Notwithstanding the foregoing, the General Collateral expressly does not include the In-Transit Goods.

g. **Grantor.** The word "Grantor" means the entity described above and its successors and assigns.

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

i. **In-Transit Goods.** The words "In-Transit Goods" mean all clothing, footwear, bags, hats, accessories and other products which NIAC procures for or on behalf of HAC but which have not been physically delivered to HAC's warehouse in Louisville, Kentucky, U.S.A. along with all documents of title therefor, regardless of the nature of possession by NIAC, a supplier, importer, manufacturer, bailee, shipper, freight forwarder, customs broker, agent or otherwise, and shall include all raw materials, work in progress, goods in transit or in storage, and regardless of title to such goods, together with and also including (i) all documents, receipts, bailment agreements or other evidence of title or shipping or transfer documents relating to such goods, (ii) all proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any such goods and (iii) all records and data relating to any of such goods, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media.

j. **NIAC.** The word "NIAC" means the entity described above and its successors and assigns.

k. **NIAC Agreement.** The words "NIAC Agreement" mean that certain Buying Agency and Logistics Services Agreement between HAC and NIAC dated as of March 1, 2001, together with all renewals of, extensions of, modifications of,

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refinancings of, consolidations of and substitutions for the NIAC Agreement, including all increases of Obligations under the NIAC Agreement.

1. **Obligations.** The word "Obligations" means the indebtedness and obligations of performance evidenced by the NIAC Agreement and/or the Assumption, including all principal and interest, together with all other obligations of performance, indebtedness and costs and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

m. **"Permitted Liens"** means:

(1) Bank Liens;

(2) Liens for taxes, assessments, or similar charges, incurred in the ordinary course of business that are not yet delinquent;

(3) Pledges or deposits made in the ordinary course of business to secure payment of worker's compensation, or to participate in any fund in connection with worker's compensation, unemployment insurance, old-age pensions, or other social security programs;

(4) Liens of mechanics, materialmen, warehousemen, carriers, landlords, or other like liens, securing obligations incurred in the ordinary course of business that are not yet due and payable or delinquent;

(5) Good faith pledges or deposits made in the ordinary course of business to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money), or leases, not in excess of ten percent (10%) of the aggregate amount due thereunder, or to secure statutory obligations, or surety, appeal, indemnity, performance, or other similar bonds required in the ordinary course of business;

(6) Liens in favor of NIAC securing the Obligations;

(7) Existing liens of the Grantor or Hanna Andersson Corporation, an Oregon corporation, set forth or described on Exhibit B, attached hereto and made a part hereof, or renewals, extensions, modifications, or refinancings thereof;

(8) Purchase money security interests granted to secure the purchase price of assets, the purchase of which does not violate this Agreement or the NIAC Agreement or any instrument required hereunder or renewals, extensions, modifications, or refinancings thereof;

(9) The following, if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings, so long as levy and execution thereon have been stayed and continue to be stayed and they do not, in the aggregate, materially detract from the value of the property of the Borrower, or materially impair the use thereof in the operation of its business:

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- (a) Claims or liens for taxes, assessments, or charges due and payable and subject to interest or penalty;
- (b) Claims, liens, and encumbrances upon, and defects of title to, real or personal property, including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits;
- (c) Claims or liens of mechanics, materialmen, landlords, warehousemen, carriers, or other like liens; and
- (d) Adverse judgments on appeal;

(10) Any interest specifically permitted under a Related Document; and

(11) Liens arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off, or similar rights and remedies as to deposited funds.

n. **Related Documents.** The words "Related Documents" mean and include without limitation all promissory notes, credit agreements, loan agreements, guaranties, security agreements, mortgages, deeds of trust, letter of credit documents, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the NIAC Agreement and/or the Assumption.

2. **RIGHT OF SETOFF.** Grantor hereby grants NIAC a contractual possessory security interest in and hereby assigns, conveys, delivers, pledges, and transfers to NIAC, for security, all of Grantor's right, title and interest in and to any and all of Grantor's assets, cash or otherwise, now or at any time in the possession of NIAC. Grantor authorizes NIAC, to the extent permitted by applicable law, to charge or setoff all Obligations against any and all such assets in NIAC's possession.

3. **OBLIGATIONS OF GRANTOR.** Grantor warrants and covenants to NIAC as follows:

a. **Priority of Security Interest.** Grantor agrees that NIAC's security interest in the Collateral shall be (i) a purchase money, first lien security interest in the In-Transit Goods, and (ii) second only to the Bank Liens, if any, in all of HAC's other personal property, including but not limited to the General Collateral; provided, however, that in the event that Grantor does not provide to NIAC an intercreditor agreement between NIAC and the holder of any Bank Liens satisfactory to NIAC and providing NIAC assurance that the priorities set out above are maintained, NIAC reserves the right to take such steps as it deems necessary to ensure that its purchase money security interest in the In-Transit Goods remains as such after the goods are delivered to HAC.

b. **Perfection of Security Interest.** Grantor agrees to take whatever reasonable actions are requested by NIAC to perfect and continue NIAC's security interest in the Collateral, including but not limited to executing such financing statements and continuation statements as are required. Upon request of NIAC, Grantor will deliver to NIAC any and all of the documents evidencing or constituting the In-Transit Goods. Grantor hereby appoints NIAC as its irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect or

to continue the security interest granted in this Agreement, and authorizes NIAC to file financing statements as contemplated by this Agreement without Grantor's signature, to the extent permitted by law. NIAC may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse NIAC for all expenses reasonably incurred for the perfection and the continuation of the perfection of NIAC's security interest in the Collateral. Grantor promptly will notify NIAC before any change in Grantor's name including any change to the assumed business names of Grantor. This is a continuing Security Agreement and will continue in effect even though all or any part of the Obligations is paid in full and even though for a period of time Grantor may not be indebted to NIAC.

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

d. **Enforceability of Collateral.** To the extent the Collateral consists of accounts, contract rights, chattel paper, or general intangibles, the Collateral is enforceable in accordance with its terms, is genuine, and complies in all material respects with applicable laws concerning form, content and manner of preparation and execution, and, to the best of Grantor's knowledge, all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral.

e. **Removal of Collateral.** Grantor shall keep the Collateral at Grantor's address(es) shown Exhibit A attached to this Agreement, or at such other locations as are reasonably acceptable to NIAC; or to the extent the Collateral consists of intangible property such as accounts, shall keep the records concerning the Collateral at the office listed as Grantor's principle place of business shown as such on Exhibit A. Except in the ordinary course of its business, including the sales of inventory, Grantor shall not remove the Collateral from the locations listed on Exhibit A without the prior written consent of NIAC, which shall not be unreasonably withheld or delayed. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the States of Oregon, Kentucky, New York, Indiana, Minnesota or Maine without the prior written consent of NIAC.

f. **Transactions Involving Collateral.** Except for inventory sold or accounts collected in the ordinary course of Grantor's business or the disposition of used equipment in the ordinary course of Grantor's business, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than (a) the security interest provided for in this Agreement and (b) Permitted Liens without the prior written consent of NIAC; provided, however, that there shall be no consensual Permitted Liens on the In-Transit-Collateral. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by NIAC, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for NIAC and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by NIAC to any sale or other disposition. Upon receipt, Grantor shall immediately

deliver any such proceeds to NIAC unless there is a superior Bank Lien in General Collateral, the proceeds of which are delivered to the bank(s) holding such liens.

g. **Title.** Grantor represents and warrants to NIAC that, except with respect to such of the In-Transit Goods the title to which is held by NIAC, Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances, except for (a) the lien of this Agreement, and (b) Permitted Liens. Grantor represents and warrants to NIAC that the In-Transit Goods are free and clear of all liens and encumbrances of Grantor's creditors. Grantor shall defend NIAC's rights in the Collateral against the claims and demands of all other persons.

h. **Collateral Schedules and Locations.** Insofar as the Collateral consists of equipment, Grantor shall deliver to NIAC, as often as NIAC shall reasonably require (but in any event not more frequently than quarterly in the absence of the existence of an Event of Default), such lists, descriptions, and designations of such Collateral as NIAC may require to identify the nature, extent, and location of such Collateral. Such information shall be submitted for Grantor and each of its subsidiaries or related companies.

i. **Maintenance and Inspection of Collateral.** Grantor shall maintain all tangible General Collateral in good condition and repair; and shall otherwise comply with the NIAC Agreement with respect to the In-Transit Goods. Grantor will not commit or permit damage to or destruction of any material part of the Collateral. NIAC and its designated representatives and agents shall have the right at all reasonable times (and, in the absence of the existence of an Event of Default, with respect to the General Collateral, on reasonable advance notice) to examine, inspect, and audit the Collateral wherever located. Grantor shall immediately notify NIAC of all cases involving the return, rejection, repossession, loss or damage of or to any material part of the Collateral; of any request for credit or adjustment or of any other dispute arising with respect to the Collateral in excess of \$25,000; and generally of all happenings and events materially affecting the Collateral or the value or the amount of the Collateral.

j. **Taxes, Assessments and Liens.** Grantor will pay before delinquency all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes, acceptances, letters of credit, reimbursement agreements or other documents or instruments evidencing the Obligations, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as NIAC's interest in the Collateral is not materially jeopardized in NIAC's reasonable judgment. If the In-Transit Goods are subjected to a lien which is not discharged or the enforcement of which is not stayed within fifteen (15) days, Grantor shall deposit with NIAC cash, a sufficient corporate surety bond or other security satisfactory to NIAC in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the In-Transit Goods. If the General Collateral is subjected to a lien which is not a Permitted Lien and which is not discharged or the enforcement of which is not stayed within fifteen (15) days, Grantor shall deposit with either NIAC the holder(s) of Bank Liens on such Collateral cash, a sufficient corporate surety bond or other security satisfactory to NIAC in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and NIAC and shall satisfy any

final adverse judgment before enforcement against the Collateral. Grantor shall name NIAC as an additional obligee under any surety bond furnished in the contest proceedings.

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

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

m. **Maintenance of Casualty Insurance.** Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as NIAC may reasonably require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to NIAC and issued by a company or companies reasonably acceptable to NIAC; provided, however, that insurance for the In-Transit Goods, to the extent dealt with in the NIAC Agreement, will be handled in accordance with the NIAC Agreement. Grantor, upon request of NIAC, will deliver to NIAC from time to time the policies or certificates of insurance in form satisfactory to NIAC, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to NIAC and not including any disclaimer of the insurer's liability for failure to give such a notice. In connection with all policies covering assets in which NIAC holds or is offered a security interest, Grantor will provide NIAC with such loss payable or other endorsements as NIAC may reasonably require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, NIAC may (but shall not be obligated to), after three business day's notice

to Grantor, obtain such insurance as NIAC deems appropriate, including if it so chooses "single interest insurance," which will cover only NIAC's interest in the Collateral. The following notice is given pursuant to ORS 746.201:

WARNING

Unless Grantor provides NIAC with evidence of the insurance coverage as required herein, NIAC may purchase insurance at Grantor's expense to protect NIAC's interest. This insurance may, but need not, also protect Grantor's interest. If the collateral becomes damaged, the coverage NIAC purchases may not pay any claim Grantor makes or any claim made against Grantor. Grantor may later cancel this coverage by providing evidence that Grantor has obtained property coverage elsewhere.

Grantor is responsible for the cost of any insurance purchased by NIAC. The cost of this insurance may be added to the obligations secured hereby. If the cost is added to the obligations secured hereby, the interest rate on the obligations secured hereby will apply to this added amount. The effective date of coverage may be the date the prior coverage lapsed or the date Grantor failed to provide proof of coverage.

The coverage NIAC purchases may be considerably more expensive than insurance Grantor can obtain on Grantor's own and may not satisfy any need for property damage coverage or any mandatory liability insurance requirements imposed by applicable law.

n. **Application of Insurance Proceeds.** Grantor shall promptly notify NIAC of any loss or damage to any material portion of the Collateral. NIAC may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by NIAC or any bank holding a superior Bank Lien as part of the Collateral. So long as no Event of Default exists, NIAC shall pay any proceeds held by NIAC to Grantor.

o. **Insurance Reserves.** If Grantor has failed to maintain insurance as required herein, NIAC may require Grantor to maintain with NIAC reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by NIAC to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to NIAC. The reserve funds shall be held by NIAC in a non-interest bearing account which NIAC may use to pay the insurance premiums required to be paid by Grantor as they become due. NIAC does not hold the reserve funds in trust for Grantor, and NIAC is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

p. **Insurance Reports.** Not more frequently than quarterly, Grantor, upon request of NIAC, shall furnish to NIAC reports on each existing policy of insurance showing such

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information as NIAC may reasonably request including the following: (a) the name of the insurer; (b) the risks insured; (c) the amount of the policy; (d) the property insured; (e) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (f) the expiration date of the policy. In addition, Grantor shall upon request by NIAC (however not more often than once every year) have an independent appraiser satisfactory to NIAC determine, as applicable, the cash value of replacement cost of the Collateral. The cost of such appraisal shall not exceed \$10,000.

4. **GRANTOR'S RIGHT TO POSSESSION.** Until default, Grantor may have possession and beneficial use of all the General Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any General Collateral where possession of the General Collateral by NIAC is required by law to perfect NIAC's security interest in such General Collateral or to the In-Transit Goods. If NIAC at any time has possession of any Collateral, whether before or after an Event of Default, NIAC shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if NIAC takes such action for that purpose as Grantor shall request or as NIAC would afford to its own property, but failure to honor any request by Grantor shall not be deemed to be a failure to exercise reasonable care. NIAC shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Collateral.

5. **EXPENDITURES BY NIAC.** If not discharged or paid when due, NIAC may (but shall not be obligated to) discharge or pay any amounts required to be discharged or paid by Grantor under this Agreement, including without limitation all taxes, liens, security interests, encumbrances, and other claims, at any time levied or placed on the Collateral. NIAC also may (but shall not be obligated to) pay all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by NIAC for such purposes will then bear interest at the rate charged as the default rate under the NIAC Agreement, the Assumption or Related Documents from the date incurred or paid by NIAC to the date of repayment by Grantor. All such expenses shall become a part of the Obligations and, at NIAC's option, will be payable on demand. This Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which NIAC may be entitled upon the occurrence of an Event of Default.

6. **EVENTS OF DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement.

a. **Cross-Default.** The occurrence of an "event of default" under the NIAC Agreement or the Assumption or any attempt to terminate the Assumption Agreement without the prior written consent of NIAC.

b. **Other Defaults.** Failure (after any required notice or applicable cure period) of Grantor to comply with or to perform any term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents. If any such default is curable and if Grantor has not been given a prior notice of a breach of the same provision of this Agreement, it may be cured (and no Event of Default will have occurred) if Grantor, after NIAC sends written notice

demanding cure of such default, (a) cures the default within ten (10) days; or (b) if the cure requires more than ten (10) days, immediately initiates steps which NIAC deems in the exercise of its reasonable judgment to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

c. **False Statements.** Any warranty, representation or statement made or furnished to NIAC by or on behalf of Grantor under this Agreement is false or misleading in any material respect, either now or at the time made or furnished.

d. **Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral documents to create a valid and perfected security interest or lien having priority as contemplated by this Agreement) at any time and for any reason.

7. **RIGHTS AND REMEDIES ON DEFAULT.** If an Event of Default occurs under this Agreement, at any time thereafter, NIAC shall have all the rights of a secured party under the Oregon Uniform Commercial Code and/or the Uniform Commercial Code as adopted in the state where the Collateral is located. In addition and without limitation, NIAC may exercise any one or more of the following rights and remedies:

a. **Accelerate Obligations.** NIAC may declare all the Obligations, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice.

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

c. **Sell the Collateral.** NIAC shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in its own name or that of Grantor. NIAC may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, NIAC will give Grantor reasonable notice of the time after which any private sale or any other intended disposition of the Collateral is to be made unless Grantor has signed, after an Event of Default occurs, a statement renouncing or modifying Grantor's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Obligations secured by this Agreement and shall be payable on demand, with interest at the NIAC Agreement default rate from date of expenditure until repaid.

d. **Appoint Receiver.** To the extent permitted by applicable law, NIAC shall have the following rights and remedies regarding the appointment of a receiver: (a) NIAC may have a receiver appointed as a matter of right, (b) the receiver may be an employee of NIAC and may serve without bond, and (c) all fees of the receiver and his or her attorney shall become part of the Obligations secured by this Agreement and shall be payable on demand, with interest at the NIAC Agreement default rate from date of expenditure until repaid.

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

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

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

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

Notwithstanding any other provision of this Section 7, NIAC agrees that its rights with respect to liquidation of General Collateral may be limited by an intercreditor agreement between NIAC and U.S. Bank National Association entered into on or about the date of this Agreement.

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

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

b. **Applicable Law.** This Agreement has been delivered to NIAC and accepted by NIAC in the State of Oregon. If there is a lawsuit, Grantor agrees upon NIAC's request to submit to the jurisdiction of the courts sitting in Multnomah County, State of Oregon. Subject to the provisions on arbitration, this Agreement shall be governed by and construed in accordance with the laws of the State of Oregon.

c. **Attorneys' Fees; Expenses.** Grantor agrees to pay upon demand all of NIAC's costs and expenses, including attorneys' fees and NIAC's legal expenses, incurred in connection with the enforcement of this Agreement. NIAC may pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include NIAC's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (and including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

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

e. **Notices.** Any notice made in relation to this Agreement or performance hereunder shall be in writing and delivered by hand or sent by prepaid certified mail, return receipt requested, or telefax (with a copy by certified mail) to the following addresses or such other addresses as either party may designate by notice duly given:

To
NIAC: Nissho Iwai American Corporation
Suite 2200, Pacwest Center
1211 S.W. Fifth Avenue
Portland, Oregon 97204-3782
Attn: GM, General Commodities Depa
Telefax No.: (503) 241-0302

with a
copy to: Nissho Iwai American Corporation
1211 Avenue of the Americas
New York, New York 10036
Attn: General Counsel
Telefax No.: (212) 840-2317

To
HAC: Hanna Andersson Corporation
1010 N.W. Flanders Street
Portland, Oregon 97209
Attn: President and Chief Financial Of

All notices hereunder shall be deemed to be made upon receipt.

f. **Power of Attorney.** Grantor hereby appoints NIAC as its true and lawful attorney-in-fact, irrevocably, with full power of substitution to do the following: (a) to demand, collect, receive, receipt for, sue and recover all sums of money or other property which may now or hereafter become due, owing or payable from the Collateral; (b) to execute, sign and endorse any and all claims, instruments, receipts, checks, drafts or warrants issued in payment for the Collateral; (c) to settle or compromise any and all claims arising under the Collateral, and, in the place and stead of Grantor, to execute and deliver its release and settlement for the claim; and (d) to file any claim or claims or to take any action or institute or take part in any proceedings, either in its own name or in the name of Grantor, or otherwise, which in the discretion of NIAC may seem to be necessary or advisable. This power is given as security for the Obligations, and the authority hereby conferred is and shall be irrevocable and shall remain in full force and effect until renounced by NIAC.

g. **Preference Payments.** Any monies NIAC pays because of an asserted preference claim in Borrower's bankruptcy will become a part of the Obligations and, at NIAC's option, shall be payable by Borrower as provided above in the "EXPENDITURES BY NIAC" paragraph.

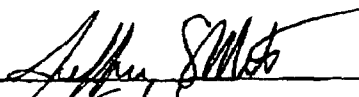
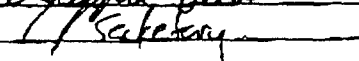
h. **Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be invalid or unenforceable as to any person or circumstance, such finding shall not render that provision invalid or unenforceable as to any other persons or circumstances. If feasible, any such offending provision shall be deemed to be modified to be within the limits of enforceability or validity; however, if the offending provision cannot be so modified, it shall be stricken and all other provisions of this Agreement in all other respects shall remain valid and enforceable.

i. **Successor Interests.** Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

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

GRANTOR

HAC ACQUISITION CORP

By: 
Its: 

NIAC

NISSHO IWAJ AMERICAN CORPORATION

By: _____
Its: _____

i. **Successor Interests.** Subject to the limitations set forth above on transfer of the Collateral, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns.

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

GRANTOR:

HAC ACQUISITION CORP.

By: _____
Its: _____

NIAC:

NISSHO IWAI AMERICAN CORPORATION

By: Suzanna Callahan
Its: VP/GM Gen Commodities Dept.
Portland

Exhibit A

Grantor's Places of Business/Locations of Collateral

Corporate Headquarters
1010 NW Flanders
Portland, OR 97209

Distribution Center
6900 Riverport Drive
Louisville, KY 40258

Retail Stores:

Hanna Andersson
327 NW 10th Avenue
Portland OR 97209

Hanna Andersson Oswego Towne Square
7 Monroe Parkway
Lake Oswego, OR 97035

Hanna Andersson Westchester Mall
125 Westchester Avenue #3370
White Plains, NY 10601

Hanna Andersson Tidewater Outlet Mall
375 US Route 1
Kittery, ME 03904

Hanna Andersson
Lighthouse Place Outlet Mall
215 Lighthouse Place
Michigan City, IN 46360

Hanna Andersson Southtown Center
7951 Southtown Center
Bloomington, MN 55431

Existing Liens

Liens

1. Secured Party: City of Portland
 Collateral Description: City lien on Central City Street Car
 Location of Filing: Multnomah County, Oregon

2. Secured Party: RR Donnelly & Sons Company (catalog printer)
 Collateral Description: Lien on all property owned by Borrower in RR Donnelly's
 possession
 Location of Filing: No filing

3. Secured Party: EMC Corporation
 Collateral Description: Leased equipment
 Location of Filing: Oregon (two filings)

Inventories Subject to Security Interest

1. Secured Party: RR Donnelly & Sons Company (catalog printer)
 Collateral Description: Lien on all property owned by Borrower in RR Donnelly's
 possession
 Location of Filing: No filing

Other Encumbrances

Rights to the name, photographs, likeness, and family history of Gun Denhart, Gun Denhart's grandmother Hanna Andersson, Christian Denhart, and Alex Denhart are subject to certain restrictions pursuant to a License Agreement between Gun Denhart and Borrower, dated March 1, 2001.

Liens of U.S. Bank National Association as permitted under an Intercreditor Agreement with NIAC.

Exhibit C

Hazardous Substances

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- 17 -

TRADEMARK
REEL: 002255 FRAME: 0344

CONVEYING PARTY: HAC ACQUISITION CORP.

RECEIVING PARTY: NISSHO IWAI AMERICAN CORPORATION



SUBORDINATED FILING!!

**PLEASE RECORD THESE DOCUMENTS SO THAT NISSHO IWAI
AMERICAN CORPORATION IS THE SUBORDINATED RECEIVING PARTY.**