

08-26-2002



102201420

2002 AUG 21 PM 2:35

FINANCE SECTION  
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 08-21-02
- Resubmission (Non-Recordation)  
Document ID #
- Correction of PTO Error  
Reel #  Frame #
- Corrective Document  
Reel #  Frame #

Conveyance Type

- Assignment  License
- Security Agreement  Nunc Pro Tunc Assignment
- Merger Effective Date  
Month Day Year  
08/14/2002
- Change of Name
- Other

Conveying Party

Mark if additional names of conveying parties attached Execution Date  
Month Day Year

Name

Formerly

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

Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)     
City State/Country Zip Code

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

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

FOR OFFICE USE ONLY

08/23/2002 TDIAZ1 00000081 76179663

01 FC:481 40.00 OP  
02 FC:482 250.00 OP

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

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

**Domestic Representative Name and Address**

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**Correspondent Name and Address**

Area Code and Telephone Number

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

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

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

Mark if additional numbers attached

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

**Trademark Application Number(s)**

**Registration Number(s)**

**Number of Properties** Enter the total number of properties involved. #

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

Method of Payment: Enclosed  Deposit Account  For expedited recording.

Deposit Account (Enter for payment by deposit account or if additional fees can be charged to the account.)  
Deposit Account Number: #

Authorization to charge additional fees: Yes  No

**Statement and Signature**

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

Richard J. Superfine

*Richard J. Superfine*  
Signature

8/20/01  
Date Signed

Name of Person Signing

Date Signed

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Security Agreement"), dated as of August 14, 2002 is by and between GENERAL CREATION, LLC, a Tennessee limited liability company, and GENERAL CREATION, INC., a Virginia corporation (hereinafter collectively referred to as the "Grantor") and LUND AND COMPANY INVENTION, L.L.C. ("Lund").

### WITNESSETH

WHEREAS, Grantor and Lund have executed a promissory note for \$221,636.49 dated May 20, 2002 (hereinafter "Original Promissory Note"), an amendment to the Original Promissory Note revising the payment schedule dated August 14, 2002 ("Amendment"), and a promissory note for \$30,000, dated August 14, 2002, (as amended, modified, increased, extended, renewed or replaced, hereinafter the "Promissory Note"), a Toy License Agreement for the "Katie" doll, dated August 14, 2002, (hereinafter the "Toy License Agreement") and previous license agreements for various products, including Piggy Says, Baby Bear Pillow, Snoozy Bear Blanket, Sneezzy Bear, Countapillar, ABC Butterfly, talking electronic puzzle and Baby Go Boom (hereinafter collectively referred to as "Previous License Agreements"); and

WHEREAS, the Grantor has agreed to deliver this Security Agreement in consideration of the forbearance by Lund on the Original Promissory Note, so long as no default occurs under the Amendment, and in consideration for Lund entering into the Toy License Agreement and the Promissory Note;

NOW, THEREFORE, in consideration of these premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings provided in the Promissory Note. In addition, the following terms which are defined in the Uniform Commercial Code in effect on the date hereof in the State of Illinois are used herein as so defined:

"Secured Obligations" means, without duplication, all of the obligations of the Grantor to the Lund, whenever arising, under the Original Promissory Note, Amendment, Promissory Note and the Toy Licensing Agreement between Lund and General Creation Ltd. (including, but not limited to, any interest accruing after the occurrence of a Bankruptcy Event with respect to the Borrower, regardless of whether such interest is an allowed claim under the Bankruptcy Code), whether now existing or hereafter arising, due or to become due, direct or indirect, absolute or contingent, howsoever evidenced, created, held or acquired, whether primary, secondary, direct, contingent, or joint and several, as such obligations may be amended, modified, increased, extended, renewed or replaced from time to time, and all costs and expenses incurred in connection with enforcement and collection of the foregoing obligations, including reasonable attorneys' fees.

"UCC" shall have the meaning provided in Section 3 hereof.

2. Grant of Security Interest in the Collateral. To secure the prompt payment and performance in full when due, whether by lapse of time, acceleration or otherwise, of the Secured Obligations, the Grantor hereby grants to the Lund a continuing security interest in, and a right to set off against, any and all right, title and interest of the Grantor in and to the following, whether now owned or existing or owned, acquired, or arising hereafter (collectively, the "Collateral"):

All assets and properties of any kind including without limitation accounts receivables, purchase orders (hereinafter "Accounts"), inventory, equipment, vehicles, chattel paper, instruments, general intangibles, documents, fixtures, investment property, deposit accounts and money (each as defined in the Illinois Uniform Commercial Code), Proprietary Rights, copyrights, trademarks, trade secrets and patent applications worldwide, and all additions and accessions thereto and replacements thereof as well as well other assets, properties and rights of the Grantor, and all proceeds of any and all kind of the Collateral, including all payments of insurance, or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral.

This security interest shall be subject only to the prior lien of Branch Banking and Trust Company of Gastonis, North Carolina in the principal amount of \$1,800,00, and , the previously occurring recorded and perfected security interests on the Collateral. The Grantor and Lund hereby acknowledge that such interests exist and that they are superior to Lund's.

The Grantor and the Lund, on behalf of the holders of the Secured Obligations, hereby acknowledge and agree that the security interest created hereby in the Collateral constitutes continuing collateral security for all of the Secured Obligations, whether now existing or hereafter arising.

3. Provisions Relating to Accounts.

(a) Anything herein to the contrary notwithstanding, the Grantor shall remain liable under each of the Accounts to observe and perform all the conditions and obligations to be observed and performed by it thereunder, all in accordance with the terms of any agreement giving rise to each such Account. The Lund shall not have any obligation or liability under any Account (or any agreement giving rise thereto) by reason of or arising out of this Security Agreement or the receipt by the Lund of any payment relating to such Account pursuant hereto, nor shall the Lund be obligated in any manner to perform any of the obligations of the Grantor under or pursuant to any Account (or any agreement giving rise thereto), to make any payment, to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party under any Account (or any agreement giving rise thereto), to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to it or to which it may be entitled at any time or times.

(b) Once during each calendar year or at any time after the occurrence and during the continuation of an Event of Default, the Lund shall have the right, but not the obligation, to make test verifications of the Accounts in any manner and through any medium that it reasonably considers advisable, and the Grantor shall furnish all such assistance and information as the Lund may require in connection with such test verifications. At any time and from time to time, upon the Lund's request and at the expense of the Grantor, the Grantor shall cause independent public accountants or others satisfactory to the Lund to furnish to the Lund reports showing reconciliations, aging and test verifications of, and trial balances for, the Accounts. The Lund in its own name or in the name of others may communicate with account debtors on the Accounts to verify with them to the Lund's satisfaction the existence, amount and terms of any Accounts.

4. Revised Article 9. The Grantor acknowledges and agrees to the following provisions in anticipation of the possible application, in one or more jurisdictions applicable to the transactions contemplated hereby, of revised Article 9 of the Uniform Commercial Code ("Revised Article 9"), in the form or substantially in the form approved by the American Law Institute and the National Conference of Commissioners on Uniform State Laws, as contained in Appendix XVI of the 1999 edition of the Uniform Commercial Code Official Text:

(a) Attachment. In applying the law of any jurisdiction in which Revised Article 9 is in effect, the Collateral is all assets of the Grantor secured by this Security Agreement, whether or not within the scope of Revised Article 9. The Collateral shall include, without limitation, the following categories of assets as defined in Revised Article 9: goods (including inventory, equipment and any accessions thereto), instruments (including promissory notes), documents, accounts (including healthcare-insurance receivables), chattel paper (whether tangible or electronic), deposit accounts, letter-of-credit rights (whether or not the letter of credit is evidenced by a writing), commercial tort claims, securities and all other investment property, general intangibles (including payment intangibles and software), supporting obligations and any and all proceeds thereof, wherever located, whether now owned or hereafter acquired. If the Grantor shall at any time, whether or not Revised Article 9 is in effect in any applicable jurisdiction, acquire a commercial tort claim, as defined in Revised Article 9, the Grantor shall immediately notify the Lund in a writing signed by the Grantor of the details thereof and grant to the Lund in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Security Agreement, with such writing to be in form and substance satisfactory to the Lund.

(b) Perfection by Filing. The Lund may at any time and from time to time, file financing statements, continuation statements and amendments thereto that describe the Collateral as all assets of the Grantor or words of

similar effect and which contain any other information required by Part 5 of Revised Article 9 for the sufficiency or filing office acceptance of any financing statement, continuation statement or amendment, including whether the Grantor is an organization, the type of organization and any organization identification number issued to the Grantor. The Grantor agrees to furnish any such information to the Lund promptly upon request. Any such financing statements, continuation statements or amendments may be signed by the Lund on behalf of the Grantor and may be filed at any time in any jurisdiction whether or not Revised Article 9 is then in effect in such jurisdiction.

(c) Other Perfection, etc. At any time and from time to time, the Grantor shall, whether or not Revised Article 9 is in effect in any applicable jurisdiction, take such steps as the Lund may reasonably request for the Lund (a) to obtain an acknowledgment, in form and substance reasonably satisfactory to the Lund, of any bailee having possession of any of the Collateral, that such bailee holds such Collateral for the Bank, (b) to obtain "control" of any investment property, deposit accounts, letter-of-credit rights or electronic chattel paper (as such terms are defined in Revised Article 9) as set forth in Revised Article 9, and, where control is established by written agreement, such agreement shall be in form and substance reasonably satisfactory to the Lund, and (c) otherwise to insure the continued perfection and priority of the Lund's security interest in any of the Collateral and of the preservation of its rights therein, whether in anticipation of or following the effectiveness of Revised Article 9 in any applicable jurisdiction.

(d) Other Provisions. In applying the law of any jurisdiction in which Revised Article 9 is effect, all references in this Security Agreement to any section of existing Article 9 shall be deemed to be references to the corresponding section of Revised Article 9.

(e) Savings Clause. Nothing contained in this Section 4 shall be construed to narrow the scope of the Lund's security interest in any of the Collateral or the perfection or priority thereof or to impair or otherwise limit any of the rights, powers, privileges or remedies of the Lund hereunder, except (and then only to the extent) as mandated by Revised Article 9, if applicable in a particular jurisdiction.

5. Representations and Warranties. The Grantor hereby represents and warrants to the Lund that until the Original Promissory Note, the Amendment, the Promissory Note and the Toy License Agreement have been terminated and the continuing royalties have been paid under the Previous License Agreements, and the Secured Obligations have been paid in full:

(a) Chief Executive Office; Books & Records. The Grantor's chief executive office and chief place of business are (and for the prior four months have been) located at the location set forth on Schedule 5(a) hereto, and the Grantor keeps its books and records at such locations.

(b) Location of Collateral. The location of all Collateral owned by the Grantor is set forth on Schedule 5(b) hereto.

(c) Ownership. The Grantor is the legal and beneficial owner of the Collateral and has the right to pledge, sell, assign or transfer the same. The Grantor's legal name is as set forth in this Security Agreement and the Grantor has not in the past four months changed its name, been party to a merger, consolidation or other change in structure or used any tradename except as set forth in Schedule 5(c) hereto.

(d) Security Interest/Priority. This Security Agreement creates a valid security interest in favor of the Lund in the Collateral of the Grantor and, when properly perfected by filing, shall constitute a valid perfected security interest in the Collateral, to the extent such security interest can be perfected by filing under the UCC.

(e) Farm Products. None of the Collateral constitutes, or is the Proceeds of, Farm Products.

(f) Accounts. (i) Each Account of the Grantor and the papers and documents relating thereto are genuine and in all material respects what they purport to be, (ii) each Account arises out of (A) a bona fide sale of goods sold and delivered by the Grantor (or is in the process of being delivered) or (B) services theretofore actually rendered by the Grantor to, the account debtor named therein, (iii) no Account of the Grantor is evidenced by any Instrument or Chattel Paper unless such Instrument or Chattel Paper has been theretofore endorsed over and delivered to the Lund and (iv) no surety bond was required or given in connection with any Account of the Grantor or the contracts or purchase orders out of which they arose.

(g) Inventory. No Inventory is held by the Grantor pursuant to consignment, sale or return, sale on approval or similar arrangement.

6. Covenants. The Grantor covenants that until the Original Promissory Note, the Amendment, the Promissory Note and Toy License Agreement have been terminated, the continuing royalties under the Previous License Agreements have been paid in full, and the Secured Obligations have been paid in full, the Grantor shall:

(a) Other Liens. Not sell, exchange, transfer, assign, lease or otherwise dispose of the Collateral or any interest therein.

(b) Preservation of Collateral. Keep the Collateral in good order, condition and repair and not use the Collateral in violation of the provisions of this Security Agreement or any other agreement relating to the Collateral or any policy insuring the Collateral or any applicable statute, law, bylaw, rule, regulation or ordinance.

(c) Instruments/Chattel Paper. If any amount payable under or in connection with any of the Collateral shall be or become evidenced by any Instrument or Chattel Paper, immediately deliver such Instrument or Chattel Paper to the Bank, duly endorsed in a manner satisfactory to the Lund, to be held as Collateral pursuant to this Security Agreement.

(d) Change in Location. Not, without providing 10 days prior written notice to the Lund and without filing such amendments to any previously filed financing statements as the Lund may require, (a) change the location of its chief executive office and chief place of business (as well as its books and records) from the location set forth on Schedule 5(a) hereto, (b) change the location of its Collateral from the locations set forth on Schedule 5(b) hereto, or (c) change its name, be party to a merger, consolidation or other change in structure or use any tradename other than as set forth on Schedule 5(c) attached hereto.

(e) Inspection. Upon reasonable notice, and during reasonable hours, at all times allow the Lund or its representative to visit and inspect the Collateral.

(f) Perfection of Security Interest. Execute and deliver to the Lund such agreements, assignments or instruments (including affidavits, notices, reaffirmations and amendments and restatements of existing documents, as the Lund may reasonably request) and do all such other things as the Lund may reasonably deem necessary or appropriate (i) to assure to the Lund its security interest hereunder, including such financing statements (including renewal statements) or amendments thereof or supplements thereto or other instruments as the Lund may from time to time reasonably request in order to perfect and maintain the security interests granted hereunder in accordance with the UCC, (ii) to consummate the transactions contemplated hereby and (iii) to otherwise protect and assure the Lund of its rights and interests hereunder. To that end, the Grantor agrees that the Lund may file one or more financing statements disclosing the Lund's security interest in any or all of the Collateral without, to the extent permitted by law, the Grantor's signature thereon, and further the Grantor also hereby irrevocably makes, constitutes and appoints the Lund, its nominee or any other person whom the Lund may designate, as the Grantor's attorney in fact with full power and for the limited purpose to sign in the name of the Grantor any such financing statements, or amendments and supplements to financing statements, renewal financing statements, notices or any similar documents which the Lund's reasonable discretion would be necessary, appropriate or convenient in order to perfect and maintain perfection of the security interests granted hereunder, such power, being coupled with an interest, being and remaining irrevocable so long as the Secured Obligations remain unpaid and until the commitments relating thereto shall have been terminated. The Grantor hereby agrees that a carbon, photographic or other reproduction of this Security Agreement or any such financing statement is sufficient for filing as a financing statement by the Lund without notice thereof to the Grantor wherever the Lund may in its sole discretion desire to file the same. In the event for any reason the law of any jurisdiction other than Tennessee becomes or is applicable to the Collateral or any part thereof, or to any of the Secured Obligations, the Grantor agrees to execute and deliver all such instruments and to do all such other things as the Bank in its sole discretion reasonably deems necessary or appropriate to preserve, protect and enforce the security interest of the Lund under the law of such other jurisdiction (and, if the Grantor shall fail to do so promptly upon the request of the Lund, then the Lund may execute any and all such requested documents on behalf of the Grantor pursuant to the power of attorney granted hereinabove). If any Collateral is in the possession or control of the Grantor's agents, and the Lund so requests, the Grantor agrees to notify such agents in writing of the Lund's security interest therein and, upon the Lund's request,

instruct them to hold all such Collateral for the account of the holders of the Secured Obligations and subject to the Bank's instructions. The Grantor agrees to mark its books and records to reflect the security interest of the Lund in the Collateral.

- (g) Grantor will send to Lund a copy of Grantor's "borrowing base" report that Grantor sends to Branch Banking and Trust Company every week.

6. Advance by holders of the Secured Obligations. On failure of the Grantor to perform any of the covenants and agreements contained herein, the Lund may, at its sole option and in its sole discretion, perform the same and in so doing may expend such sums as the Lund may reasonably deem advisable in the performance thereof, including, without limitation, the payment of any insurance premiums, the payment of any taxes, a payment to obtain a release of a Lien or potential Lien, expenditures made in defending against any adverse claim and all other expenditures which the Lund may make for the protection of the security hereof or which may be compelled to make by operation of law. All such sums and amounts so expended shall be repayable by the Grantor promptly upon timely notice thereof and demand therefore, shall constitute additional Secured Obligations and shall bear interest from the date said amounts are expended at the default rate under the Original Promissory Note, the Amendment, the Promissory Note, Toy License Agreement and Previous License Agreements. No such performance of any covenant or agreement by the Lund on behalf of the Grantor, and no such advance or expenditure thereof, shall relieve the Grantor of any default under the terms of this Security Agreement or the other Loan Documents. The Lund may make any payment hereby authorized in accordance with any bill, statement or estimate procured from the appropriate public office or holder of the claim to be discharged without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax assessment, sale, forfeiture, tax lien, title or claim except to the extent such payment is being contested in good faith by the Grantor in appropriate proceedings and against which adequate reserves are being maintained in accordance with GAAP.

8. Events of Default.

- (a) The Grantor, or any of them, defaults in the payment of principal or interest, royalties or the payment of any other amount due, under the Original Promissory Note, Amendment, Promissory Note, the Toy License Agreement or the Previous License Agreements when the same becomes due and payable; or
- (b) Any representation or warranty made or deemed made in or in connection with this Security Agreement, the Original Promissory Note, the Amendment, the Promissory Note, the Toy License Agreement or the Previous License Agreements;
- (c) The Grantor fails to observe or perform any covenant, term, provision, condition or agreement on the part of the Grantor to be observed or performed under this Security Agreement and such failure continues unwaived and uncured for 30 days after written notice thereof from Lund; or
- (d) The Grantor pursuant to or within the meaning of any Bankruptcy Law: (i) commences a voluntary case, (ii) consents to the entry of any order for relief against it in an involuntary case, (iii) consents to the appointment of a Custodian of it or for all or substantially all of its property, (iv) makes a general assignment for the benefit of its creditors, (v) generally is not paying its debts as they become due; or
- (e) A court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (i) is for relief against the Grantor in an involuntary case, (ii) appoints a Custodian of the Grantor or a Custodian for all or substantially all of the property of the Grantor, or (iii) orders the liquidation of the Grantor, and in any such instance the order or decree remains unstayed and in effect for 30 days; or
- (f) An event of default shall have occurred under any other agreement of the Grantor evidencing indebtedness (whether such indebtedness is contingent or otherwise); or
- (g) A judgment against the Grantor in excess of \$10,000 is unpaid, unstayed on appeal or not discharged, bonded or dismissed for a period of more than 30 days; or
- (h) Any material adverse change occurs with respect to Grantor, its assets, liabilities, financial condition or prospects or Lund deems itself insecure with respect to the business, property, assets, operations or condition, financial or otherwise, of any Obligor, as determined by Lund in its sole judgment and the situation causing such insecurity is not cured within 30 days after Lund gives written notice to Grantor thereof.

The term "Bankruptcy Law" means title 11 U.S. Code or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

9. Remedies.

(a) General Remedies. Upon the occurrence of an Event of Default and during continuation thereof, the Lund shall have, in addition to the rights and remedies provided herein or in the Original Promissory Note, the Amendment, the Promissory Note, the Toy License Agreement or the Previous License Agreements, or by law (including, but not limited to, the rights and remedies set forth in the Uniform Commercial Code of the jurisdiction applicable to the affected Collateral (the "UCC")) and, further, the Lund may, with or without judicial process or the aid and assistance of others, (i) enter on any premises on which any of the Collateral may be located and, without resistance or interference by the Grantor, take possession of the Collateral, (ii) dispose of any Collateral on any such premises, (iii) require the Grantor to assemble and make available to the Lund at the expense of the Grantor any Collateral at any place and time designated by the Lund which is reasonably convenient to both parties, (iv) remove any Collateral from any such premises for the purpose of effecting sale or other disposition thereof, and/or (v) without demand and without advertisement, notice, hearing or process of law, all of which the Grantor hereby waives to the fullest extent permitted by law, at any place and time or times, sell and deliver any or all Collateral held by or for it at public or private sale, by one or more contracts, in one or more parcels, for cash, upon credit or otherwise, at such prices and upon such terms as the Lund deems advisable, in its sole discretion (subject to any and all mandatory legal requirements). In addition to all other sums due the Lund with respect to the Secured Obligations, the Grantor shall pay the Lund all reasonable documented costs and expenses incurred by the Lund, including, but not limited to, reasonable attorneys' fees and court costs, in obtaining or liquidating the Collateral, in enforcing payment of the Secured Obligations, or in the prosecution or defense of any action or proceeding by or against the Lund or the Grantor concerning any matter arising out of or connected with this Security Agreement, any Collateral or the Secured Obligations, including, without limitation, any of the foregoing arising in, arising under or related to a case under the bankruptcy Code. To the extent the rights of notice cannot be legally waived hereunder, the Grantor agrees that any requirement of reasonable notice shall be met if such notice is personally served on or mailed, postage prepaid, to the Grantor in accordance with the notice provisions of the Guaranty Agreement at least 10 Business Days before the time of sale or other event giving rise to the requirement of such notice. The Lund shall not be obligated to make any sale or other disposition of the Collateral regardless of notice having been given. To the extent permitted by law, the Lund may be a purchaser at any such sale. To the extent permitted by applicable law, the Grantor hereby waives all of its rights of redemption with respect to any such sale. Subject to the provisions of applicable law, the Lund may postpone or cause the postponement of the sale of all or any portion of the Collateral by announcement at the time and place of such sale, and such sale may, without further notice, to the extent permitted by law, be made at the time and place to which the sale was postponed, or the Lund may further postpone such sale by announcement made at such time and place.

(b) Remedies relating to Accounts. Upon the occurrence of an Event of Default and during the continuation thereof, whether or not the Lund has exercised any or all of its rights and remedies hereunder, the Grantor will promptly upon request of the Lund instruct all account debtors to remit all payments in respect of Accounts to a mailing location selected by the Lund. In addition, the Lund or its designee may notify the Grantor's customers and account debtors that the Accounts of the Grantor have been assigned to the Lund or of the Lund's security interest therein, and may (either in its own name or in the name of the Grantor or both) demand, collect (including without limitation by way of a lockbox arrangement), receive, take receipt for, sell, sue for, compound, settle, compromise and give acquittance for any and all amounts due or to become due on any Account, and, in the Lund's discretion, file any claim or take any other action or proceeding to protect and realize upon the security interest of the holders of the Secured Obligations in the Accounts. The Grantor acknowledges and agrees that the Proceeds of its Accounts remitted to or on behalf of the Bank in accordance with the provisions hereof shall be solely for the Lund's own convenience and that the Grantor shall not have any right, title or interest in such Accounts or in any such other amounts except as expressly provided herein. The Lund shall have no liability or responsibility to the Grantor for acceptance of a check, draft or other order for payment of money bearing the legend "payment in full" or words of similar import or an other restrictive legend or endorsement or be responsible for determining the correctness of any remittance. The Grantor hereby agrees to indemnify the Lund from and against all liabilities, damages, losses, actions, claims, judgments, costs, expenses, charges and reasonable attorneys' fees suffered or incurred by the Lund because of the maintenance of the foregoing arrangements except as relating to or arising out of the gross negligence or willful misconduct of the Lund. In



the case of any investigation, litigation or other proceeding, the foregoing indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Grantor, its directors, shareholders or creditors or the Lund or any other Person.

(c) Access. In addition to the rights and remedies hereunder, upon the occurrence of an Event of Default and during the continuation thereof, the Lund shall have the right to enter and remain upon the various premises of the Grantor without cost or charge to the Lund, and use the same, together with materials, supplies, books and records of the Grantor for the purpose of collecting and liquidating the Collateral, or for preparing for sale and conducting the sale of the Collateral, whether by foreclosure, auction or otherwise. In addition, the Lund may remove Collateral, or any party thereof, from such premises and/or any records with respect thereto, in order to effectively collect or liquidate such Collateral.

(d) Nonexclusive Nature of Remedies. Failure by the Lund to exercise any right, remedy or option under this Security Agreement or any other Loan Document, or as provided by law, or any delay by the Lund in exercising the same, shall not operate as a waiver of any such right, remedy or option. No waiver hereunder shall be effective unless it is in writing, signed by the party against whom such waiver is sought to be enforced and then only to the extent specifically stated, which in the case of the Lund shall only be granted as provided herein. To the extent permitted by law, neither the Lund nor any party acting as attorney for the Lund shall be liable hereunder for any acts or omissions or for any error of judgment or mistake of fact or law other than their gross negligence or willful misconduct hereunder. The rights and remedies of the Lund under this Security Agreement shall be cumulative and not exclusive of any other right or remedy that the Lund may have.

(e) Retention of Collateral. To the extent permitted under applicable law, the Lund may, after providing the notices required by Section 9-505(2) of the UCC or otherwise complying with the requirements of applicable law of the relevant jurisdiction, to the extent the Lund is in possession of any of the Collateral, retain the Collateral in satisfaction of the Secured Obligations. Unless and until the Lund shall have provided such notices, however, the Lund shall not be deemed to have retained any Collateral in satisfaction of any Secured Obligations for any reason.

(f) Deficiency. In the event that the proceeds of any sale, collection or realization are insufficient to pay all amounts to which the Lund is legally entitled, the Grantor shall be liable for the deficiency, together with interest thereon at the Default Rate, together with the costs of collection and the reasonable fees of any attorneys employed by the Lund to collect such deficiency. Any surplus remaining after the full payment and satisfaction of the Secured Obligations shall be returned to the Grantor or to whomsoever a court of competent jurisdiction shall determine to be entitled thereto.

#### 10. Rights of the Lund.

(a) Power of Attorney. In addition to other powers of attorney contained herein, the Grantor hereby designates and appoints the Lund and each of its designees or agents, as attorney-in-fact of the Grantor, irrevocably and with power of substitution, with authority to take any or all of the following actions upon the occurrence and during the continuation of an Event of Default:

(i) to demand, collect, settle, compromise, adjust, give discharges and releases, all as the Lund may reasonably determine;

(ii) to commence and prosecute any actions at any court for the purposes of collecting any Collateral and enforcing any other right in respect thereof;

(iii) to defend, settle or compromise any action brought and, in connection therewith, give such discharge or release as the Lund may deem reasonably appropriate;

(iv) to receive, open and dispose of mail addressed to the Grantor and endorse checks, notes, drafts, acceptances, money orders, bills of lading, warehouse receipts or other instruments or documents evidencing payment, shipment or storage of the goods giving rise to the Collateral on behalf of and in the name of the Grantor, or securing, or relating to such Collateral;

(v) to sell, assign, transfer, make any agreement in respect of, or otherwise deal with or exercise rights in respect of, any Collateral or the goods or services which have given rise thereto, as fully and completely as though the Lund were the absolute owner thereof for all purposes;

(vi) to adjust and settle claims under any insurance policy relating thereto;

(vii) to execute and deliver all assignments, conveyances, statements, financing statements, renewal financing statements, security agreements, affidavits, notices and other agreements, instruments and documents that the Lund may determine necessary in order to perfect and maintain the security interests and liens granted in this Security Agreement and in order to fully consummate all of the transactions contemplated therein;

(viii) to institute any foreclosure proceedings that the Lund may deem appropriate; and

(ix) to do and perform all such other acts and things as the Lund may reasonably deem to be necessary, proper or convenient in connection with the Collateral.

This power of attorney is a power coupled with an interest and shall be irrevocable until the Original Promissory Note, the Amendment, the Promissory Note and Toy License Agreement have been terminated, the continuing royalties due under the Previous License Agreements have been paid in full and the Secured Obligations have been paid in full. The Lund shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and options expressly or implicitly granted to the Lund in this Security Agreement, and shall not be liable for any failure to do so or any delay in doing so. The Lund shall not be liable for any act or omission or for any error of judgment or any mistake of fact or law in its individual capacity or its capacity as attorney-in-fact except acts or omissions resulting from its gross negligence or willful misconduct. This power of attorney is conferred on the Lund solely to protect, preserve and realize upon its security interest in the Collateral.

(c) Assignment by the Lund. The Lund may from time to time assign the Secured Obligations and any portion thereof and/or the Collateral and any portion thereof, and the assignee shall be entitled to all of the rights and remedies of the Lund under this Security Agreement in relation thereto.

(d) The Lund's Duty of Care. Other than the exercise of reasonable care to assure the safe custody of the Collateral while being held by the Lund hereunder, the Lund shall have no duty or liability to preserve rights pertaining thereto, it being understood and agreed that the Grantor shall be responsible for preservation of all rights in the Collateral, and the Lund shall be relieved of all responsibility for the Collateral upon surrendering it or tendering the surrender of it to the Grantor. The Lund shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the Lund accords its own property, which shall be no less than the treatment employed by a reasonable and prudent agent in the industry, it being understood that the Lund shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any of the Collateral.

11. Application of Proceeds. Upon the occurrence and during the continuation of an Event of Default, any payments in respect of the Secured Obligations and any proceeds of the Collateral, when received by the Lund in cash or its equivalent, will be applied in reduction of the Secured Obligations in the order determined by the Lund in its sole discretion, and the Grantor irrevocably waives the right to direct the application of such payments and proceeds and acknowledges and agrees that the Lund shall have the continuing and exclusive right to apply and reapply any and all such payments and proceeds in the Lund's sole discretion, notwithstanding any entry to the contrary upon any of its books and records.

12. Costs of Counsel. If at any time hereafter (whether upon the occurrence of an Event of Default or not) the Lund employs counsel to prepare or consider amendments, waivers or consents with respect to this Security Agreement, or to take action or make a response in or with respect to any legal or arbitral proceeding relating to this Security Agreement or relating to the Collateral, or to protect the Collateral or exercise any rights or remedies under this Security Agreement or with respect to the Collateral, then the Grantor agree to promptly pay upon demand any and all

attorneys' fees, costs and expenses of the Lund, all of which costs and expenses shall constitute Secured Obligations hereunder.

13. Continuing Agreement.

(a) This Security Agreement shall be a continuing agreement in every respect and shall remain in full force and effect so long as any of the Secured Obligations remain outstanding and until the commitments relating thereto shall have terminated (other than any obligations with respect to the indemnities and the representations and warranties set forth in the Loan Documents). Upon such payment and termination, this Security Agreement shall be automatically terminated and the Lund shall, upon the request and at the expense of the Grantor, forthwith release all of its liens and security interests hereunder and shall execute and deliver all UCC termination statements and/or other documents reasonably requested by the Grantor evidencing such termination. Notwithstanding the foregoing all releases and indemnities provided hereunder shall survive termination of this Security Agreement.

(b) This Security Agreement shall continue to be effective or be automatically reinstated, as the case may be, if at any time payment, in whole or in part, of any of the Secured Obligations is rescinded or must otherwise be restored or returned by the Lund as a preference, fraudulent conveyance or otherwise under any bankruptcy, insolvency or similar law, all as though such payment had not been made; provided that in the event payment of all or any part of the Secured Obligations is rescinded or must be restored or returned, all reasonable costs and expenses (including without limitation any reasonable legal fees and disbursements) incurred by the Lund in defending and enforcing such reinstatement shall be deemed to be included as a part of the Secured Obligations.

14. Amendments; Waivers; Modifications. This Security Agreement and the provisions hereof may not be amended, waived, modified, changed, discharged or terminated without the written consent of the Grantor and the Lund.

15. Successors in Interest. This Security Agreement shall create a continuing security interest in the Collateral and shall be binding upon the Grantor, its successors and assigns and shall inure, together with the rights and remedies of the Lund hereunder, to the benefit of the Lund and its successors and permitted assigns; provided, however, that the Grantor may not assign its rights or delegate its duties hereunder without the prior written consent of the Lund. To the fullest extent permitted by law, the Grantor hereby releases the Lund, and its successors and assigns, from any liability for any act or omission relating to this Security Agreement or the Collateral, except for any liability arising from the gross negligence or willful misconduct of the Lund, or its officers, employees or agents.

16. Notices. All notices given under this Security Agreement shall be given in the manner provided for notices in the Promissory Notes.

17. Counterparts. This Security Agreement may be executed in any number of counterparts, each of which where so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this Security Agreement to produce or account for more than one such counterpart.

18. Headings. The headings of the sections and subsections hereof are provided for convenience only and shall not in any way affect the meaning or construction of any provision of this Security Agreement.

19. Governing Law; Submission to Jurisdiction; Venue.

(a) THIS SECURITY AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS. Any legal action or proceeding with respect to this Security Agreement may be brought in the state or federal courts located in Illinois or Virginia, at Lund's option, and, by execution and delivery of this Security Agreement, the Grantor hereby irrevocably accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of such courts. The Grantor further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to it at the address for notices set forth above, such service to become effective three days after such mailing.

Nothing herein shall affect the right of the Lund to serve process in any other manner permitted by law or to commence legal proceedings or to otherwise proceed against the Grantor in any other jurisdiction.

(b) The Grantor hereby irrevocably waives any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions or proceedings arising out of or in connection with this Security Agreement brought in the courts referred to in subsection (a) hereof and hereby further irrevocably waives and agrees not to plead or claim in any such court that any such action or proceeding brought in any such court has been brought in an inconvenient forum.

20. Waiver of Jury Trial. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE PARTIES TO THIS SECURITY AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

21. Severability. If any provision of any of the Security Agreement is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

22. Entirety. This Security Agreement and the other Loan Documents represent the entire agreement of the parties hereto and thereto, and supersede all prior agreements and understandings, oral or written, if any, including any commitment letters or correspondence relating to the Loan Documents, any other documents relating to the Secured Obligations, or the transactions contemplated herein and therein.

23. Survival. All representations and warranties of the Grantor hereunder shall survive the execution and delivery of this Security Agreement and the other Loan Documents and the making of the loans thereunder.

24. Other Security. To the extent that any of the Secured Obligations are now or hereafter secured by property other than the Collateral (including, without limitation, real property and securities owned by the Grantor), or by a guarantee, endorsement or property of any other Person, then the Lund shall have the right to proceed against such other property, guarantee or endorsement upon the occurrence of any Event of Default, and the Lund shall have the right, in their sole discretion, to determine which rights, security, liens, security interests or remedies the Lund shall at any time pursue, relinquish, subordinate, modify or take with respect thereto, without in any way modifying or affecting any of them or the Secured Obligations or any of the rights of the Lund under this Security Agreement or under any other of the Loan Documents.

[remainder of page intentionally left blank]

Each of the parties hereto has caused a counterpart of this Security Agreement to be duly executed and delivered as of the date first above written.

GRANTOR:

GENERAL CREATION, LLC  
a Tennessee limited liability company

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

GENERAL CREATION, INC  
a Virginia corporation

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

ACCEPTED AND AGREED TO AS OF THE DATE FIRST ABOVE WRITTEN:

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

C:\atemp\lund\Security Agreement -Lund 8-014-02 Draft

SCHEDULE 5(a)

CHIEF EXECUTIVE OFFICES

601 State Street  
Suite 500  
Bristol, Virginia 24201  
Attention: Richard P. Goodwin  
Fax No.: (276)669-0948

CHAR1\599252\_3

TRADEMARK  
REEL: 002569 FRAME: 0050

**SCHEDULE 5(b)**

**Location of the Collateral**

1. **General Creation, LLC**  
320 Walling Drive  
Bristol, VA 24202
2. **U.S. Consolidation Distribution**  
10722 S. La Cienga Blvd  
Inglewood, CA 90304
3. **Ontario Supply Chain Solution**  
5300 Shea Center Drive  
Ontario, CA 91761

SCHEDULE 5(c)

MERGERS, CONSOLIDATIONS, CHANGES IN STRUCTURE OR USE OF TRADENAMES

1. Mergers: None.
2. Consolidations: None.
3. Changes in Structure: None
4. Tradenames: None