

6/21/04

06-22-2004

Form PTO-1594  
(Rev. 10/02)  
OMB No. 0651-0027 (exp. 6/30/2005)  
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102773752

U.S. DEPARTMENT OF COMMERCE  
U.S. Patent and Trademark Office

To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.

1. Name of conveying party(ies):  
Document ID No.: 102589548  
Advanced Environmental Recycling Technologies, Inc.  
 Individual(s)       Association  
 General Partnership       Limited Partnership  
 Corporation-State  
 Other \_\_\_\_\_  
Additional name(s) of conveying party(ies) attached?  Yes  No

2. Name and address of receiving party(ies)  
Name: Allstate Insurance Company  
Internal  
Address: \_\_\_\_\_  
Street Address: 3075 Sanders Rd., Ste. G3A  
City: Northbrook State: IL Zip: 60062  
 Individual(s) citizenship \_\_\_\_\_  
 Association \_\_\_\_\_  
 General Partnership \_\_\_\_\_  
 Limited Partnership \_\_\_\_\_  
 Corporation-State \_\_\_\_\_  
 Other \_\_\_\_\_  
If assignee is not domiciled in the United States, a domestic representative designation is attached:  Yes  No  
(Designations must be a separate document from assignment)  
Additional name(s) & address(es) attached?  Yes  No

3. Nature of conveyance:  
 Assignment       Merger  
 Security Agreement       Change of Name  
 Other \_\_\_\_\_  
Execution Date: 10/09/2003

4. Application number(s) or registration number(s):  
A. Trademark Application No.(s) 76/244,185  
-----  
-----  
Additional number(s) attached  Yes  No

B. Trademark Registration No.(s) 1,734,846;  
1,854,189; 1,875,964; 2,556,508  
-----  
-----  
Additional number(s) attached  Yes  No

5. Name and address of party to whom correspondence concerning document should be mailed:  
Name: Thomas J. Mancuso, Esq.  
Internal Address: Hahn, Smith, Walsh & Mancuso,  
P.C.  
-----  
Street Address: 717 17th St., Ste. 1520  
-----  
City: Denver State: CO Zip: 80202

6. Total number of applications and registrations involved: ..... 5

7. Total fee (37 CFR 3.41).....\$ 140.00  
 Enclosed  
 Authorized to be charged to deposit account

8. Deposit account number:  
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DO NOT USE THIS SPACE

9. Signature.  
  
Monty L. Ross  
Name of Person Signing

Signature

6-14-04  
Date

Total number of pages including cover sheet, attachments, and document:

Mail documents to be recorded with required cover sheet information to:  
Commissioner of Patent & Trademarks, Box Assignments  
Washington, D.C. 20231

TRADEMARK  
REEL: 002994 FRAME: 0395

10-31-2003

10-31-03



102589548

Form PTO-1594 (Rev. 10/02) OMB No. 0651-0027 (exp. 6/30/2005) Tab settings

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1. Name of conveying party(ies):

Advanced Environmental Recycling Technologies, Inc.

- Individual(s) Association General Partnership Limited Partnership Corporation-State Other

Additional name(s) of conveying party(ies) attached? Yes No

3. Nature of conveyance:

- Assignment Merger Security Agreement Change of Name Other

Execution Date:

2. Name and address of receiving party(ies)

Name: Allstate Insurance Company

Internal Address:

Street Address: 3075 Sanders Rd., Ste. G3A

City: Northbrook State: IL Zip: 60062

- Individual(s) citizenship Association General Partnership Limited Partnership Corporation-State Other Financial Institution

If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No (Designations must be a separate document from assignment) Additional name(s) & address(es) attached? Yes No

4. Application number(s) or registration number(s):

A. Trademark Application No.(s) 76/244,185

B. Trademark Registration No.(s) 1,734,846;

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10/31/2003 DBYRNE 00000124 76244185 City: Denver State: CO Zip: 80202

01 FC:052 40.00 OP 02 FC:052 100.00 OP

DO NOT USE THIS SPACE

9. Signature.

Monty L. Ross

Name of Person Signing

Signature

Signature

10-7-03

Date

Total number of pages including cover sheet, attachments, and document:

Mail documents to be recorded with required cover sheet information to: Commissioner of Patent & Trademarks, Box Assignments Washington, D.C. 20231

**SUBORDINATE PATENT AND TRADEMARK SECURITY AGREEMENT**

This **SUBORDINATE PATENT AND TRADEMARK SECURITY AGREEMENT** ("Agreement"), dated as of October 9, 2003, is entered into between **ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.**, a corporation duly organized and existing under the laws of the State of Delaware ("Grantor"), which has a mailing address at 801 North Jefferson Springdale, Arkansas 72764, and **ALLSTATE INSURANCE COMPANY**, ("Lender") having an office at 3075 Sanders Road, Suite G3A, Northbrook, IL 60062.

**RECITALS**

A. The Lender desire to purchase, upon the terms and conditions stated in a Note Purchase Agreement, dated as of the date hereof, between the Lender and the Grantor (the "Note Purchase Agreement") Two Million Six Hundred Thousand Dollars (\$2,600,000) (the "Principal Amount") in aggregate principal amount of the Promissory Note of the Grantor, in the form attached hereto as Exhibit A to the Note Purchase Agreement (the "Note").

B. The Note shall bear interest at the rate of nineteen and 75/100 percent (19.75%) per annum, payable April 1, 2004, and on each April 1 and October 1 thereafter.

C. The Grantor shall provide additional security with respect to its obligations arising under the Note Purchase Agreement and the Note (the "Obligations") in accordance with this Agreement.

**NOW THEREFORE**, in consideration of the mutual promises, covenants, conditions, representations, and warranties hereinafter set forth and for other good and valuable consideration, the parties hereto mutually agree as follows:

**1. DEFINITIONS AND CONSTRUCTION.**

**1.1 Definitions.** The following terms, as used in this Agreement, have the following meanings:

"Code" means the Illinois Uniform Commercial Code, as amended and supplemented from time to time, and any successor statute.

"Collateral" means all of the following, whether now owned or hereafter acquired:

(i) Each of the trademarks and rights and interest which are capable of being protected as trademarks (including trademarks, service marks, designs, logos, indicia, tradenames, corporate names, Grantor names, business names, fictitious business names, trade styles, and other source or business identifiers, and applications pertaining thereto), which are presently, or in the future may be, owned, created, acquired, or used (whether pursuant to a license or otherwise) by Grantor, in whole or in part, and all trademark rights with respect thereto throughout the world, including all proceeds thereof (including license royalties and proceeds of infringement suits), and rights to renew and extend such trademarks and trademark rights;

(ii) Each of the patents and patent applications which are presently, or in the future may be, owned, issued, acquired, or used (whether pursuant to a license or otherwise) by Grantor, in whole or in part, and all patent rights with respect thereto throughout the world, including all proceeds thereof (including license royalties and proceeds of infringement suits), foreign filing rights, and rights to extend such patents and patent rights;

(iii) All of Grantor's right to the trademarks and trademark registrations listed on Exhibit A attached hereto, as the same may be updated hereafter from time to time;

(iv) All of Grantor's right, title, and interest, in and to the patents and patent applications listed on Exhibit A attached hereto, as the same may be updated hereafter from time to time;

(v) All of Grantor's right, title and interest to register trademark claims under any state or federal trademark law or regulation of any foreign country and to apply for, renew, and extend the trademark registrations and trademark rights, the right (without obligation) to sue or bring opposition or cancellation proceedings in the name of Grantor or in the name of Lender for past, present, and future infringements of the trademarks, registrations, or trademark rights and all rights (but not obligations) corresponding thereto in the United States and any foreign country;

(vi) All of Grantor's right, title, and interest in all patentable inventions, and to file applications for patent under federal patent law or regulation of any foreign country, and to request reexamination and/or reissue of the patents, the right (without obligation) to sue or bring interference proceedings in the name of Grantor or in the name of Lender for past, present, and future infringements of the patents, and all rights (but not obligations) corresponding thereto in the United States and any foreign country;

(vii) The entire goodwill of or associated with the businesses now or hereafter conducted by Grantor connected with and symbolized by any of the aforementioned properties and assets;

(viii) All general intangibles relating to the foregoing and all other intangible intellectual or other similar property of the Grantor of any kind or nature, associated with or arising out of any of the aforementioned properties and assets and not otherwise described above; and

(ix) All products and proceeds of any and all of the foregoing (including, without limitation, license royalties and proceeds of infringement suits) and, to the extent not otherwise included, all payments under insurance, or any indemnity, warranty, or guaranty payable by reason of loss or damage to or otherwise with respect to the Collateral.

**1.2 Construction.** Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, and the term "including" is not limiting. The words "hereof," "herein," "hereby," "hereunder," and other similar terms refer to this Agreement as a whole and not to any particular provision of this Agreement. Any initially capitalized terms used but not defined herein shall have the meaning set forth in the Loan Agreement. Any reference herein to any of the Loan Documents includes any and all alterations, amendments, extensions, modifications, renewals, or supplements thereto or thereof, as applicable. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against Lender or Grantor, whether under any rule of construction or

otherwise. On the contrary, this Agreement has been reviewed by Grantor, Lender, and their respective counsel, and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of Lender and Grantor. Headings have been set forth herein for convenience only, and shall not be used in the construction of this Agreement.

## **2. GRANT OF SECURITY INTEREST.**

To secure the complete and timely payment and performance of all Obligations, and without limiting any other security interest Grantor has granted to Lender, Grantor hereby grants, assigns, and conveys to Lender a security interest in Grantor's entire right, title, and interest in and to the Collateral. Lender agrees that its lien on the Collateral shall in no way interfere with and shall be subject to the following existing license and sublicense arrangements of Grantor and license and sublicense arrangements to be entered into in the future by Grantor to enable Grantor to do the following: (i) grant licenses or sublicenses of Collateral in the ordinary course of business; (ii) grant licenses, sublicenses or similar arrangements in connection with joint ventures, corporate or similar collaborations, sponsored research, research collaborations and strategic alliances; (iii) grant licenses or sublicenses to permit the use of intellectual property the Grantor not being pursued by the Grantor and (iv) exchange licenses or sublicenses with other persons.

## **3. REPRESENTATIONS, WARRANTIES AND COVENANTS.**

Grantor hereby represents, warrants, and covenants that:

**3.1 Trademarks; Patents.** A true and complete schedule setting forth all federal and state trademark registrations owned or controlled by Grantor or licensed to Grantor, together with a summary description and full information in respect of the filing or issuance thereof and expiration dates is set forth on Exhibit A; and a true and complete schedule setting forth all patent and patent applications owned or controlled by Grantor or licensed to Grantor, together with a summary description and full information in respect of the filing or issuance thereof and expiration dates is set forth on Exhibit A.

**3.2 Validity; Enforceability.** Each of the patents and trademarks is valid and enforceable, and Grantor is not presently aware of any past, present, or prospective claim by any third party that any of the patents or trademarks are invalid or unenforceable, or that the use of any patents or trademarks violates the rights of any third person, or of any basis for any such claims.

**3.3 Title.** Grantor is the sole and exclusive owner of the entire and unencumbered right, title, and interest in and to each of the patents, patent applications, trademarks, and trademark registrations, free and clear of any liens, charges, and encumbrances, including pledges, assignments, shop rights, and covenants by Grantor not to sue third persons. Lender acknowledges that the Collateral is subject to licenses, sublicenses and similar arrangements entered into by Grantor in the ordinary course of business or otherwise permitted under the Loan Agreement.

**3.4 Notice.** Grantor has used and will continue to use proper statutory notice in connection with its use of each of the patents and trademarks.

**3.5 Quality.** Grantor has used and will continue to use consistent standards of high quality (which may be consistent with Grantor's past practices) in the manufacture, sale, and delivery of products and services sold or delivered under or in connection with the trademarks,

including, to the extent applicable, in the operation and maintenance of its merchandising operations, and will continue to maintain the validity of the trademarks.

**3.6 Perfection of Security Interest.** Except for the filing of appropriate financing statements (all of which filings have been made) and filings with the United States Patent and Trademark Office necessary to perfect the security interests created hereunder, no authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required either for the grant by Grantor of the security interest hereunder or for the execution, delivery, or performance of this Agreement by Grantor or for the perfection of or the exercise by Lender of its rights hereunder to the Collateral in the United States.

#### **4. AFTER-ACQUIRED PATENT OR TRADEMARK RIGHTS.**

If Grantor shall obtain rights to any new trademarks, any new patentable inventions or become entitled to the benefit of any patent application or patent for any reissue, division, or continuation, of any patent, the provisions of this Agreement shall automatically apply thereto. Grantor shall give prompt notice in writing to Lender with respect to any such new trademarks or patents, or renewal or extension of any trademark registration. Grantor shall bear any expenses incurred in connection with future patent applications or trademark registrations. Without limiting Grantor's obligation under this Section 4, Grantor authorizes Lender to modify this Agreement by amending Exhibit A to include any such new patent or trademark rights. Notwithstanding the foregoing, no failure to so modify this Agreement or amend Exhibit A shall in any way affect, invalidate or detract from Lender's continuing security interest in all Collateral, whether or not listed on Exhibit A.

#### **5. LITIGATION AND PROCEEDINGS.**

Grantor shall commence and diligently prosecute in its own name, as the real party in interest, for its own benefit, and its own expense, such suits, administrative proceedings, or other action for infringement or other damages as are in its reasonable business judgment necessary to protect the Collateral. Grantor shall provide to Lender any information with respect thereto reasonably requested by Lender. Lender shall provide at Grantor's expense all necessary cooperation in connection with any such suits, proceedings, or action, including, without limitation, joining as a necessary party. Following Grantor's becoming aware thereof, Grantor shall notify Lender of the institution of, or any adverse determination in, any proceeding in the United States Patent and Trademark Office, or any United States, state, or foreign court regarding Grantor's claim of ownership in any of the patents or trademarks, its right to apply for the same, or its right to keep and maintain such patent or trademark rights.

#### **6. POWER OF ATTORNEY.**

Grantor hereby appoints Lender as Grantor's true and lawful attorney, with full power of substitution, to do any or all of the following, in the name, place and stead of Grantor: (a) file this Agreement (or an abstract hereof) or any other document describing Lender's interest in the Collateral with the United States Patent and Trademark Office; (b) execute any modification of this Agreement pursuant to Section 4 of this Agreement; (c) take any action and execute any instrument which Lender may deem necessary or advisable to accomplish the purposes of this Agreement; and (d) following an Event of Default (as defined in the Loan Agreement), (i) endorse Grantor's name on all applications, documents, papers and instruments necessary for Lender to use or maintain the Collateral; (ii) ask, demand, collect, sue for, recover, impound, receive, and give acquittance and receipts for money due or to become due under or in respect of any of the Collateral; (iii) file any claims or take any action or institute any proceedings that Lender may deem necessary or desirable for the collection of any of the Collateral or otherwise enforce Lender's rights with respect to any of the Collateral, and (iv) assign, pledge, convey, or

otherwise transfer title in or dispose of the Collateral to any person. The power of attorney granted under this Section 6 may be exercised by Lender only upon an Event of Default.

## **7. RIGHT TO INSPECT.**

Grantor grants to Lender and its employees and agents the right to visit Grantor's plants and facilities which manufacture, inspect, or store products sold under any of the patents or trademarks, and to inspect the products and quality control records relating thereto at reasonable times during regular business hours following reasonable advance notice to Grantor.

## **8. SPECIFIC REMEDIES.**

Upon the occurrence of any Event of Default (as defined in the Loan Agreement), Lender shall have, in addition to, other rights given by law or in this Agreement, the Loan Agreement, or in any other Loan Document, all of the rights and remedies with respect to the Collateral of a secured party under the Code, including the following:

**8.1 Notification.** Lender may notify licensees to make royalty payments on license agreements directly to Lender;

**8.2 Sale.** Lender may sell or assign the Collateral and associated goodwill at public or private sale for such amounts, and at such time or times as Lender deems advisable. Any requirement of reasonable notice of any disposition of the Collateral shall be satisfied if such notice is sent to Grantor ten (10) days prior to such disposition. Grantor shall be credited with the net proceeds of such sale only when they are actually received by Lender, and Grantor shall continue to be liable for any deficiency remaining after the Collateral is sold or collected. If the sale is to be a public sale, Lender shall also give notice of the time and place by publishing a notice one time at least ten (10) days before the date of the sale in a newspaper of general circulation in the county in which the sale is to be held. To the maximum extent permitted by applicable law, Lender may be the purchaser of any or all of the Collateral and associated goodwill at any public sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any public sale, to use and apply all or any part of the Obligations as a credit on account of the purchase price of any collateral payable by Lender at such sale.

## **9. GENERAL PROVISIONS.**

**9.1 Effectiveness.** This Agreement shall be binding and deemed effective when executed by Grantor and Lender.

**9.2 Notices.** Except to the extent otherwise provided herein, all notices, demands, and requests that either party is required or elects to give to the other shall be in writing and shall be governed by the notice provisions of the Loan Agreement.

**9.3 No Waiver.** No course of dealing between Grantor and Lender, nor any failure to exercise nor any delay in exercising, on the part of Lender, any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement, shall operate as a waiver. No single or partial exercise of any right, power, or privilege under this Agreement or under the Loan Agreement or any other agreement by Lender shall preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege by Lender.

**9.4 Rights Are Cumulative.** All of Lender's rights and remedies with respect to the Collateral whether established by this Agreement, the Loan Agreement, or any other documents or agreements, or by law shall be cumulative and may be exercised concurrently or in any order.

**9.5 Successors.** The benefits and burdens of this Agreement shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties; provided that Grantor may not transfer any of the Collateral or any rights hereunder, without the prior written consent of Lender, except as specifically permitted hereby.

**9.6 Severability.** The provisions of this Agreement are severable. If any provision of this Agreement is held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such provision, or part thereof, in such jurisdiction, and shall not in any manner affect such provision or part thereof in any other jurisdiction, or any other provision of this Agreement in any jurisdiction.

**9.7 Entire Agreement.** This Agreement is subject to modification only by a writing signed by the parties, except as provided in Section 4 of this Agreement. To the extent that any provision of this Agreement conflicts with any provision of the Note Purchase Agreement or the Note, the provision giving Lender greater rights or remedies shall govern, it being understood that the purpose of this Agreement is to add to, and not detract from, the rights granted to Lender under the Note Purchase Agreement. This Agreement, the Note Purchase Agreement, the Note and the documents relating thereto (the "Loan Documents") comprise the entire agreement of the parties with respect to the matters addressed in this Agreement.

**9.8 Fees and Expenses.** Grantor shall pay to Lender on demand all actual and reasonable costs and expenses that Lender pays or incurs in connection with the negotiation, preparation, consummation, administration, enforcement, and termination of this Agreement, including: (a) reasonable attorneys' and paralegals' fees and disbursements of counsel to Lender; (b) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) for any amendment, supplement, waiver, consent, or subsequent closing in connection with this Agreement and the transactions contemplated hereby; (c) costs and expenses of lien and title searches; (d) taxes, fees, and other charges for filing this Agreement at the United States Patent and Trademark Office, or for filing financing statements, and continuations, and other actions to perfect, protect, and continue the security interest created hereunder; (e) sums paid or incurred to pay any amount or take any action required of Grantor under this Agreement that Grantor fails to pay or take; (f) costs and expenses of preserving and protecting the Collateral; and (g) costs and expenses (including reasonable attorneys' and paralegals' fees and disbursements) paid or incurred to enforce the security interest created hereunder, sell or otherwise realize upon the Collateral, and otherwise enforce the provisions of this Agreement, or to defend any claims made or threatened against the Lender arising out of the transactions contemplated hereby (including preparations for the consultations concerning any such matters). The foregoing shall not be construed to limit any other provisions of this Agreement or the Loan Documents regarding costs and expenses to be paid by Grantor. The parties agree that reasonable attorneys' and paralegals' fees and costs incurred in enforcing any judgment are recoverable as a separate item in addition to fees and costs incurred in obtaining the judgment and that the recovery of such attorneys' and paralegals' fees and costs is intended to survive any judgment, and is not to be deemed merged into any judgment.

**9.9 Indemnity.** Grantor shall protect, defend, indemnify, and hold harmless Lender and Lender's assigns from all liabilities, losses, and costs (including without limitation reasonable attorneys' fees) incurred or imposed on Lender relating to the matters in this Agreement, except for liabilities, losses or costs caused by the negligence of Lender or its agents.

**9.10 Further Assurances.** At Lender's request, Grantor shall execute and deliver to Lender any further instruments or documentation, and perform any acts, that may be reasonably necessary or appropriate to implement this Agreement, the Note Purchase Agreement, the Note or any other agreement, and the documents relating thereto, including without limitation any



instrument or documentation reasonably necessary or appropriate to create, maintain, perfect, or effectuate Lender's security interests in the Collateral.

**9.11 Release.** At such time as Grantor shall pay all of the Obligations and the Note shall be paid and cancelled, Lender shall execute and deliver to Grantor all assignments and other instruments as may be reasonably necessary or proper to terminate Lender's security interest in the Collateral, subject to any disposition of the Collateral which may have been made by Lender pursuant to this Agreement. For the purpose of this Agreement, the Obligations shall be deemed to continue if Grantor enters into any bankruptcy or similar proceeding at a time when any amount paid to Lender could be ordered to be repaid as a preference or pursuant to a similar theory, and shall continue until it is finally determined that no such repayment can be ordered.

**9.12 Governing Law.** THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS AND DECISIONS OF THE STATE OF ILLINOIS. ALL DISPUTES BETWEEN THE GRANTOR AND TRUSTEE, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN CHICAGO, ILLINOIS, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT TRUSTEE SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST THE GRANTOR OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY TRUSTEE IN GOOD FAITH TO ENABLE TRUSTEE TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF TRUSTEE. THE GRANTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY TRUSTEE. THE GRANTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH TRUSTEE HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

**9.13 Waiver of Right to Jury Trial.** LENDER AND GRANTOR EACH HEREBY WAIVE THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; OR (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN LENDER AND GRANTOR; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF LENDER OR GRANTOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH LENDER OR GRANTOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

**9.14. Subordination Provisions.**

(a) Security Documents. The obligation of the Grantor hereunder and under the Note shall be secured by the following (the "Security Documents");

(i) a Subordinate Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement delivered with respect to certain property of the Grantor located in Lowell, Arkansas (the "Subordinate Lowell Mortgage");

(ii) a Subordinate Mortgage, Assignment of Leases and Rents, Security Agreement and Financing Statement delivered with respect to certain property of the Grantor located in Springdale, Arkansas (the "Subordinate Springdale Mortgage"); and

(iii) a Subordinate Deed of Trust, Assignment of Leases and Rents, Security Agreement and Financing Statement delivered with respect to certain property of the Grantor located in Junction, Texas ( the "Subordinate Junction Deed of Trust"); and

(iv) this Agreement.

(b) Superior Indebtedness. The Note and the Security Documents shall, to the extent and in the manner hereinafter set forth, be fully subordinated to the Superior Indebtedness, as herein defined. For all purposes of this Agreement, the term "Superior Indebtedness" shall mean (i) all obligations of this Grantor arising under (A) the Mortgage and Loan Agreement, dated as of October 1, 2003 (the "Bond Loan Agreement"), by and between the City of Springdale, Arkansas, and the Grantor, the interests of the City in which have been assigned to Regions Bank (the "Trustee"), (B) the Lowell Mortgage (within the meaning of the Bond Loan Agreement), or (C) the Junction Deed of Trust (within the meaning of the Bond Loan Agreement) (together, the "Bond Documents"), as each may be supplemented and modified to the date hereof, or as the same may hereafter from time to time be further supplemented and modified and any other obligations secured by or evidencing, directly or indirectly, obligations evidenced by such Bond Documents, including post-petition interest, and (ii) all obligations of the Grantor secured on a parity with the obligations of the Grantor arising under the Bond Loan Agreement, as provided therein.

(c) Limitation on Action. No action or proceedings, judicial or otherwise (including without limitation the commencement of or joinder in any bankruptcy or liquidation), shall be instituted or pursued by the Lender, nor shall the Lender take steps to enforce other judgments or encumbrances on assets of the Grantor pledged to the payment of the obligations of the Grantor arising hereunder (an "Enforcement Action"), other than an action to compel specific performance and other than an action with respect to any collateral pledged to the payment of the Note and not pledged to the payment of the Superior Indebtedness, unless all holders (the "Bondholders") of the City of Springdale, Arkansas Industrial Development Refunding Revenue Bonds (Advanced Environmental Recycling Technologies, Inc. Project) Series 2003 (the "Bonds") shall have consented thereto, or the Bondholders shall have been paid in full or provision therefor shall have been made.

(d) Limitation on Payment. No payment on account of principal, premium, if any, sinking funds or interest on the Note shall be made, nor shall any property or assets pledged to the payment of the obligations of the Grantor arising hereunder, other than collateral pledged to the payment of the Note and not pledged to the payment of the Superior Indebtedness, be applied to the payment or prepayment of the Note, unless payment of all amounts then due and payable for principal, premium, if any, sinking funds and interest on Superior Indebtedness has been made or duly provided for in accordance with the terms of the Bond Documents. No payment of principal of and interest on and other amounts due hereunder or under the Note may be made prior to full payment of Superior Indebtedness (other than payment derived with respect to collateral pledged to the payment of the Note and not pledged to the payment of the Superior Indebtedness), if, at the time of such payment or application or immediately after giving effect thereto, (i) there shall exist any default in the payment of principal, premium, if any, sinking funds or interest with respect to the Bonds or any Superior Indebtedness, or (ii) there shall have occurred an Event of Default (as defined in the Bond Loan Agreement) (other than a default in the payment of principal, premium, if any, sinking funds or interest) with respect to the Bonds or any Superior Indebtedness permitting the Trustee for the holders of the Bonds to accelerate the

maturity thereof, and written notice of such occurrence shall have been given to the Lender and such event of default shall not have been cured or waived or shall not have ceased to exist.

(e) Payment of Superior Indebtedness. Upon (i) any acceleration of maturity of the principal amount due on the Note or (ii) any payment or distribution of any kind or character, whether in cash, property or securities (other than payment derived with respect to collateral pledged to the payment of the Note and not pledged to the payment of the Superior Indebtedness), upon any dissolution or winding-up or total or partial liquidation, reorganization or arrangement of the Grantor, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal, premium, if any, and interest due or to become due upon the Bonds and all Superior Indebtedness shall first be paid in full, or payment thereof provided for in accordance with the terms of the Indenture (as defined in the Bond Loan Agreement) before any payment is made on account of the principal, premium, if any, or interest on the Note (other than payment derived with respect to collateral pledged to the payment of the Note and not pledged to the payment of the Superior Indebtedness), and upon any such dissolution or winding-up or liquidation, reorganization or arrangement, any payment or distribution of any kind or character, whether in cash, property or securities, to which the Lender would be entitled, except for the provisions hereof, shall be paid by the Grantor, or by a receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, to the Trustee for the Bondholders to the extent necessary to pay all Superior Indebtedness in full, before any payment or distribution is made to the Lender.

(f) Application of Payments. In the event that, in violation of any of the foregoing provisions, any payment or distribution of any kind or character, whether in cash, property or securities, shall be received by the Lender before all Bonds and Superior Indebtedness are paid in full or provision for such payment in accordance with the terms of the Indenture, such payment or distribution shall be held in trust for the benefit of, and shall be paid over or delivered to the Trustee for application to the payment of all Bonds remaining unpaid to the extent necessary to pay all such Bonds in full in accordance with its terms.

(g) No Prejudice. Neither the Trustee nor any present or future holder of any Bonds shall be prejudiced in any right to enforce subordination of the indebtedness evidenced by the Note by any act or failure to act on the part of the Grantor or anyone in custody of its assets or property.

(h) Enforcement. The subordination provisions of this Section 9.14 shall be for the benefit of the holders of Bonds and may be enforced by the Trustee against the Lender or any trustee therefor. The subordination provisions of this Section 9.14 are solely for the purpose of defining the relative rights of the holders of Superior Indebtedness on the one hand and the holder of the Note on the other hand, and that nothing therein shall impair, as between the Grantor and the Lender, the obligation of the Grantor, which is unconditional and absolute, to pay to the holder of the Note the principal thereof, premium, if any, and interest thereon, in accordance with the terms hereof, nor shall anything herein prevent the holder of the Note or any trustee on its behalf from exercising all remedies otherwise permitted by applicable law or hereunder upon default thereunder, subject to the rights set forth above of the holders of Superior Indebtedness to receive cash, property or securities otherwise payable or deliverable to the holder of the Note. Upon any payment or distribution of assets of the Grantor of the character referred to in paragraph (f) above, the holder of the Note shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding-up, liquidation, reorganization or arrangement proceedings are pending, and upon a certificate of the receiver, trustee in bankruptcy, liquidating trustee, agent or other person making any such payment or distribution, delivered to the holder of the Note for the purpose of ascertaining the persons entitled to participate in such distribution, the holder of the Note and other indebtedness of the Grantor, the amount thereof or payable thereon, the amount or amounts paid or distributed

thereon and all other facts pertinent thereto or to the foregoing provisions. No holder of the Note shall be charged with knowledge of the existence of any facts which would prohibit the making of any payment of moneys to or by such, unless and until such holder has actual notice or shall have received notice thereof from the Grantor, the Trustee or one or more holders of Superior Indebtedness. The Grantor hereby covenants and agrees in each case to provide such notice.

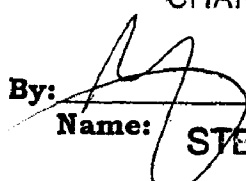
IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

**ADVANCED ENVIRONMENTAL  
RECYCLING TECHNOLOGIES, INC.**

By \_\_\_\_\_  
Title \_\_\_\_\_

**ALLSTATE INSURANCE COMPANY**

By:   
Name: CHARLES D. MIRES

By:   
Name: STEPHEN S. PETERSON  
Its Authorized Signatories



IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

**ADVANCED ENVIRONMENTAL  
RECYCLING TECHNOLOGIES, INC.**

By Stew Brooks  
Title CO-CEO

**ALLSTATE INSURANCE COMPANY**

By \_\_\_\_\_  
Title \_\_\_\_\_

Exhibit "A"

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

U.S. AND FOREIGN INTELLECTUAL PROPERTY PORTFOLIO  
PREPARED BY LOCKE LIDDELL & SAPP LLP

OCTOBER 2, 2003

PATENTS - UNITED STATES

<u>Patent No./ Serial No.</u>	<u>Issue Date/ Filing Date</u>
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<u>Country</u>	<u>Serial No.</u>	<u>Filing Date</u>
Canada	2,107,239	03/20/1992
Mexico	93/5743	09/20/1993



**TRADEMARKS – UNITED STATES  
REGISTERED/PENDING**

<u>Mark</u>	<u>Registration No. Serial No.</u>	<u>Registration Date Filing Date</u>
MOISTURESHIELD	1,734,846 74/259,515	11/24/1992 03/26/1992
LIFECYCLE	1,854,189 74/320,525	09/13/1994 10/05/1992
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DREAMWORKS	2,556,508 75/639,826	04/02/2002 02/12/1999
CORNERLOC	76/244,185	04/20/2001

**Error! Unknown document property name.**

**TRADEMARKS – FOREIGN  
REGISTERED/PENDING**

<u>Country</u>	<u>Mark</u>	<u>Registration No. Serial No.</u>	<u>Registration Date Filing Date</u>
Canada	DREAMWORKS	1030615	09/29/1999
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