

Form PTO-1594 (Rev. 06/04)
OMB Collection 0651-0027 (exp. 6/30/2005)

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

RECORDATION FORM COVER SHEET TRADEMARKS ONLY

To the Director of the U. S. Patent and Trademark Office: Please record the attached documents or the new address(es) below.

1. Name of conveying party(ies)/Execution Date(s):

Rag Shops, Inc.
The Other Borrowers Names On Exhibit 1 Herero
Crafts Retail Holding Corp.

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

Citizenship: DE

Execution Date(s): 11/3/04; 11/3/04; 11/3/04

Additional names of conveying parties attached? Yes No

3. Nature of conveyance:

- Assignment Merger
- Security Agreement Change of Name
- Other _____

2. Name and address of receiving party(ies):

Additional names, addresses, or citizenship attached? Yes No

Name: Wells Fargo Retail Finance, LLC

Internal Address: _____

Street Address: One Boston Place

City: Boston

State: MA

Country: US Zip: 02108

- Association Citizenship: _____
- General Partnership Citizenship: _____
- Limited Partnership Citizenship: _____
- Corporation Citizenship: _____
- Other: Limited Liability Company Citizenship: DE

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)

4. Application number(s) or registration number(s) and Identification or description of the Trademark(s):

A. Trademark Application No.(s):

B. Trademark Registration No.(s):

876,633 2,465,175 2,495,707

Additional sheet(s) attached? Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: Christopher E. Kondracki

Address: 2001 Jefferson Davis Highway

Suite 1007

Arlington, Virginia 22202

Phone Number: (703) 415-1555

Fax Number: (703) 415-1557

Email Address: _____

6. Total number of applications and registrations involved:

3

7. Total Fee (37 CFR 2.6(b)(6) & 3.41): \$ 90.00

- Authorized to be charged by credit card
- Authorized to be charged by Deposit Account
- Fees Enclosed

8. Payment Information:

Deposit Account Number: 19-3545

Authorized User Name: Christopher E. Kondracki

9. Signature: 
Signature

2/28/05
Date

Christopher E. Kondracki
Name of Person Signing

Total number of pages including cover sheet, attachments, and documents: 17

CH \$90.00 193545 0876633

TRADEMARK SECURITY AGREEMENT

This **TRADEMARK SECURITY AGREEMENT** (this "Agreement"), dated as of November 3, 2004, is made by and between **RAG SHOPS, INC.**, a Delaware corporation (the "Lead Borrower"), the Persons named on Exhibit 1 annexed hereto (each, together with the Lead Borrower, individually, a "Borrower" and collectively, the "Borrowers"), **CRAFTS RETAIL HOLDING CORP.**, a Delaware corporation ("Parent"; Lead Borrower, each other Borrower, and Parent are referred to hereinafter each individually as a "Debtor", and individually and collectively, jointly and severally, as the "Debtors"), and **WELLS FARGO RETAIL FINANCE, LLC**, a Delaware limited liability company, as agent for the Lender Group (in such capacity, together with its successors, if any, in such capacity, "Agent").

RECITALS

A. Lead Borrower, Borrowers and Parent are parties to that certain Loan Agreement (the "Loan Agreement"), dated as of November 3, 2004 with the Lenders, (as defined therein), and Agent, pursuant to which (i) the Lenders have agreed to make certain financial accommodations to Borrowers and (ii) Parent has agreed to guarantee the obligations of Borrower to the Lender Group.

B. each Borrower is a Subsidiary, directly or indirectly, of Parent, and Parent will benefit by virtue of the financial accommodations to Borrowers.

C. Debtors have executed and delivered to Agent that certain Security Agreement, dated as of November 3, 2004 (the "Security Agreement"), pursuant to which each Debtor has granted to Agent, for the benefit of the Lender Group, security interests in (among other things) all or substantially all of Debtors' general intangibles.

D. Pursuant to the Loan Documents, each Debtor has agreed to execute and deliver this Agreement to Agent for filing with the PTO (as defined below) and with any other relevant recording systems in any domestic jurisdiction, and as further evidence of and to effectuate Agent's security interests in the trademarks and other general intangibles described herein.

AGREEMENT

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend and restate the Existing Trademark Security Agreement in its entirety as follows:

1. Definitions: Interpretation.

a. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“Wells” shall have the meaning ascribed to such term in the preamble to this Agreement.

“Agent” shall have the meaning ascribed to such term in the preamble to this Agreement.

“Agreement” shall have the meaning ascribed to such term in the introductory paragraph of this Agreement.

“Debtor” shall have the meaning ascribed to such term in the preamble to this Agreement.

“Code” means the Uniform Commercial Code in effect in the Commonwealth of Massachusetts from time to time.

“Event of Default” means any Event of Default under the Loan Agreement.

“Loan Agreement” shall have the meaning ascribed to such term in the recitals to this Agreement.

“Lender Group” means collectively the Lenders and Agent.

“Lenders” means Lenders as defined in the Loan Agreement.

“Proceeds” means whatever is receivable or received from or upon the sale, lease, license, collection, use, exchange or other disposition, whether voluntary or involuntary, of any Trademark Collateral, including “proceeds” as such term is defined in the Code, and all proceeds of proceeds. Proceeds shall include (i) any and all accounts, chattel paper, instruments, general intangibles, cash and other proceeds, payable to or for the account of Debtor, from time to time in respect of any of the Trademark Collateral, (ii) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to or for the account of Debtor from time to time with respect to any of the Trademark Collateral, (iii) any and all claims and payments (in any form whatsoever) made or due and payable to Debtor from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Trademark Collateral by any Person acting under color of governmental authority, and (iv) any and all other amounts from time to time paid or payable under or in connection with any of the Trademark Collateral or for or on account of any damage or injury to or conversion of any Trademark Collateral by any Person.

“PTO” means the United States Patent and Trademark Office and any successor thereto.

"Secured Obligations" shall mean all liabilities, obligations, or undertakings owing by Debtors of any kind or description arising out of or outstanding under, advanced or issued pursuant to, or evidenced by the Loan Agreement, this Agreement, the Security Agreement, or any of the other Loan Documents, irrespective of whether for the payment of money, whether direct or indirect, absolute or contingent, due or to become due, voluntary or involuntary, whether now existing or hereafter arising, and including all interest (including interest that accrues after the filing of a case under the Bankruptcy Code) and any and all costs, fees (including attorneys fees), and expenses which any Debtor is required to pay pursuant to any of the foregoing, by law, or otherwise.

"Security Agreement" shall have the meaning ascribed to such term in the recitals to this Agreement.

"Trademark Collateral" has the meaning set forth in Section 2.

"Trademarks" has the meaning set forth in Section 2.

"United States" and "U.S." each mean the United States of America.

b. Terms Defined in Code. Where applicable and except as otherwise defined herein, terms used in this Agreement shall have the meanings assigned to them in the Code.

c. Interpretation. In this Agreement, except to the extent the context otherwise requires:

i. Any reference to a Section or a Schedule is a reference to a section hereof, or a schedule hereto, respectively, and to a subsection or a clause is, unless otherwise stated, a reference to a subsection or a clause of the Section or subsection in which the reference appears.

ii. The words "hereof," "herein," "hereto," "hereunder" and the like mean and refer to this Agreement as a whole and not merely to the specific Section, subsection, paragraph or clause in which the respective word appears.

iii. The meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined.

iv. The words "including," "includes" and "include", shall be deemed to be followed by the words "without limitation."

v. References to agreements and other contractual instruments shall be deemed to include all subsequent amendments and other modifications thereto.

vi. References to statutes or regulations are to be construed as including all statutory and regulatory provisions consolidating, amending or replacing the statute or regulation referred to.

vii. Any captions and headings are for convenience of reference only and shall not affect the construction of this Agreement.

viii. Capitalized words not otherwise defined herein shall have the respective meanings assigned to them in the Loan Agreement.

ix. In the event of a direct conflict between the terms and provisions of this Agreement and the Loan Agreement, or between the terms and provisions of this Agreement and the Security Agreement, it is the intention of the parties hereto that such documents shall be read together and construed, to the fullest extent possible, to be in concert with each other. In the event of any actual, irreconcilable conflict between this Agreement and the Loan Agreement that cannot be resolved as aforesaid, the terms and provisions of the Loan Agreement shall control and govern; provided, however, that the inclusion herein of additional obligations on the part of Debtor and supplemental rights and remedies in favor of Agent for the benefit of the Lender Group (whether under federal law or applicable New York law), in each case in respect of the Trademark Collateral, shall not be deemed a conflict in the Loan Agreement. In the event of any actual, irreconcilable conflict between this Agreement and the Security Agreement that cannot be resolved as aforesaid, the terms and provisions of this Agreement shall control and govern.

2. Security Interest.

a. Assignment and Grant of Security in respect of the Secured Obligations. To secure the prompt payment and performance of the Secured Obligations, each Debtor hereby grants, assigns, transfers and conveys to Agent, for the benefit of the Lender Group, a continuing security interest in all of such Debtor's right, title and interest in and to the following property, whether now existing or hereafter acquired or arising and whether registered or unregistered (collectively, the "Trademark Collateral"):

i. all state (including common law) and federal trademarks, service marks and trade names, corporate names, company names, business names, fictitious business names, trade styles, trade dress, logos, other source or business identifiers, designs and general intangibles of like nature, now existing or hereafter adopted or acquired, together with and including all licenses therefor held by Debtor (excluding those licenses that prohibit the granting of security interests), and all registrations and recordings thereof, and all applications filed or

to be filed in connection therewith, including registrations and applications in the PTO, any State of the United States (but excluding each application to register any trademark, service mark, or other mark prior to the filing under applicable law of a verified statement of use (or the equivalent) for such trademark or service mark) and all extensions or renewals thereof, including without limitation any of the foregoing identified on Schedule A hereto (as the same may be amended, modified or supplemented from time to time), and the right (but not the obligation) to register claims under any state or federal trademark law or regulation and to apply for, renew and extend any of the same, to sue or bring opposition or cancellation proceedings in Debtor's name or in the name of Agent or in the name of Agent for the benefit of the Lender Group for past, present or future infringement or unconsented use thereof, and all rights arising therefrom throughout the world (collectively, the "Trademarks");

ii. all claims, causes of action and rights to sue for past, present or future infringement or unconsented use of any Trademarks and all rights arising therefrom and pertaining thereto;

iii. all general intangibles related to or arising out of any of the Trademarks and all the goodwill of Debtor's business symbolized by the Trademarks or associated therewith; and

iv. all Proceeds of any and all of the foregoing.

b. Continuing Security Interest. Each Debtor hereby agrees that this Agreement shall create a continuing security interest in the Trademark which shall remain in effect until terminated in accordance with Section 18 hereof.

c. Incorporation into Loan Agreement. Without limiting the foregoing, the Trademark Collateral described in this Agreement shall constitute part of the Collateral in the Loan Agreement or the Security Agreement, as applicable.

d. Licenses. Anything in the Loan Agreement or this Agreement to the contrary notwithstanding, Debtor may grant non-exclusive licenses of the Trademark Collateral (subject to the security interest of Agent therein) in the ordinary course of business consistent with past practice.

3. Further Assurances; Appointment of Agent as Attorney-in-Fact. Each Debtor at its expense shall execute and deliver, or cause to be executed and delivered, to Agent any and all documents and instruments, in form and substance reasonably satisfactory to Agent, and take any and all action, which Agent, in the exercise of its reasonable discretion, may request from time to time, to perfect and continue the perfection or to maintain the priority of, or provide notice of the security interest in the Trademark Collateral held by Agent for the benefit of the Lender Group and to accomplish the

purposes of this Agreement. If either Debtor refuses to execute and deliver, or fails timely to execute and deliver, any of the documents it is requested to execute and deliver by Agent in accordance with the foregoing, Agent shall have the right, in the name of the appropriate Debtor, or in the name of Agent or otherwise, without notice to or assent by such Debtor and such Debtor hereby irrevocably constitutes and appoints Agent (and any of Agent's officers or employees or agents designated by Agent) as such Debtor's true and lawful attorney-in-fact with full power and authority, (i) to sign the name of such Debtor on all or any of such documents or instruments and perform all other acts that Agent in the exercise of its reasonable discretion deems necessary in order to perfect or continue the perfection of, maintain the priority or enforceability of or provide notice of the security interest in the Trademark Collateral held by Agent for the benefit of the Lender Group, and (ii) to execute any and all other documents and instruments, and to perform any and all acts and things for and on behalf of such Debtor, which Agent, in the exercise of its reasonable discretion, may deem necessary or advisable to maintain, preserve and protect the Trademark Collateral and to accomplish the purposes of this Agreement, including (A) after the occurrence and during the continuance of any Event of Default, to defend, settle, adjust or institute any action, suit or proceeding with respect to the Trademark Collateral, (B) after the occurrence and during the continuation of any Event of Default, to assert or retain any rights under any license agreement for any of the Trademark Collateral, and (C) after the occurrence and during the continuance of any Event of Default, to execute any and all applications, documents, papers and instruments for Agent to use the Trademark Collateral, to grant or issue any exclusive or non-exclusive license with respect to any Trademark Collateral, and to assign, convey or otherwise transfer title in or dispose of the Trademark Collateral. The power of attorney set forth in this Section 3, being coupled with an interest, is irrevocable so long as this Agreement shall not have terminated in accordance with Section 18 hereof; provided that the foregoing power of attorney shall terminate when all of the Secured Obligations have been fully and finally repaid and performed and the Lender Group's obligation to extend credit under the Loan Agreement is terminated.

4. Representations and Warranties. Each Debtor represents and warrants to each member of the Lender Group, in each case to the best of its knowledge, information, and belief, as follows:

a. No Other Trademarks. Schedule A sets forth a true and correct list of all of Debtor's existing Trademarks that are registered with the PTO or any corresponding or similar trademark office of any other U.S. jurisdiction, or for which any application for registration has been filed with the PTO or any corresponding or similar trademark office of any other U.S. jurisdiction, and that are owned or held (whether pursuant to a license or otherwise) and used by Debtor.

b. Trademarks Subsisting. Each of Debtors' Trademarks listed in Schedule A is subsisting and has not been adjudged invalid or unenforceable, in whole or

in part, and, to the best of Debtor's knowledge, each of the Trademarks set forth on Schedule A is valid and enforceable.

c. Ownership of Trademark Collateral: No Violation. (i) Debtor has rights in and good and defensible title to the Trademark Collateral, (ii) Debtor is the sole and exclusive owner of the Trademark Collateral, free and clear of any Liens and rights of others (other than the security interest created hereunder and other than Permitted Liens), including licenses, registered user agreements and covenants by Debtor not to sue third persons, and (iii) with respect to any Trademarks for which Debtor is either a licensor or a licensee pursuant to a license or licensing agreement regarding such Trademark, each such license or licensing agreement is in full force and effect, Debtor is not in material default of any of its obligations thereunder and, (A) other than the parties to such licenses or licensing agreements, or (B) in the case of any non-exclusive license or license agreement entered into by Debtor or any such licensor regarding such Trademark, the parties to any other such nonexclusive licenses or license agreements entered into by Debtor or any such licensor with any other Person, no other Person has any rights in or to any of the Trademark Collateral. To the best of Debtor's knowledge, the past, present and contemplated future use of the Trademark Collateral by Debtor has not, does not and will not infringe upon or violate any right, privilege or license agreement of or with any other Person or give any such Person the right to terminate any such right, privilege or license agreement.

d. No Infringement. To the best of Debtor's knowledge, (i) no material infringement or unauthorized use presently is being made of any of the Trademark Collateral by any Person, and (ii) the past, present, and contemplated future use of the Trademark Collateral by Debtor has not, does not and will not infringe upon or violate any right, privilege, or license arrangement of or with any other Person or give such Person the right to terminate any such license arrangement.

e. Powers. Debtor has the unqualified right, power and authority to pledge and to grant to Agent security interests in the Trademark Collateral pursuant to this Agreement, and to execute, deliver and perform its obligations in accordance with the terms of this Agreement, without the consent or approval of any other Person except as already obtained.

5. Covenants. So long as any of the Secured Obligations remain unsatisfied, each Debtor agrees: (i) that it will comply in all material respects with all of the covenants, terms and provisions of this Agreement, and (ii) that it will promptly give Agent written notice of the occurrence of any event that could have a Material Adverse Effect on any of the Trademarks and the Trademark Collateral, including any petition under the

Bankruptcy Code filed by or against any licensor of any of the Trademarks for which Debtor is a licensee.

6. Future Rights. For so long as any of the Secured Obligations shall remain outstanding, or, if earlier, until Agent shall have released or terminated, in whole but not in part, its interest in the Trademark Collateral, if and when any Debtor shall obtain rights to any new Trademarks, or any reissue, renewal or extension of any Trademarks, the provisions of Section 2 shall automatically apply thereto and such Debtor shall give to Agent prompt notice thereof. Each Debtor shall do all things reasonably deemed necessary by Agent in the exercise of its reasonable discretion to ensure the validity, perfection, priority and enforceability of the security interests of Agent in such future acquired Trademark Collateral. If any Debtor refuses to execute and deliver, or fails timely to execute and deliver, any of the documents it is requested to execute and deliver by Agent in connection herewith, such Debtor hereby authorizes Agent to modify, amend or supplement the Schedules hereto and to re-execute this Agreement from time to time on such Debtor's behalf and as its attorney-in-fact to include any future Trademarks which are or become Trademark Collateral and to cause such reexecuted Agreement or such modified, amended or supplemented Schedules to be filed with the PTO.

7. Duties of Agent and the Lender Group. Notwithstanding any provision contained in this Agreement, neither Agent nor any member of the Lender Group shall have any duty to exercise any of the rights, privileges or powers afforded to it and shall not be responsible to any Debtor or any other Person for any failure to do so or delay in doing so. Except for the accounting for moneys actually received by Agent or any other member of the Lender Group hereunder or in connection herewith, neither Agent nor any member of the Lender Group shall have any duty or liability to exercise or preserve any rights, privileges or powers pertaining to the Trademark Collateral.

8. Events of Default. The occurrence of any "Event of Default" under the Loan Agreement shall constitute an Event of Default hereunder.

9. Remedies. From and after the occurrence and during the continuation of an Event of Default, Agent shall have all rights and remedies available to it under the Loan Agreement and applicable law (which rights and remedies are cumulative) with respect to the security interests in any of the Trademark Collateral. Each Debtor hereby agrees that such rights and remedies include the right of Agent as a secured party to sell or otherwise dispose of the Trademark Collateral after default, pursuant to the UCC. Each Debtor hereby agrees that Agent shall at all times have such royalty-free licenses, to the extent permitted by law and the Loan Documents, for any Trademark Collateral that is reasonably necessary to permit the exercise of any of Agent's rights or remedies upon or after the occurrence of (and during the continuance of) an Event of Default with respect to (among other things) any tangible asset of any Debtor in which Agent has a security

interest, including Agent's rights to sell inventory, tooling or packaging which is acquired by such Debtor (or its successor, assignee or trustee in bankruptcy). In addition to and without limiting any of the foregoing, upon the occurrence and during the continuance of an Event of Default, Agent shall have the right but shall in no way be obligated to bring suit, or to take such other action as Agent, in the exercise of its reasonable discretion, deems necessary, in the name of any Debtor or Agent, to enforce or protect any of the Trademark Collateral, in which event such Debtor shall, at the request of Agent, do any and all lawful acts and execute any and all documents required by Agent necessary to such enforcement. To the extent that Agent shall elect not to bring suit to enforce such Trademark Collateral, Debtor, in the exercise of its reasonable business judgment, agrees to use all reasonable measures and its diligent efforts, whether by action, suit, proceeding or otherwise, to prevent the infringement, misappropriation or violation thereof by others and for that purpose agrees diligently to maintain any action, suit or proceeding against any Person necessary to prevent such infringement, misappropriation or violation.

10. Binding Effect. This Agreement shall be binding upon, inure to the benefit of and be enforceable by any Debtor and Agent for the benefit of the Lender Group and their respective successors and permitted assigns.

11. Notices. All notices and other communications hereunder shall be in writing and shall be mailed, sent or delivered in accordance with the Loan Agreement.

12. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the federal laws of the United States of America and the laws of the Commonwealth of Massachusetts.

13. Entire Agreement; Amendment. This Agreement and the other Loan Documents, together with the Schedules hereto and thereto, contains the entire agreement of the parties with respect to the subject matter hereof and supersede all prior drafts and communications relating to such subject matter. Neither this Agreement nor any provision hereof may be modified, amended or waived except by the written agreement of the parties to this Agreement. Notwithstanding the foregoing, Agent may reexecute this Agreement or modify, amend or supplement the Schedules hereto as provided in Section 6 hereof.

14. Severability. If one or more provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect in any jurisdiction or with respect to any party, such invalidity, illegality or unenforceability in such jurisdiction or with respect to such party shall, to the fullest extent permitted by applicable law, not invalidate or render illegal or unenforceable any such provision in any other jurisdiction or with respect to any other party, or any other provisions of this Agreement.

15. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed

shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement.

16. Loan Agreement. Each Debtor acknowledges that the rights and remedies of Agent with respect to the security interest in the Trademark Collateral granted hereby are more fully set forth in the Loan Agreement and the Security Agreement and all such rights and remedies are cumulative.

17. No Inconsistent Requirements. Each Debtor acknowledges that this Agreement and the other Loan Documents may contain covenants and other terms and provisions variously stated regarding the same or similar matters, and each Debtor agrees that all such covenants, terms and provisions are cumulative and all shall be performed and satisfied in accordance with their respective terms. Each Debtor agrees that, to the extent of any conflict between the provisions of this Agreement and the Loan Agreement, the provisions of the Loan Agreement shall govern. Each Debtor further agrees that, to the extent of any conflict between the provisions of this Agreement and the Security Agreement, the provisions of this Agreement shall govern.


18. Termination. Upon the payment and performance in full in cash of the Secured Obligations, including the cash collateralization, expiration, or cancellation of all Secured Obligations, if any, consisting of letters of credit, and the full and final termination of any commitment to extend any financial accommodations under the Loan Agreement, this Agreement shall terminate, and Agent shall execute and deliver such documents and instruments and take such further action reasonably requested by such Debtor, at such Debtor's expense, as shall be necessary to evidence termination of the security interest granted by such Debtor to Agent for the benefit of the Lender Group hereunder, including cancellation of this Agreement by written notice from Agent to the PTO.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, as of the date first above written.

RAG SHOPS, INC.,
a Delaware corporation, as a Borrower and
as Lead Borrower

By: 
Name: Michael Fieldstone
Title: Vice President

**THE OTHER BORROWERS NAMED
ON EXHIBIT 1 HERETO**

By: 
Name: Michael Fieldstone
Title: Vice President of each Borrower

CRAFTS RETAIL HOLDING CORP.,
a Delaware corporation

By: 
Name: Michael Fieldstone
Title: Vice President

**WELLS FARGO RETAIL FINANCE,
LLC,**
a Delaware limited liability company as
Agent

By: _____
Name: Patrick J. Norton
Title: Senior Vice President

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, as of the date first above written.

RAG SHOPS, INC.,
a Delaware corporation, as a Borrower and
as Lead Borrower

By: _____
Name: Michael Fieldstone
Title: Vice President


**THE OTHER BORROWERS NAMED
ON EXHIBIT 1 HERETO**

By: _____
Name: Michael Fieldstone
Title: Vice President of each Borrower

CRAFTS RETAIL HOLDING CORP.,
a Delaware corporation

By: _____
Name: Michael Fieldstone
Title: Vice President

**WELLS FARGO RETAIL FINANCE,
LLC,**
a Delaware limited liability company as
Agent

By: 
Name: Patrick J. Norton
Title: Senior Vice President

Trademark Security Agreement

Exhibit 1

Borrowers

Name State of Incorporation

Mobile Fabrics, Inc. New Jersey
RSL, Inc. Delaware

The Rag Shop, Inc. New York
The Rag Shop/Binghamton, Inc. New York
The Rag Shop/Boro Park, Inc. New York
The Rag Shop/Fishkill, Inc. New York
The Rag Shop/Northern Lights, Inc. New York
The Rag Shop/College Point, Inc. New York
The Rag Shop/Olean, Inc. New York

The Rag Shop/Glen Burnie, Inc. Maryland

The Rag Shop/Kingstown, Inc. Rhode Island

The Rag Shop/North Lauderdale, Inc. Florida
The Rag Shop/West Palm Beach, Inc. Florida
The Rag Shop/Palm Beach Gardens, Inc. Florida
The Rag Shop/Sunrise, Inc. Florida
The Rag Shop/Lantana, Inc. Florida
The Rag Shop/Pembroke Pines, Inc. Florida
The Rag Shop/Jacksonville, Inc. Florida
The Rag Shop/Boca Raton, Inc. Florida
The Rag Shop/Port Richey, Inc. Florida
The Rag Shop/Deerfield, Inc. Florida
The Rag Shop/Jacksonville-San Jose, Inc. Florida
The Rag Shop/Jensen Beach, Inc. Florida
The Rag Shop/Jacksonville-Orange Park, Inc. Florida
The Rag Shop/Jacksonville-Regional, Inc. Florida
The Rag Shop/Coral Springs, Inc. Florida
The Rag Shop/Hialeah, Inc. Florida
The Rag Shop/Hollywood, Inc. Florida
The Rag Shop/West Boca Raton, Inc. Florida
The Rag Shop/Ocala, Inc. Florida
The Rag Shop/East Hollywood, Inc. Florida

The Rag Shop/Lancaster, Inc. Pennsylvania
The Rag Shop/York, Inc. Pennsylvania
The Rag Shop/Selinsgrove, Inc. Pennsylvania
The Rag Shop/Allentown, Inc. Pennsylvania

Trademark Security Agreement

The Rag Shop/Rostraver, Inc.	Pennsylvania
The Rag Shop/Hampden, Inc.	Pennsylvania
The Rag Shop/East Norriton, Inc.	Pennsylvania
The Rag Shop/Norwalk, Inc.	Connecticut
The Rag Shop/Waterbury, Inc.	Connecticut
The Rag Shop/Danbury, Inc.	Connecticut
Rag Shop Wayne, Inc.	New Jersey
Rag Shop/Parsippany, Inc.	New Jersey
The Rag Shop/Deptford, Inc.	New Jersey
Rag Shop/Edison, Inc.	New Jersey
The Rag Shop/West Orange, Inc.	New Jersey
The Rag Shop/Middletown, Inc.	New Jersey
The Rag Shop/Toms River, Inc.	New Jersey
The Rag Shop/Hamilton Square, Inc.	New Jersey
The Rag Shop/Hazlet, Inc.	New Jersey
The Rag Shop/Howell, Inc.	New Jersey
The Rag Shop/Ocean, Inc.	New Jersey
The Rag Shop/Sayreville, Inc.	New Jersey
The Rag Shop/Bricktown, Inc.	New Jersey
The Rag Shop/Totowa, Inc.	New Jersey
The Rag Shop/Wall Township, Inc.	New Jersey
The Rag Shop/Evesham, Inc.	New Jersey
The Rag Shop/Secaucus, Inc.	New Jersey
The Rag Shop/North Bergen, Inc.	New Jersey
The Rag Shop/Lacey, Inc.	New Jersey
The Rag Shop/Turnersville, Inc.	New Jersey
The Rag Shop/Linden, Inc.	New Jersey
The Rag Shop/Burlington, Inc.	New Jersey
The Rag Shop/Edgewater, Inc.	New Jersey
The Rag Shop/Voorhees, Inc.	New Jersey
The Rag Shop/Franklin, Inc.	New Jersey
The Rag Shop/Kinnelon, Inc.	New Jersey

Trademark Security Agreement**Schedule A**

Trademarks

<u>Mark</u>	<u>Registration No.</u>	<u>Registration Date</u>	<u>Registrant</u>
The Rag Shop®	876,633	9/9/69	RSL, Inc.
The Rag Shop®	2,465,175	7/3/01	RSL, Inc.
The Rag Shop®	2,495,707	10/09/01	RSL, Inc.