
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): July 11, 2006

Crown Crafts, Inc.

(Exact Name of Registrant as Specified in Charter)

| | | |
|--|--------------------------|---|
| Delaware | 1-7604 | 58-0678148 |
| (State or Other Jurisdiction of Incorporation) | (Commission File Number) | (IRS Employer Identification No.) |
| 916 South Burnside Avenue, Gonzales, LA | | 70737 |
| (Address of Principal Executive Offices) | | (Zip Code) |

Registrant's telephone number, including area code: (225) 647-9100

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement.

(a) Financing Agreement

On July 11, 2006, Crown Crafts, Inc. (the “Company”), together with Crown Crafts Infant Products, Inc., Churchill Weavers, Inc. and Hamco, Inc., each a wholly-owned subsidiary of the Company (collectively, the “Subsidiaries,” and together with the Company, the “Borrowers”), entered into a Financing Agreement (the “Financing Agreement”) with The CIT Group/Commercial Services, Inc. (“CIT”) providing for revolving loans of up to an aggregate principal amount of \$22,000,000. Borrowings under the Financing Agreement accrue interest at either prime minus 1.0% per annum or, in the case of certain LIBOR loans, 2.25% per annum. In addition, the Borrowers must pay commitment fees monthly in arrears on the daily amount of the unused portion of the revolving loan amount at the rate of 0.15% per annum. The Borrowers also must pay CIT a monthly administrative management fee of \$1,500.

The Financing Agreement will expire on July 11, 2009, at which time all outstanding amounts under the Financing Agreement will become due and payable. The Financing Agreement contains usual and customary covenants for transactions of this type, including limitations on other indebtedness, liens, transfers of assets, investments and acquisitions, merger or consolidation transactions, dividends, transactions with affiliates and changes in or amendments to the Borrowers’ organizational documents.

The obligations of the Borrowers under the Financing Agreement are secured by (i) a pledge of all or substantially all of the assets of the Borrowers; (ii) a pledge of all of the capital stock of each of the Borrowers pursuant to a Stock Pledge Agreement dated July 11, 2006 between the Borrowers and the Lender (the “Stock Pledge”); and (iii) a mortgage of certain real property pursuant to the terms of a Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated July 11, 2006 from Churchill Weavers, Inc. to CIT (the “Mortgage”). In the event of a default by the Borrowers under the Financing Agreement, CIT may terminate the commitments made under the Financing Agreement, declare all amounts outstanding, including all accrued interest and unpaid fees, payable immediately and enforce any and all rights and interests created and existing under the Financing Agreement, the Stock Pledge and the Mortgage and all other rights available under the law.

Proceeds of the initial borrowing under the Financing Agreement were used by the Company to satisfy all amounts due under the Credit Agreement dated July 23, 2001 between the Borrowers and Wachovia Bank, National Association (“Wachovia”), Banc of America Strategic Solutions, Inc. and The Prudential Insurance Company of America (collectively, the “Existing Lenders”), as amended (the “Former Credit Agreement”), and the Subordinated Note and Warrant Purchase Agreement dated July 23, 2001 between the Company and the Existing Lenders, as amended (the “Former Sub Debt Agreement”), which agreements were terminated effective July 11, 2006. Concurrent with the payment of such amounts, the Company issued to the Existing Lenders Secured Subordinated Promissory Notes (the “Subordinated Notes”) dated July 11, 2006 in the aggregate principal amount of \$4,000,000, and the Existing Lenders surrendered to the Company for cancellation the Common Stock Purchase Warrants previously acquired by the Existing Lenders pursuant to the Former Sub Debt Agreement.

The Subordinated Notes do not bear interest and are payable in two equal installments of \$2,000,000 each, the first of which is payable on July 11, 2010 and the second of which is payable on July 11, 2011. Payment of the outstanding principal amounts of the Subordinated Notes may be accelerated upon the occurrence of certain change in control and bankruptcy events involving the Company. The Subsidiaries have guaranteed the payment of the Subordinated Notes.

The obligations of the Company under the Subordinated Notes are secured by (i) a pledge of all or substantially all of the assets of the Borrowers pursuant to a Security Agreement dated July 11, 2006 between the Borrowers and Wachovia as agent for the Existing Lenders, which provides the Existing Lenders a second priority lien on such assets (the “Security Agreement”), and (iii) a mortgage of certain

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real property pursuant to the terms of a Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated July 11, 2006 from Churchill Weavers, Inc. to Wachovia as agent for the Existing Lenders (the “Second Mortgage”).

The descriptions contained herein of the Financing Agreement, the Stock Pledge, the Mortgage, the Subordinated Notes, the Security Agreement and the Second Mortgage are qualified in their entirety by reference to the terms of such documents, each of which is attached hereto as an exhibit and incorporated herein by this reference.

(b) Amendment No. 1 to Amended and Restated Rights Agreement

The information set forth in Item 3.03 related to the Amendment is incorporated herein by reference.

Item 1.02. Termination of a Material Definitive Agreement.

The information set forth in Item 1.01 related to the Former Credit Agreement and the Former Sub Debt Agreement is incorporated herein by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The information set forth in Item 1.01 related to the Financing Agreement and the Subordinated Notes is incorporated herein by reference.

Item 3.03. Material Modification to Rights of Security Holders.

On July 12, 2006, the Company and Computershare Investor Services, LLC (“Computershare”) entered into an Amendment No. 1 (the “Amendment”) to that certain Amended and Restated Rights Agreement (the “Rights Agreement”) dated as of August 6, 2003 between the Company and Computershare (as successor to SunTrust Bank as Rights Agent) regarding the Company’s common stock purchase rights.

The Amendment provides that neither E. Randall Chestnut, the Company’s President and Chief Executive Officer, nor any of his lineal descendants or any trust of which he or any such descendant is a trustee, shall be an Acquiring Person (as defined in the Rights Agreement) so long as neither Mr. Chestnut nor any such descendant or trust beneficially owns, in the aggregate, more than 15% of the Common Shares (as defined in the Rights Agreement) of the Company then outstanding. The Amendment also removes provisions in the Rights Agreement that excluded from the definition of Acquiring Person certain parties holding either the Common Stock Purchase Warrants previously issued to the Existing Lenders pursuant to the Former Sub Debt Agreement or shares of the Company issued in connection with such Common Stock Purchase Warrants.

The description contained herein of the Amendment is qualified in its entirety by reference to the terms of such document, which is attached hereto as an exhibit and incorporated herein by this reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

- 4.1 Amendment No. 1 to Amended and Restated Rights Agreement dated as of July 12, 2006 between the Company and Computershare Investor Services, LLC
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- 10.1 Financing Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc.
 - 10.2 Stock Pledge Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and The CIT Group/Commercial Services, Inc.
 - 10.3 Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated July 11, 2006 from Churchill Weavers, Inc. to The CIT Group/Commercial Services, Inc.
 - 10.4 Secured Subordinated Promissory Note dated July 11, 2006 issued by the Company to Wachovia Bank, National Association
 - 10.5 Secured Subordinated Promissory Note dated July 11, 2006 issued by the Company to Banc of America Strategic Solutions, Inc.
 - 10.6 Secured Subordinated Promissory Note dated July 11, 2006 issued by the Company to The Prudential Insurance Company of America
 - 10.7 Security Agreement dated as of July 11, 2006 by and among the Company, Churchill Weavers, Inc., Hamco, Inc., Crown Crafts Infant Products, Inc. and Wachovia Bank, National Association, as Agent
 - 10.8 Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated July 11, 2006 from Churchill Weavers, Inc. to Wachovia Bank, National Association, as Agent
 - 99.1 Press Release dated July 11, 2006.
-

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut
E. Randall Chestnut,
President and Chief Executive Officer

Dated: July 17, 2006

EXHIBIT INDEX

| <u>Exhibit No.</u> | <u>Exhibit</u> |
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| 10.8 | Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement dated July 11, 2006 from Churchill Weavers, Inc. to Wachovia Bank, National Association, as Agent |
| 99.1 | Press Release dated July 11, 2006. |



For Immediate Release

July 11, 2006

**Crown Crafts, Inc. Announces Debt Refinancing and Extinguishment of Lender Warrants and
Certain Contingently Issuable Shares**

Gonzales, Louisiana — Crown Crafts, Inc. (“Crown Crafts” or the “Company”) (OTCBB: CRWS) today announced that it has completed a successful refinancing of its corporate credit facilities. The new financing package, secured through CIT Group / Commercial Services, Inc., substantially reduces the Company’s total debt and its cost of funds and, importantly, extinguishes all of the warrants that were exercisable by its lenders and certain shares that were issuable to management upon the exercise of such warrants, which together represented more than 70 percent of the Company’s equity.

“We are very pleased to announce this refinancing as part of what has been an incredible turnaround since 2001. Crown Crafts continues to make meaningful progress toward creating long-term value for its stockholders, and this new facility provides a key financial building block in that process,” said E. Randall Chestnut, Chairman, President and CEO. “This transaction returns a significant portion of the Company’s equity to our stockholders and clearly demonstrates Crown Crafts is again ready to grow based on its proven strengths in infant products. We’ve posted a solid track record of profitability for five consecutive years. All of these successes were achieved while aggressively paying down the Company’s debt and making significant changes in our operations required by an evolving marketplace.”

With today’s announcement, Crown Crafts will have 9.5 million shares issued, 500,000 shares issuable upon the exercise of stock options and \$12.6 million in debt. Immediately subsequent to the July 2001 restructuring, the Company had approximately 36 million shares issued or issuable and \$48 million in debt. See the tables below for the Company’s capital and debt structure immediately before and after the refinancing.

The CIT facility allows the Company to borrow up to \$22 million on a three-year revolving line of credit secured by accounts receivable, inventory and fixed assets at a favorable interest rate of 1% below prime. The \$16 million debt which was retired with this new loan had an effective rate of 11.65%. In connection with the refinancing, non-interest bearing subordinated indebtedness was reduced from \$8 million to \$4 million, payable in two non-interest bearing installments of \$2 million each in July 2010 and July 2011. The \$8 million debt was carried on the Company’s books net of an unamortized discount of \$1 million immediately before the refinancing. The new \$4 million debt will initially be recorded net of an original issue discount of \$1.1 million. The Company expects to record an approximate pre-tax gain of \$4.0 million on the subordinated debt reduction. After the refinancing, current debt under the new agreement will be approximately \$12.6 million compared to \$23.9 million at the end of fiscal 2006.

P.O. Box 1028 * Gonzales, LA 70707-1028 * (225) 647-9100 * Toll Free (800) 433-9560 * Fax (225) 647-8331

Below are two tables showing the capital and debt structure of the Company immediately before and after the refinancing.

Issued and Issuable Shares Immediately Before and After the Refinancing

| | <u>July 10, 2006(1)</u> | <u>July 11, 2006(2)</u> |
|---|-------------------------|-------------------------|
| Outstanding Common Shares | 9,505,937 | 9,505,937 |
| Common Shares Issuable upon Exercise of Warrants | 22,345,536 | — |
| Shares Issuable to Management upon Exercise of Warrants | 3,550,000 | — |
| Stock Options Outstanding | 536,100 | 536,100 |
| | <u>35,937,573(3)</u> | <u>10,042,037</u> |

Debt Outstanding Immediately Before and After the Refinancing

| Loan Type | July 10, 2006(1) | | July 11, 2006(2) | |
|--|--------------------------------|------------------------------------|-----------------------------------|------------------------------------|
| | <u>Outstanding Balance</u> | <u>Effective Interest Rate</u> | <u>Outstanding Balance(4)</u> | <u>Effective Interest Rate</u> |
| Revolver | \$ — | Prime plus 1% | \$ 9,700,000 | Prime less 1% |
| Interest Bearing Subordinated Debt | 16,000,000 | 11.65% | — | N/A |
| Non-interest Bearing Subordinated Debt | 8,000,000 | 0.00% | 4,000,000 | 0.00% |
| Original Issue Discount | (970,699) | N/A | (1,076,392) | N/A |
| PIK Notes(5) | 1,330,267 | 0.00% | — | N/A |
| Total | <u>\$24,359,568</u> | | <u>\$12,623,608</u> | |

(1) Immediately before refinancing.

(2) Immediately after refinancing.

(3) In calculating diluted earnings per share for financial reporting purposes, the Company historically assumed that the proceeds from the exercise of all outstanding warrants and options would be used to repurchase shares on the open market. Accordingly, rather than reporting 35.9 million fully diluted shares, the Company reported 21.7 million fully diluted shares at the end of fiscal 2006 for financial reporting purposes.

(4) Internally generated cash of \$7.8 million was used to pay down a portion of the retired debt.

(5) Includes \$253,000 accrued interest to be converted to long-term debt.

“We are very pleased with the CIT financing package and the tremendous progress we have made in the past five years,” said Chestnut. “With this refinancing of our debt, we have achieved several important benefits for our stockholders. We have reduced our overall debt by more than 70 percent since our restructuring in 2001, substantially reduced our interest expense going forward and right-sized the capital structure of the Company. The overhang of the warrants has been a primary concern of our stockholders and investors. This transaction not only allows us to eliminate the overhang, but to do so on extremely favorable terms that provide maximum benefit to our stockholders.”

Chestnut continued, "Following last month's announcement of a 57% increase in pre-tax net income, this event further transforms our Company and is a clear confirmation by the lending community of our renewed financial strength. Since 2001, we have stabilized our business, have adjusted to significant changes in production, sourcing, importing and direct-to-retail supplying and have actually improved profitability both as a percentage of revenues and in absolute terms. We have achieved these remarkable results through a clear and dedicated focus on our core business, a disciplined approach to execution, and efficient management of all parts of our operations. Crown Crafts is today a lean, efficient and responsive business able to meet the demands and needs of our customers. We believe that we are now poised to grow and expand our business, and we look forward with excitement to the opportunities we are now positioned to embrace."

The Company will host a teleconference on Thursday, July 13, 2006 at 10:00 a.m. Central Daylight Time to discuss the refinancing and answer appropriate questions from stockholders. Interested investors may join the teleconference by dialing (866) 269-9608. Please refer to confirmation number 835994. The teleconference can also be accessed in listen-only mode by visiting the Company's website at www.crowncrafts.com. The financial information to be discussed during the teleconference may be found prior to the call on the investor relations portion of the Company's website.

A telephone replay of the teleconference will be available from 11:45 p.m. Central Daylight Time on July 13, 2006 through 11:59 p.m. Central Daylight Time on July 20, 2006. To access the replay, dial (800) 475-6701 in the United States or (320) 365-3844 from international locations. The access code for the replay is 835994.

About Crown Crafts

Crown Crafts, Inc. designs, markets and distributes infant and juvenile consumer products, including bedding, blankets, bibs, bath items and accessories, and luxury hand-woven home décor. Its subsidiaries include Hamco, Inc. in Louisiana, Crown Crafts Infant Products, Inc. in California and Churchill Weavers, Inc. in Kentucky. Crown Crafts is America's largest distributor of infant bedding, bibs and bath items. The Company's products include licensed and branded collections as well as exclusive private label programs for certain of its customers.

This release contains forward-looking statements within the meaning of the Securities Act of 1933, the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Such statements are based upon management's current expectations, projections, estimates and assumptions. Words such as "expects," "believes," "anticipates" and variations of such words and similar expressions identify such forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that may cause future results to differ materially from those suggested by the forward-looking statements. These risks include, among others, general economic conditions, including changes in interest rates, in the overall level of consumer spending and in the price of oil, cotton and other raw materials used in the Company's products, changing competition, changes in the retail environment, the level and pricing of future orders from the Company's customers, the Company's dependence upon third-party suppliers, including some located in foreign countries, customer acceptance of both new designs and newly-introduced product lines, actions of competitors that may impact the Company's business, disruptions to transportation systems or shipping lanes used by the Company or its suppliers, and the Company's dependence upon licenses from third parties. Reference is also made to the Company's periodic filings with the Securities and Exchange Commission for additional factors that may impact the Company's results of operations and financial condition. The Company does not undertake to update the forward-looking statements contained herein to conform to actual results or changes in our expectations, whether as a result of new information, future events or otherwise.

Contact: Olivia Elliott, Secretary-Treasurer
Czz57 647-9124
or
Halliburton Investor Relations
(972) 458-8000

P.O. Box 1028 * Gonzales, LA 70707-1028 * (225) 647-9100 * Toll Free (800) 433-9560 * Fax (225) 647-8331

EXHIBIT 4.1

AMENDMENT NO. 1 TO AMENDED AND
RESTATED RIGHTS AGREEMENT

THIS AMENDMENT NO. 1 TO AMENDED AND RESTATED RIGHTS AGREEMENT (the "Amendment"), is entered into as of the 12th day of July, 2006, by and between CROWN CRAFTS, INC., a Delaware corporation (the "Company"), and COMPUTERSHARE INVESTOR SERVICES, LLC (successor to SunTrust Bank) (the "Rights Agent").

W I T N E S S E T H:

WHEREAS, the Company and the Rights Agent entered into that certain Amended and Restated Rights Agreement dated as of August 6, 2003 (the "Rights Agreement");

WHEREAS, Section 27 of the Rights Agreement permits the amendment of the Rights Agreement by the Board of Directors of the Company (the "Board"); and

WHEREAS, pursuant to a resolution duly adopted as of June 13, 2006, the Board authorized and directed the execution and delivery of this Amendment;

NOW, THEREFORE, the Rights Agreement is hereby amended as follows:

1. AMENDMENT OF SECTION 1(a). Section 1(a) of the Rights Agreement is hereby amended by deleting the text of such Section 1(a) in its entirety and substituting the following in lieu thereof:

"(a) "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates and Associates (as such terms are hereinafter defined) of such Person, shall be the Beneficial Owner (as such term is hereinafter defined) of 5% or more of the Common Shares of the Company then outstanding, but shall not include:

(i) the Company;

(ii) any Subsidiary (as such term is hereinafter defined) of the Company;

(iii) any employee benefit plan of the Company or any Subsidiary of the Company;

(iv) any entity holding Common Shares for or pursuant to the terms of any such plan;

(v) E. Randall Chestnut or any of his lineal descendants or any trust of which he or any such descendant is a trustee, so long as Mr. Chestnut, any such descendant and any such trust do not beneficially own, in the

aggregate, more than 15% of the Common Shares of the Company then outstanding; or

(vi) any Person whose ownership (together with all Affiliates and Associates of such Person) of 5% or more of the Common Shares of the Company then outstanding will, in the sole discretion of the Company's Board of Directors, not jeopardize or endanger the availability to the Company of its net operating loss carryforwards to be used to offset its taxable income in such year or future years.

The Persons described in clauses (i) through (vi) above are referred to herein as "Exempt Persons."

Notwithstanding the foregoing, (i) no Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportionate number of shares beneficially owned by such Person to 5% or more of the Common Shares of the Company then outstanding, provided that if a Person shall become the Beneficial Owner of 5% or more of the Common

Shares of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company, then such Person shall be deemed to be an "Acquiring Person"; (ii) any Person who would otherwise qualify as an Acquiring Person as of the close of business on April 29, 2003 pursuant to the foregoing provisions of this paragraph (a) shall not be deemed to be an Acquiring Person for any purpose of this Agreement on and after such date unless and until such Person, together with all Affiliates and Associates of such Person, shall be the Beneficial Owner of a percentage of Common Shares of the Company then outstanding in excess of the sum of 1% and the percentage of Common Shares of the Company Beneficially Owned by such Person and all Affiliates and Associates of such Person as of the close of business on April 29, 2003, provided that the foregoing exclusion shall cease to apply with respect to any Person at such time as such Person, together with all Affiliates and Associates of such Person, ceases to Beneficially Own 5% or more of the Common Shares of the Company then outstanding; and (iii) if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an Acquiring Person as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an Acquiring Person for any purposes of this Agreement."

2. AMENDMENT OF SECTION 20. Section 20 of the Rights Agreement is hereby amended by adding the following as subsection (l) thereto:

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"(l) Notwithstanding anything to the contrary contained herein, the Rights Agent shall not be liable for any delays or failures in performance resulting from acts beyond its reasonable control, including, without limitation, acts of God, terrorist acts, shortage of supply, breakdowns or malfunctions, interruptions or malfunction of computer facilities or loss of data due to power failures or mechanical difficulties with information storage or retrieval systems, labor difficulties, war or civil unrest."

3. AMENDMENT OF SECTION 21. Section 21 of the Rights Agreement is hereby amended by adding the following sentence immediately after the first sentence of such Section 21:

"In the event the transfer agency relationship in effect between the Company and the Rights Agent terminates, the Rights Agent will be deemed to resign automatically on the effective date of such termination, and any notice required hereunder will be sent by the Company."

4. EFFECTIVENESS. This Amendment shall be effective as of the date hereof, and except as specifically amended hereby, the Rights Agreement is hereby reaffirmed by each of the parties hereto and shall remain unchanged and in full force and effect.

5. CERTIFICATION. The undersigned officer of the Company certifies by the execution hereof that this Amendment complies with the terms of Section 27 of the Rights Agreement.

6. ENTIRE AGREEMENT; SEVERABILITY. This Amendment (together with the Rights Agreement) contains the entire agreement among the parties hereto relating to the matters provided herein, and no representations, promises or agreements, oral or otherwise, not expressly contained or incorporated by reference herein or therein shall be binding on the parties hereto. The provisions of this Amendment are severable and the invalidity of one or more of the provisions herein shall not have any effect upon the validity or enforceability of any other provision hereof.

7. GOVERNING LAW. This Amendment shall be governed by, construed and enforced in accordance with the laws of the State of Georgia, without giving effect to any principles of conflict of laws.

8. COUNTERPARTS. This Amendment may be executed and delivered (including delivery by facsimile) in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same agreement.

[Signature page follows.]

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date and year first above written.

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and Chief Executive Officer

COMPUTERSHARE INVESTOR SERVICES, LLC, AS RIGHTS AGENT

By: /s/ Michael J. Lang

Name: Michael J. Lang

Title: Sr. Director, Relationship Management

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FINANCING AGREEMENT

THE CIT GROUP/COMMERCIAL SERVICES, INC.

(AS LENDER)

AND

CROWN CRAFTS, INC.,
CHURCHILL WEAVERS, INC.,
HAMCO, INC. AND
CROWN CRAFTS INFANT PRODUCTS, INC.

(AS BORROWERS)

DATED: JULY 11, 2006

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EXHIBITS

- Exhibit A - Form of Compliance Certificate
- Exhibit B -- Letter of Credit Fees

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THE CIT GROUP/COMMERCIAL SERVICES, INC., a New York corporation, with an office located at Two Wachovia Center, Suite 2500, 301 South Tryon Street, Charlotte, North Carolina 28202 ("CIT"), is pleased to confirm the terms and conditions under which CIT shall make revolving loans and other financial accommodations to CROWN CRAFTS, INC., a Delaware corporation, with its principal offices located at 916 South Burnside Avenue, Gonzales, Louisiana 70737, ("CCI"), CHURCHILL WEAVERS, INC., a Kentucky corporation with its principal offices located at 100 Churchill Drive, Berea, Kentucky 40403 ("Weavers"), HAMCO, INC., a Louisiana corporation with its principal offices located at 916 South Burnside Avenue, Gonzales, Louisiana 70737 ("Hamco"), and CROWN CRAFTS INFANT PRODUCTS, INC., a Delaware corporation with its principal offices located at 711 West Walnut Street, Compton, California 90220 (hereinafter "Infant Products", and together with CCI, Weavers and Hamco, individually a "Company" and collectively, the "Companies").

BACKGROUND STATEMENT

The Companies' business is a mutual and collective enterprise, and the Companies believe that the consolidation of all loans and other financial accommodations under this Agreement will enhance the aggregate borrowing powers of the Companies and ease the administration of their loan relationship with CIT, all to the mutual advantage of the Companies. In order to utilize the financial powers of the Companies in the most efficient and economical manner, and in order to facilitate the financing of each Company's needs, CIT will, at the request of the Funds Administrator, extend financial accommodations to all Companies on a combined basis in accordance with the provisions set forth in this Agreement. CIT's willingness to extend credit to the Companies and to administer each Company's collateral security therefor on a combined basis as more fully set forth in this Agreement is done solely as an accommodation to the Companies and at the Companies' request and in furtherance of the Companies' mutual and collective enterprise.

SECTION 1. DEFINITIONS

1.1 DEFINED TERMS. As used in this Financing Agreement:

ACCOUNTS shall mean all of each Company's present and future: (a) accounts (as defined in the UCC); (b) instruments, documents, chattel paper (including electronic chattel paper) (all as defined in the UCC); (c) unpaid seller's or lessor's rights (including rescission, replevin, reclamation, repossession and stoppage in transit) relating to the foregoing or arising therefrom; (d) rights to any goods represented by any of the foregoing, including rights to returned, reclaimed or repossessed goods; (e) reserves and credit balances arising in connection with or pursuant to this Financing Agreement; (f) guaranties, other supporting obligations, payment intangibles and letter of credit rights (all as defined in the UCC); (g) insurance policies or rights relating to any of the foregoing; (h) general intangibles pertaining to any of the foregoing (including rights to payment, including those arising in connection with bank and non-bank credit cards), and all books and records and any electronic media and software relating thereto; (i) notes, deposits or other property of each Company's account debtors securing the obligations owed by such account debtors to such Company; and (j) all Proceeds of any of the foregoing.

ACCOUNTS BORROWING BASE shall mean, at any time, the sum at such time of: (i) ninety percent (90%) of Eligible Factoring Credit Balances; plus (ii) ninety percent (90%) of the net amount of each Company's Eligible Accounts Receivable. The "net amount" of each Company's Eligible Accounts Receivable means the face amount of such Eligible Accounts Receivable less any and all returns, rebates, discounts, sales taxes, credits, allowances or excise taxes of any nature at any time issued, owing, claimed by customers, granted, outstanding or payable in connection with such Eligible Accounts Receivable.

ADMINISTRATIVE MANAGEMENT FEE shall mean an amount equal to \$1,500 per month, payable in accordance with Section 8.7 of this Financing Agreement.

APPLICABLE MARGIN shall mean negative 1.0% for Chase Bank Rate Loans and positive 2.25% for LIBOR Loans.

AVAILABILITY RESERVE shall mean an amount equal to the sum of:

(a) any reserve which CIT may establish from time to time pursuant to the express terms of this Financing Agreement; plus

(b) (i) three (3) months rental payments or similar charges for each Company's leased premises or other Collateral locations for which such Company has not delivered to CIT a landlord's waiver in form and substance reasonably satisfactory to CIT, and (ii) three (3) months estimated payments (plus any other fees or charges owing by any Company) to any applicable warehousemen or third party processor (as determined by CIT in the exercise of its reasonable business judgment), provided that any of the foregoing amounts shall be adjusted from time to time hereafter upon (x) delivery to CIT of any such acceptable waiver, (y) the opening or closing of a Collateral location and/or (z) any change in the amount of rental, storage or processor payments or similar charges; plus

(c) a monthly reserve for accrued interest on LIBOR Loans having an Interest Period of more than 30 days

BORROWING BASE shall mean, at any time:

(a) the sum at such time of: (i) the Accounts Borrowing Base; plus (ii) the sum of (x) the Inventory Borrowing Base plus (y) the In-Transit Inventory Borrowing Base; less

(b) the aggregate amount of the Availability Reserve in effect at such time.

In addition:

(a) Revolving Loans in respect of Eligible Inventory that is subject to a license agreement that limits or restricts any Company's or CIT's right to sell or otherwise dispose of such Inventory and in which case the licensor and CIT have not entered into a licensor waiver in form and substance satisfactory to CIT shall not be in excess of \$3,000,000 at any one time; and

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(b) Revolving Loans in respect of Trade Accounts Receivable, the payment of which are provided for by a Wal-Mart Letter of Credit, shall not be in excess of \$2,000,000.

BUSINESS DAY shall mean any day on which both CIT and JPMorgan Chase Bank are open for business.

CAPITAL EXPENDITURES shall mean, for any period, the aggregate expenditures of the Companies during such period on account of property, plant, equipment or similar fixed assets that, in conformity with GAAP, are required to be reflected on a Consolidated Balance Sheet.

CAPITAL LEASE shall mean any lease of property (whether real, personal or mixed) which, in conformity with GAAP, is accounted for as a capital lease or a Capital Expenditure on a Consolidated Balance Sheet.

CASUALTY PROCEEDS shall mean (a) payments or other proceeds from an insurance carrier with respect to any loss, casualty or damage to Collateral, and (b) payments received on account of any condemnation or other governmental taking of any of the Collateral.

CCIP CLIENT RISK ACCOUNT shall mean a CCIP Factored Account upon which CIT shall not have assumed the Credit Risk.

CCIP FACTOR RISK ACCOUNT shall mean a CCIP Factored Account on which CIT shall have assumed the Credit Risk.

CCIP FACTORED ACCOUNT shall mean a Trade Account Receivable of CCIP that has been factored under the CCIP Factoring Agreement and is owned by CIT.

CCIP FACTORING AGREEMENT shall mean the Amended and Restated Notification Factoring Agreement, dated July 5, 2001, between CIT and CCIP, as from time to time amended, modified, supplemented or restated.

CHANGE OF CONTROL shall mean any of the following: (a) any person or group of persons (within the meaning of the Securities Exchange Act of 1934,) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934,) of thirty percent 30% or more of the issued and outstanding shares of capital stock of CCI having the right to vote for the election of directors of CCI under ordinary circumstances; (b) during any period of twelve consecutive calendar months, individuals who at the beginning of such period constituted the board of directors of CCI (together with any new directors whose election by the board of directors of CCI or whose nomination for election by the stockholders of CCI was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the directors then in office; (c) CCI ceases to own and control, directly or indirectly, all of the economic and voting rights associated with all of the outstanding capital stock of the other Companies or (d) E. Randall Chestnut, as chief executive officer of CCI, shall cease for any reason (including death or disability) to hold such office, and a

replacement reasonably satisfactory to CIT shall not have been appointed within ninety (90) days thereafter.

CHASE BANK RATE shall mean the rate of interest per annum announced by JPMorgan Chase Bank (or its successor) from time to time as its "prime rate" in effect at its principal office in New York City. (The prime rate is not intended to be the lowest rate of interest charged by JPMorgan Chase Bank to its borrowers).

CHASE BANK RATE LOANS shall mean any loans or advances made pursuant to this Financing Agreement that bear interest based upon the Chase Bank Rate.

CIT'S BANK ACCOUNT shall mean CIT's bank account at Wachovia Bank, National Association (or its successor) in Charlotte, North Carolina.

CIT'S SYSTEM shall mean CIT's StuckeyNet or other internet-based loan accounting and reporting system.

CLIENT RISK ACCOUNTS shall mean all CCIP Client Risk Accounts and Hamco Client Risk Accounts.

CLOSING DATE shall mean the date on which this Financing Agreement is executed by the parties hereto and delivered to CIT.

COLLATERAL shall mean, collectively, all present and future Accounts, Factored Accounts, Equipment, Inventory and other Goods, Documents of Title, General Intangibles, Investment Property, Real Estate and Other Collateral.

COLLECTION DAYS shall mean a period of three (3) Business Days after the deposit of proceeds of Collateral or other monies into CIT's Bank Account, for which interest may be charged on the aggregate amount of such deposits at the rate provided for in Section 8.1 or 8.2 (if applicable) of this Financing Agreement.

CONSOLIDATED BALANCE SHEET shall mean a consolidated balance sheet for the Companies, eliminating all intercompany transactions and prepared in accordance with GAAP.

CONSOLIDATING BALANCE SHEET shall mean a Consolidated Balance Sheet of the Companies plus individual balance sheets for the Companies, showing all eliminations of intercompany transactions and prepared in accordance with GAAP.

COPYRIGHTS shall mean all of each Company's present and hereafter acquired copyrights, copyright registrations, recordings, applications, designs, styles, licenses, marks, prints and labels bearing any of the foregoing, all reissues and renewals thereof, all licenses thereof, all other general intangible, intellectual property and other rights pertaining to any of the foregoing, together with the goodwill associated therewith, and all income, royalties and

other Proceeds of any of the foregoing.

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CREDIT RISK shall mean, with respect to any Factored Account, the risk that the account debtor obligated thereon will not pay such Factored Account in full when due on its longest maturity solely because of financial inability to pay.

DEFAULT shall mean any event specified in Section 10.1 hereof, regardless of whether any requirement for the giving of notice, the lapse of time, or both, or any other condition, event or act, has occurred or been satisfied.

DEFAULT RATE OF INTEREST shall mean a rate of interest equal to two percent (2%) per annum greater than the interest rate accruing on the Obligations pursuant to Section 8.1 hereof, which CIT shall be entitled to charge the Companies in the manner set forth in Section 8.2 of this Financing Agreement.

DEPOSITORY ACCOUNT shall mean each bank account (and the related lockbox, if any) subject to CIT's control that is established by CIT or the Companies pursuant to Section 7.2(l)(ii) or Section 3.2(c) of this Financing Agreement.

DEPOSITORY ACCOUNT CONTROL AGREEMENT shall mean a three-party agreement in form and substance satisfactory to CIT among CIT, the applicable Company and the bank which will maintain a Depository Account, (a) which provides CIT with control of such Depository Account and provides for the transfer of funds in a manner consistent with the provisions of Section 3.2(b) of this Financing Agreement, and (b) pursuant to which such bank agrees that (i) all cash, checks, wires and other items received or deposited into the Depository Account are the property of CIT, and (ii) except as otherwise provided in the Depository Account Control Agreement, such bank has no lien upon, or right of set off against, the Depository Account and any cash, checks, wires and other items from time to time on deposit therein.

DILUTION PERCENTAGE shall mean, with respect to the Companies in the aggregate during any period of measurement, the quotient (expressed as a percentage) obtained by dividing (a) the aggregate amount of the Companies' non-cash reductions against Trade Accounts Receivable or Factored Accounts, during such period, by (b) the aggregate amount of the Companies' gross sales during such period. The Dilution Percentage shall be determined by CIT based on its reviews of the periodic financial and collateral reports submitted by the Companies to CIT as well as the results of the periodic field examinations of the Companies conducted by CIT from time to time. The period of measurement for calculating the Dilution Percentage shall be determined by CIT from time to time in the exercise of its reasonable business judgment.

DOCUMENTATION FEES shall mean, subsequent to the Closing Date, CIT's standard fees for the use of CIT's in-house legal department relating to any and all modifications, waivers, releases, legal file reviews or additional collateral with respect to this Financing Agreement, the Collateral and/or the Obligations.

DOCUMENTS OF TITLE shall mean all each Company's present and future documents (as defined in the UCC), and any and all warehouse receipts, bills of lading, shipping documents, chattel paper, instruments and similar documents, all whether negotiable or non-negotiable, together with all Inventory and other Goods relating thereto, and all Proceeds of any of the foregoing.

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EARLY TERMINATION DATE shall mean a date prior to the Termination Date on which the Companies terminate this Financing Agreement or the Revolving Line of Credit.

EARLY TERMINATION FEE shall mean an amount equal to the product obtained by multiplying (a) the maximum amount of the Revolving Line of Credit times (b) (i) one percent (1.0%) if the Early Termination Date occurs on or before the first anniversary of the Closing Date and (ii) one-half percent (0.5%) if the Early Termination Date occurs after the first anniversary of the Closing Date but on or before the second anniversary of the Closing Date. If the Early Termination

Date occurs any time after the second anniversary of the Closing Date, no Early Termination Fee shall be owing.

EBITDA shall mean, for any period, all earnings before all interest, tax obligations and depreciation and amortization expense of CCI and its subsidiaries for such period, all determined in conformity with GAAP on a consolidated basis consistent with the latest audited financial statements of CCI and its subsidiaries, but excluding the effect of extraordinary and/or nonrecurring gains or losses for such period.

ELECTRONIC TRANSMISSION shall have the meaning given to such term in Section 7.2(g) of this Financing Agreement.

ELIGIBLE ACCOUNTS RECEIVABLE shall mean the gross amount of each Companies' Trade Accounts Receivable that are subject to a valid, exclusive, first priority and fully perfected security interest in favor of CIT, which conform to the warranties contained herein, less, without duplication, the sum of:

(a) reserves for such Trade Accounts Receivable that arise from, or are subject to or include: (i) sales to the United States of America, any state or other governmental entity or to any agency, department or division thereof, except for any such sales as to which the Companies complied with the Assignment of Claims Act of 1940 or any other applicable statute, rules or regulation; (ii) foreign sales, other than sales which otherwise comply with all of the other criteria for eligibility hereunder and are (x) secured by letters of credit (in form and substance satisfactory to CIT) issued or confirmed by, and payable at, banks acceptable to CIT having a place of business in the United States of America, or (y) to customers residing in Canada, provided that such Accounts are payable in United States Dollars; (iii) Accounts that remain unpaid more than the earlier of ninety (90) days from invoice date or sixty (60) days from due date; (iv) contra accounts; (v) sales to any subsidiary (direct or indirect) or parent (direct or indirect) of any Company, or to any other person or entity otherwise affiliated with any Company or with any shareholder, subsidiary (direct or indirect) or parent (direct or indirect) of any Company in any way; (vi) bill and hold (deferred shipment) or consignment sales; (vii) sales to any customer which is either (w) insolvent, (x) the debtor in any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law, (y) negotiating, or has called a meeting of its creditors for purposes of negotiating, a compromise of its debts, or (z) financially unacceptable to CIT or has a credit rating unacceptable to CIT; (viii) all sales to any customer if forty percent (40%) or more of the aggregate dollar amount of all outstanding invoices to such customer are unpaid more than the earlier of ninety (90) days from invoice date or sixty (60) days from due date; (ix) sales to any customer and/or their

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affiliates to the extent the aggregate outstanding amount of such sales at any time exceed twenty percent (20%) or more of all Eligible Accounts Receivable at such time; (x) pre-billed receivables and receivables arising from progress billings; and (xi) sales not payable in United States currency; plus

(b) reserves established by CIT to account for increases in the Companies' Dilution Percentage above the Companies' historical Dilution Percentage, and such other reserves against Trade Accounts Receivable as CIT deems necessary in the exercise of its reasonable business judgment and which are customary either in the commercial finance industry or in the lending practices of CIT.

ELIGIBLE FACTORING CREDIT BALANCES shall mean the sum of (a) all Factoring Credit Balances in respect of Factor Risk Accounts and (b) all Factoring Credit Balances in respect of Client Risk Accounts less, without duplication, the sum of:

(a) reserves for such Factor Risk Accounts for sales to any customer and/or their affiliates to the extent the aggregate outstanding amount of such sales at any time exceeds fifty percent (50%) or more of all Factor Risk Accounts at such time; plus

(b) reserves for such Client Risk Accounts that arise from, or are subject to or include: (i) sales to the United States of America, any state or other governmental entity or to any agency, department or division thereof, except for any such sales as to which the Companies complied with the Assignment of Claims Act of 1940 or any other applicable statute, rules or regulation; (ii) foreign sales, other than sales which otherwise comply with all of the other criteria for eligibility hereunder and are (x) secured by letters of credit (in form and substance satisfactory to CIT) issued or confirmed by, and payable at, banks acceptable to CIT having a place of business in the United States of America, or (y) to customers residing in Canada, provided that such Accounts are payable in United States Dollars; (iii) Client Risk Accounts that remain unpaid more than the earlier of ninety (90) days from invoice date or sixty (60) days from due date; (iv) contra accounts; (v) sales to any subsidiary (direct or indirect) or parent (direct or indirect) of any Company, or to any other person or entity otherwise affiliated with any Company or with any shareholder, subsidiary (direct or indirect) or parent (direct or indirect) of any Company in any way; (vi) bill and hold (deferred shipment) or consignment sales; (vii) sales to any customer which is either (w) insolvent, (x) the debtor in any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law, (y) negotiating, or has called a meeting of its creditors for purposes of negotiating, a compromise of its debts, or (z) financially unacceptable to CIT or has a credit rating unacceptable to CIT; (viii) all sales to any customer if forty percent (40%) or more of the aggregate dollar amount of all outstanding invoices on Client Risk Accounts to such customer are unpaid more than the earlier of ninety (90) days from invoice date or sixty (60) days from due date; (ix) sales to any customer and/or their affiliates to the extent the aggregate outstanding amount of such sales at any time exceed twenty percent (20%) or more of all Client Risk Accounts at such time; (x) pre-billed receivables and receivables arising from progress billings; and (xi) sales not payable in United States currency; plus

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(c) reserves established by CIT to account for increases in the Companies' Dilution Percentage above the Companies' historical Dilution Percentage, and such other reserves for Client Risk Accounts as CIT deems necessary in the exercise of its reasonable business judgment and which are customary either in the commercial finance industry or in the lending practices of CIT.

ELIGIBLE IN-TRANSIT INVENTORY shall mean the gross amount of each Company's finished goods Inventory that is in transit to the United States of America (other than pursuant to purchases backed by a documentary Letter of Credit), that is subject to a valid, exclusive, first priority and fully perfected security interest in favor of CIT, that conforms to the warranties contained herein and that meets the following additional requirements: (a) such Inventory is shipped FOB shipping point, (b) all documents issued by the carrier or bailee thereof are negotiable and issued in the name of CIT, (c) such Inventory is covered by marine insurance reasonably acceptable to CIT with CIT as loss payee, and (d) a bailment agreement, in form and content satisfactory in all respects to CIT, has been duly executed and delivered to CIT by each carrier, freight forwarder or customs agent with respect to such Inventory or documents of title covering such Inventory, less such reserves against in-transit Inventory as CIT deems necessary in the exercise of its reasonable business judgment and which are customary either in the commercial finance industry or in the lending practices of CIT, including, without limitation, reserves for any applicable customs, freight, duties and Taxes.

ELIGIBLE INVENTORY shall mean the gross amount of each Company's Inventory that is subject to a valid, exclusive, first priority and fully perfected security interest in favor of CIT and which conforms to the warranties contained herein, less, without duplication, (a) all work-in-process, (b) all supplies (other than raw materials), (c) all Inventory not present in the United States of America, (d) all Inventory returned or rejected by the Companies' customers (other than goods that are undamaged and resalable in the normal course of business) and goods to be returned to the Companies' suppliers, (e) all Inventory in transit or in the possession of a warehouseman, bailee, third party

processor, or other third party, unless such warehouseman, bailee or third party has executed a notice of security interest agreement (in form and substance satisfactory to CIT), and (f) the amount of such other reserves against Inventory as CIT deems necessary in the exercise of its reasonable business judgment and which are customary either in the commercial finance industry or in the lending practices of CIT, including, without limitation, reserves for special order, licensed or private label goods, discontinued, slow-moving and obsolete Inventory, market value declines, bill and hold (deferred shipment), consignment sales, shrinkage and any applicable customs, freight, duties and Taxes.

EQUIPMENT shall mean all of each Company's present and hereafter acquired equipment (as defined in the UCC) including, without limitation, all machinery, equipment, rolling stock, furnishings and fixtures, and all additions, substitutions and replacements thereof, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto and all Proceeds of any of the foregoing.

ERISA shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

EUROCURRENCY RESERVE REQUIREMENTS shall mean for any day, as applied to a LIBOR Loan, the aggregate (without duplication) of the maximum rates of reserve requirement (expressed as a

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decimal fraction) in effect with respect to CIT and/or any present or future lender or participant on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under Regulation D or any other applicable regulations of the Board of Governors of the Federal Reserve System or other governmental authority having jurisdiction with respect thereto, as now and from time to time in effect, dealing with reserve requirements prescribed for Eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by CIT and/or any such lenders or participants (such rates to be adjusted to the nearest one-sixteenth of one percent (1/16 of 1%) or, if there is not a nearest one-sixteenth of one percent (1/16 of 1%), to the next higher one sixteenth of one percent (1/16 of 1%)).

EVENT(S) OF DEFAULT shall have the meaning given to such term in Section 10.1 of this Financing Agreement.

EXISTING LENDERS shall mean Banc of America Strategic Solutions, Inc., Wachovia Bank, National Association and The Prudential Insurance Company of America.

EXISTING LENDERS SUBORDINATED DEBT shall mean the Indebtedness owing by the Company to the Existing Lenders pursuant to the Existing Lenders Subordinated Deb Documents, the payment of which is subordinated to the payment of the Obligations pursuant to the Existing Lenders Subordination Agreement.

EXISTING LENDERS SUBORDINATED DEBT DOCUMENTS shall mean (a) the promissory notes in the aggregate face amount of \$4,000,000, dated July 11, 2006, issued by CCI to the Existing Lenders, (b) the Security Agreement, dated July 11, 2006, among the Companies and Wachovia Bank National Association, as agent for the lenders described therein, (c) the Guaranty Agreement, dated July 11, 2006, executed by Weavers, Hamco and Infant Products in favor of Wachovia Bank, National Association, as agent for the lenders described therein, (d) the Contribution Agreement, dated July 11, 2006, among the Companies, and (e) the Mortgage, Assignment Leases and Rents, Fixture filing and Security Agreement, dated July 11, 2006, executed by Weavers in favor of Wachovia Bank, National Association, as agent for the lenders described therein, each as from time to time amended, modified, supplemented or restated in accordance with the terms and conditions of the Existing Lenders Subordination Agreement.

EXISTING LENDERS SUBORDINATION AGREEMENT shall mean the Subordination Agreement, dated the date of this Agreement, executed by the Existing Lenders and CIT, and acknowledged and agreed to by the Companies, subordinating the payment of the Existing Lenders Subordinated Debt to the payment of the Obligations and the liens of the Existing Lenders on the Collateral to the liens

of CIT thereon and containing such other terms as may be agreed among the Existing Lenders, CIT and the Companies.

EXISTING LOAN AGREEMENTS shall mean (a) the Credit Agreement, dated as of July 23, 2001, among the Companies, Wachovia Bank, N.A., as agent, and the lenders party thereto from time to time, as amended, and (b) the Subordinated Note and Warrant Purchase Agreement, dated as of July 23, 2001, among CCI and the Existing Lenders (or their predecessors or assignors), as amended.

FACTOR RISK ACCOUNTS shall mean all CCIP Factor Risk Accounts and Hamco Factor Risk Accounts.

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FACTORED ACCOUNTS shall mean all CCIP Factored Accounts and Hamco Factored Accounts.

FACTORING AGREEMENTS shall mean the CCIP Factoring Agreement and the Hamco Factoring Agreement.

FACTORING CREDIT BALANCES shall mean the monies and credit balances due or to become due to each Company from CIT as calculated and determined under the Factoring Agreements.

FINANCIAL COVENANT APPLICABILITY DATE shall mean any date on which Net Availability is less than \$3,500,000.

FINANCIAL COVENANT INAPPLICABILITY DATE shall mean any date after the occurrence of any Financial Covenant Applicability Date on which Net Availability is equal to or greater than \$3,500,000.

FIXED CHARGE COVERAGE RATIO shall mean, for any period, the quotient (expressed as a ratio) obtained by dividing (a) EBITDA for such period by (b) Fixed Charges for such period.

FIXED CHARGES shall mean, for any period, the sum of (a) all interest obligations (including the interest component of Capital Leases) of CCI and its subsidiaries paid or due during such period, (b) the amount of all scheduled fees paid by the Companies to CIT during such period, (c) the amount of principal repaid or scheduled to be repaid on Indebtedness of CCI and its subsidiaries (other than the Revolving Loans) during such period, (d) unfinanced Capital Expenditures, as incurred by CCI and its subsidiaries during such period, (e) all federal, state and local income tax expenses due and payable by CCI and its subsidiaries during such period and (f) all cash dividends and distributions paid by CCI to its shareholders or by a subsidiary of CCI to any shareholder other than CCI.

FUNDS ADMINISTRATOR shall mean CCI in its capacity as the borrowing agent and loan funds administrator for itself and the other Companies under this Financing Agreement.

GAAP shall mean generally accepted accounting principles in the United States of America as in effect from time to time and for the period as to which such accounting principles are to apply.

GENERAL INTANGIBLES shall mean all of each Company's present and hereafter acquired general intangibles (as defined in the UCC), and shall include, without limitation, all present and future right, title and interest in and to: (a) all Trademarks, (b) Patents, utility models, industrial models, and designs, (c) Copyrights, (d) trade secrets, (e) licenses, permits and franchises, (f) any other forms of intellectual property, (g) all customer lists, distribution agreements, supply agreements, blueprints, indemnification rights and tax refunds, (h) all monies and claims for monies now or hereafter due and payable in connection with the foregoing, including, without limitation, payments for infringement and royalties arising from any licensing agreement between any Company and any licensee of any of such Company's General Intangibles, (i) the Factoring Credit Balances and (j) all Proceeds of any of the foregoing.

GOODS shall mean all of each Company's present and hereafter acquired "Goods", as defined in the UCC, and all Proceeds thereof.

HAMCO CLIENT RISK ACCOUNT shall mean a Hamco Factored Account upon which CIT shall not have assumed the Credit Risk.

HAMCO FACTOR RISK ACCOUNT shall mean a Hamco Factored Account on which CIT shall have assumed the Credit Risk.

HAMCO FACTORED ACCOUNT shall mean a Trade Account Receivable of Hamco that has been factored under the Hamco Factoring Agreement and is owned by CIT.

HAMCO FACTORING AGREEMENT shall mean the Amended and Restated Notification Factoring Agreement, dated July 5, 2001, between CIT and Hamco, as from time to time amended, modified, supplemented or restated.

INDEBTEDNESS shall mean, without duplication, all liabilities, contingent or otherwise, which are either (a) obligations in respect of borrowed money or for the deferred purchase price of property, services or assets, other than Inventory, or (b) obligations with respect to Capital Leases.

INDEMNIFIED PARTY shall have the meaning given to such term in Section 10.4 of this Financing Agreement.

INTEREST PERIOD shall mean, subject to availability: (a) with respect to an initial request by the Companies for a LIBOR Loan or the conversion of a Chase Bank Rate Loan to a LIBOR Loan, at the option of the Companies a one-month, two-month or three-month period commencing on the borrowing or conversion date with respect to such LIBOR Loan and ending one month, two months or three months thereafter, as applicable; and (b) with respect to any continuation of a LIBOR Loan, at the option of the Companies a one-month, two-month or three-month period commencing on the last day of the immediately preceding Interest Period applicable to such LIBOR Loan and ending one month, two months or three months thereafter, as applicable; provided that (i) if any Interest Period would otherwise end on a day which is not a Working Day, such Interest Period shall be extended to the next succeeding Working Day, and (ii) if any Interest Period begins on the last Working Day of any month, or on a day for which there is no numerically corresponding day in the month in which such Interest Period ends, such Interest Period shall end on the last Working Day of the month in which such Interest Period ends.

IN-TRANSIT INVENTORY BORROWING BASE shall mean, at any time of determination, the lesser of:

- (a) \$3,500,000, or
- (b) the sum of (i) up to sixty percent (60%) of the aggregate value of the Eligible In-Transit Inventory, valued at the lower of cost or market on a first in, first out basis plus (ii) up to sixty percent (60%) of the face amount of outstanding documentary Letters of Credit, or
- (c) the sum of (i) up to eighty-five percent (85%) of the product of (x) the Net Orderly Liquidation Value of Eligible Inventory Factor times (y) the aggregate value of Eligible In-Transit Inventory, valued at the lower of cost or market on a first in, first out basis plus (ii) up to eighty-five percent (85%) of the product of (x) the Net Orderly Liquidation Value of

Eligible Inventory Factor times (y) the face amount of outstanding documentary Letters of Credit.

INVENTORY shall mean all of the Companies' present and hereafter acquired inventory (as defined in the UCC), including, without limitation, all merchandise and inventory in all stages of production (from raw materials through work-in-process to finished goods), and all additions, substitutions and replacements thereof, wherever located, together with all goods and materials used or usable in manufacturing, processing, packaging or shipping of the foregoing, and all Proceeds of any of the foregoing.

INVENTORY BORROWING BASE shall mean, at any time of determination, the lesser of (a) up to sixty percent (60%) of the aggregate value of Eligible Inventory, valued at the lower of cost or market on a first in, first out basis, (b) up to eighty-five percent (85%) of the product of (i) the Net Orderly Liquidation Value of Eligible Inventory Factor times (ii) the aggregate value of Eligible Inventory, valued at the lower of cost or market on a first in, first out basis, or (c) the Accounts Borrowing Base.

INVESTMENT PROPERTY shall mean all of each Company's present and hereafter acquired "Investment Property", as defined in the UCC, together with all stock and other equity interests in the Companies' subsidiaries, and all Proceeds thereof.

ISSUING BANK shall mean any bank issuing a Letter of Credit for a Company.

LETTERS OF CREDIT shall mean all letters of credit issued for or on behalf of a Company with the assistance of CIT by an Issuing Bank in accordance with Section 5 hereof.

LETTER OF CREDIT GUARANTY shall mean any guaranty or similar agreement delivered by CIT to an Issuing Bank of a Company's reimbursement obligation under such Issuing Bank's reimbursement agreement, application for letter of credit or other like document.

LETTER OF CREDIT GUARANTY FEE shall mean the fee that CIT may charge the Companies under Section 8.3(a) of this Financing Agreement for issuing a Letter of Credit Guaranty or otherwise assisting the Companies in obtaining Letters of Credit.

LETTER OF CREDIT SUB-LINE shall mean the commitment of CIT to assist the Companies in obtaining Letters of Credit in an aggregate amount of up to \$1,500,000.

LIBOR shall mean, for any Interest Period and subject to availability, a rate of interest equal to the quotient obtained by dividing: (a) at CIT's election, (i) LIBOR for such Interest Period as quoted to CIT by JPMorgan Chase Bank (or any successor thereof) two (2) Business Days prior to the first day of such Interest Period, or (ii) the rate of interest determined by CIT at which deposits in U.S. Dollars are offered for such Interest Period as presented on Telerate Systems at page 3750 as of 11:00 a.m. (London time) two (2) Business Days prior to the first day of such Interest Period (provided that if two or more offered rates are presented on Telerate Systems at page 3750 for such Interest Period, the arithmetic mean of all such rates, as determined by CIT, will be the rate elected); by (b) a number equal to 1.00 minus the Eurocurrency Reserve Requirements, if any, in effect on the day which is two (2) Business Days prior to the beginning of such Interest Period.

LIBOR INTEREST PAYMENT DATE shall mean, with respect to any LIBOR Loan, the last day of the Interest Period for such LIBOR Loan.

LIBOR LOAN shall mean any loans made pursuant to this Financing Agreement that bear interest based upon LIBOR.

LOAN DOCUMENTS shall mean this Financing Agreement, the Factoring Agreements, the Existing Lender Subordination Agreement, mortgages and deeds of trust on any Real Estate, the other closing documents executed by the Companies, and any other ancillary loan and security agreements executed by the Companies from time to time in connection with this Financing Agreement, all as may be renewed, amended, restated or supplemented from time to time.

MATERIAL ADVERSE EFFECT shall mean a material adverse effect on either (a) the business, condition (financial or otherwise), operations, performance, properties or prospects of any Company, (b) the ability of any Company to perform its obligations under this Financing Agreement or any other Loan Document, or to enforce its rights against account debtors of such Company, (c) the value of the Collateral or (d) the ability of CIT to enforce the Obligations or its rights and remedies under this Financing Agreement or any of the other Loan Documents.

NET AVAILABILITY shall mean, at any time, the amount by which (a) the Borrowing Base of the Companies at such time exceeds (b) the sum at such time of (i) the principal amount of all outstanding Revolving Loans, plus (ii) the undrawn amount of all outstanding Letters of Credit.

NET ORDERLY LIQUIDATION VALUE OF ELIGIBLE INVENTORY shall mean, at any time of determination, the orderly liquidation value of Eligible Inventory (less estimated liquidation expenses) as determined by the most recent appraisal of the Inventory conducted in accordance with Section 7.2(i).

NET ORDERLY LIQUIDATION VALUE OF ELIGIBLE INVENTORY FACTOR shall mean, at any time of determination, the ratio of the Net Orderly Liquidation Value of Eligible Inventory to the aggregate value of Eligible Inventory (valued at the lower of cost of market on a first in, first out basis), expressed as a percentage.

OBLIGATIONS shall mean: (a) all loans, advances and other extensions of credit made by CIT to the Companies (or any of them), or to others for the Companies' account (including, without limitation, all Revolving Loans and all obligations of CIT under Letter of Credit Guaranties); (b) any and all other indebtedness, obligations and liabilities which may be owed by the Companies (or any of them) to CIT and arising out of, or incurred in connection with, this Financing Agreement or any of the other Loan Documents (including all Out-of-Pocket Expenses and any applicable Documentation Fees), whether (i) now in existence or incurred by the Companies (or any of them) from time to time hereafter, (ii) secured by pledge, lien upon or security interest in any Company's assets or property or the assets or property of any other person, firm, entity or corporation, (iii) such indebtedness is absolute or contingent, joint or several, matured or unmatured, direct or indirect, or (iv) the Companies are liable to CIT for such indebtedness as principal, surety, endorser, guarantor or otherwise; (c) all indebtedness, obligations and liabilities owed by the Companies (or any of them) to CIT under any other agreement or arrangement now or hereafter entered into between the

Companies (or any of them), on the one hand, and CIT, on the other hand, whether or not such agreement or arrangement relates to the transactions contemplated by this Financing Agreement; (d) indebtedness, obligations and liabilities incurred by, or imposed on, CIT as a result of environmental claims relating to any Company's operations, premises or waste disposal practices or disposal sites; (e) the Companies' liabilities to CIT as maker or endorser on any promissory note or other instrument for the payment of money; and (f) the Companies' liabilities to CIT under any instrument of guaranty or indemnity, or arising under any guaranty, endorsement or undertaking which CIT may make or issue to others for the account of the Companies (or any of them), including any accommodations extended by CIT with respect to applications for Letters of Credit, CIT's acceptance of drafts or CIT's endorsement of notes or other instruments for the Companies' account and benefit.

OPERATING LEASES shall mean all leases of property (whether real, personal or mixed) other than Capital Leases.

OTHER COLLATERAL shall mean all of each Company's: (a) present and hereafter established lockbox, blocked account and other deposit accounts maintained with any bank or financial institution into which the proceeds of Collateral are or may be deposited (including the Depository Accounts); (b) cash and other monies and property in the possession or control of CIT (including negative balances in the Revolving Loan Account and cash collateral held by CIT pursuant to this Financing Agreement); (c) books, records, ledger cards, disks and related data processing software at any time evidencing or containing information relating to any of the Collateral described herein or otherwise necessary or helpful in the collection thereof or realization thereon; and (d) all Proceeds of any of the foregoing.

OUT-OF-POCKET EXPENSES shall mean all of CIT's present and future costs, fees and expenses actually incurred in connection with this Financing Agreement and the other Loan Documents, including, without limitation, (a) the cost of lien searches (including tax lien and judgment lien searches), pending litigation searches and similar items, (b) fees and taxes imposed in connection

with the filing of any financing statements or other personal property security documents; (c) all costs and expenses incurred by CIT in opening and maintaining the Depository Accounts and any related lockboxes, depositing checks, and receiving and transferring funds (including charges imposed on CIT for "insufficient funds" and the return of deposited checks); (d) any amounts paid by, incurred by or charged to CIT by an Issuing Bank under any Letter of Credit or the reimbursement agreement relating thereto, any application for Letter of Credit, Letter of Credit Guaranty or other like document which pertains either directly or indirectly to Letters of Credit, and CIT's standard fees relating to the Letters of Credit and any drafts thereunder; (e) title insurance premiums, real estate survey costs, note taxes, intangible taxes and mortgage or recording taxes and fees; (f) all appraisal fees and expenses payable by the Companies hereunder, and all costs, fees and expenses incurred by CIT in connection with any action taken under Section 7.2(a) hereof, including reasonable travel, meal and lodging expenses of CIT personnel; (g) all costs that CIT may incur to maintain the Required Insurance, and all reasonable costs, fees and expenses incurred by CIT in connection with the collection of Casualty Proceeds and the monitoring of any repair or restoration of any Real Estate; (h) all reasonable costs, fees, expenses and disbursements of outside counsel hired by CIT to consummate the transactions contemplated by this Financing Agreement (including the documentation and negotiation of this Financing Agreement, the other Loan Documents and all amendments, supplements and restatements thereto or thereof), and to advise CIT as to matters

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relating to the transactions contemplated hereby; (i) all costs, fees and expenses incurred by CIT in connection with any action taken under Section 10.3 hereof; and (j) without duplication, all costs, fees and expenses incurred by CIT in connection with the collection, liquidation, enforcement, protection and defense of the Obligations, the Collateral and CIT's rights under this Financing Agreement, including, without limitation, all reasonable fees and disbursements of in-house and outside counsel to CIT incurred as a result of a workout, restructuring, reorganization, liquidation, insolvency proceeding and in any appeals arising therefrom, whether incurred before, during or after the termination of this Financing Agreement or the commencement of any case with respect to the Companies (or any of them) or any subsidiary of a Company (as the case may be) under the United States Bankruptcy Code or any similar statute.

OVERADVANCES shall mean, at any time, the amount by which (a) the sum at such time of the principal amount of all outstanding Revolving Loans plus the undrawn amount of all outstanding Letters of Credit exceeds (b) the Borrowing Base at such time.

PATENTS shall mean all of the Companies' present and hereafter acquired patents, patent applications, registrations, all reissues and renewals thereof, all licenses thereof, all inventions and improvements claimed thereunder, all general intangible, intellectual property and other rights of any Company with respect thereto, and all income, royalties and other Proceeds of the foregoing.

PERMITTED DISTRIBUTIONS shall mean:

(a) dividends from a wholly-owned subsidiary of a Company to such Company; and

(b) dividends payable solely in stock or other equity interests of the Companies.

PERMITTED ENCUMBRANCES shall mean: (a) all liens existing on the Closing Date on specific items of Equipment; (b) Purchase Money Liens; (c) statutory liens of landlords and liens of carriers, warehousemen, bailees, mechanics, materialmen and other like liens imposed by law, created in the ordinary course of business and securing amounts not yet due (or which are being contested in good faith, by appropriate proceedings or other appropriate actions which are sufficient to prevent imminent foreclosure of such liens), and with respect to which adequate reserves or other appropriate provisions are being maintained by the Companies in accordance with GAAP; (d) deposits made (and the liens thereon) in the ordinary course of business of any Company (including, without limitation, security deposits for leases, indemnity bonds, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of

tenders, bids, contracts (other than for the repayment or guarantee of borrowed money or purchase money obligations), statutory obligations and other similar obligations arising as a result of progress payments under government contracts; (e) liens granted to CIT by the Companies; (f) liens of judgment creditors, provided that such liens do not exceed \$50,000 in the aggregate at any time (other than liens bonded or insured to the reasonable satisfaction of CIT); (g) Permitted Tax Liens; (h) liens of the Existing Lenders provided such liens are subordinated to CIT's liens pursuant to the Existing Lenders Subordination Agreement; and (i) easements (including, without limitation, reciprocal easement agreements and utility agreements), encroachments, minor defects or irregularities in title, variation and other restrictions, charges or encumbrances (whether or not recorded) affecting the Real Estate, if applicable, and which in the aggregate (y) do not materially interfere with the occupation, use or enjoyment by any Company of

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its business or property so encumbered and (z) do not materially and adversely affect the value of such Real Estate.

PERMITTED INDEBTEDNESS shall mean: (a) Indebtedness secured by Purchase Money Liens; (b) Indebtedness arising under the Letters of Credit and this Financing Agreement; (c) Subordinated Debt; and (d) other Indebtedness existing on the Closing Date and listed on Schedule 1.1(a) attached hereto.

PERMITTED TAX LIENS shall mean liens for Taxes not due and payable and liens for Taxes that any Company is contesting in good faith, by appropriate proceedings which are sufficient to prevent imminent foreclosure of such liens, and with respect to which adequate reserves are being maintained by such Company in accordance with GAAP; provided that in either case, such liens (a) are not filed of record in any public office, (b) other than with respect to Real Estate, are not senior in priority to the liens granted by any of such Company to CIT, or (c) do not secure taxes owed to the United States of America (or any department or agency thereof) or any State or State authority, if applicable State law provides for the priority of tax liens in a manner similar to the laws of the United States of America.

PROCEEDS shall have the meaning given to such term in the UCC, including, without limitation, all Casualty Proceeds.

PURCHASE MONEY LIENS shall mean liens on any item of Equipment acquired by a Company after the date of this Financing Agreement, provided that (a) each such lien shall attach only to the Equipment acquired, (b) a description of the Equipment so acquired is furnished by the Companies to CIT, and (c) the indebtedness incurred by the Companies in connection with such acquisitions shall not exceed \$50,000 in the aggregate in any fiscal year of the Companies.

PURCHASE PRICE shall mean, with respect to any Factored Account, the gross face amount of such Factored Account less factoring charges and credits and discounts made available or extended to account debtors obligated on such Factored Accounts, whether or not taken.

REAL ESTATE shall mean all of the Companies' present and future fee and leasehold interests in real property, including the real property owned by Weavers as of the Closing Date and described on Schedule 1.1(b) attached hereto that will be subjected to a mortgage or deed of trust in favor of CIT (the "Owned Real Estate").

REGULATORY CHANGE shall mean any change after the Closing Date in United States federal, state or foreign law or regulation (including, without limitation, Regulation D of the Board of Governors of the Federal Reserve System), or the adoption or making after the Closing Date of any interpretation, directive or request applying to a class of lenders including CIT of or under any United States federal, state or foreign law or regulation, in each case whether or not having the force of law and whether or not failure to comply therewith would be unlawful.

REQUIRED INSURANCE shall have the meaning provided for in Section 7.2(c) of this Financing Agreement.

REVOLVING LINE OF CREDIT shall mean the commitment of CIT to make Revolving

Loans pursuant to Section 3 of this Financing Agreement and assist the Companies in opening Letters of

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Credit pursuant to Section 5 of this Financing Agreement, in an aggregate amount equal to \$22,000,000.

REVOLVING LINE OF CREDIT FEE shall mean, for any month, the product obtained by multiplying (a) (i) the amount of the Revolving Line of Credit minus (ii) the average daily principal balance of Revolving Loans and the average daily undrawn amount of Letters of Credit outstanding during such month, times (b) fifteen hundredths percent (0.15%) per annum for the number of days in said month.

REVOLVING LOAN ACCOUNT shall mean the account on CIT's books, in the name of the Funds Administrator on behalf of the Companies, in which the Companies will be charged with all Obligations when due or incurred by CIT.

REVOLVING LOANS shall mean the loans and advances made from time to time, to or for the account of the Companies by CIT pursuant to Section 3 of this Financing Agreement.

SUBORDINATED DEBT shall mean the Existing Lenders Subordinated Debt and all other indebtedness of the Companies (and the note(s) evidencing such indebtedness) that is subordinated to the prior payment and satisfaction of the Obligations pursuant to a Subordination Agreement.

SUBORDINATION AGREEMENTS shall mean the Existing Lenders Subordination Agreement and any other agreement (in form and substance satisfactory to CIT) among one or more of the Companies, a subordinating creditor and CIT, pursuant to which Subordinated Debt is subordinated to the prior payment and satisfaction of the Obligations.

TAXES shall mean all federal, state, municipal and other governmental taxes, levies, charges, claims and assessments which are or may be owed or collected by the Companies with respect to their business, operations, Collateral or otherwise.

TERMINATION DATE shall mean the date occurring three (3) years from the Closing Date.

TRADE ACCOUNTS RECEIVABLE shall mean that portion of each Company's Accounts which arises from the sale of Inventory or the rendition of services in the ordinary course of such Company's business. For the avoidance of doubt, after a Trade Account Receivable has become a Factored Account, it is no longer a Trade Account Receivable.

TRADEMARKS shall mean all of the Companies' present and hereafter acquired trademarks, trademark registrations, recordings, applications, tradenames, trade styles, corporate names, business names, service marks, logos and any other designs or sources of business identities, prints and labels (on which any of the foregoing may appear), all reissues and renewals thereof, all licenses thereof, all other general intangible, intellectual property and other rights pertaining to any of the foregoing, together with the goodwill associated therewith, and all income, royalties and other Proceeds of any of the foregoing.

UCC shall mean the Uniform Commercial Code as the same may be amended and in effect from time to time in the State of New York.

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WAL-MART shall mean Wal-Mart Stores, Inc.

WAL-MART LETTERS OF CREDIT shall mean letters of credit issued for the account of Wal-Mart to provide for payment on certain Trade Accounts Receivable generated by a Company's sales to Wal-Mart.

WORKING DAY shall mean any Business Day on which dealings in foreign

currencies and exchanges between banks may be transacted.

SECTION 2. CONDITIONS PRECEDENT.

2.1 CONDITIONS PRECEDENT TO INITIAL FUNDING. The obligation of CIT to make the initial loans and to assist the Companies in obtaining initial Letters of Credit hereunder, immediately prior to or concurrently with the making of such loans or the issuance of such Letters of Credit, is subject to the satisfaction or waiver in writing by CIT of the following conditions precedent:

(A) LIEN SEARCHES. CIT shall have received tax lien, judgment lien and Uniform Commercial Code searches from all jurisdictions reasonably required by CIT, and such searches shall verify that CIT has a first priority security interest in the Collateral, subject to Permitted Encumbrances.

(B) CASUALTY INSURANCE. Each Company shall have delivered to CIT evidence satisfactory to CIT that all Required Insurance is in full force and effect, and CIT shall have confirmed that CIT has been named as a loss payee or additional insured with respect to the Required Insurance in a manner satisfactory to CIT.

(C) UCC FILINGS. All UCC financing statements and similar documents required to be filed in order to create in favor of CIT a first priority perfected security interest in the Collateral (to the extent that such a security interest may be perfected by a filing under the UCC or applicable law), shall have been properly filed in each office in each jurisdiction required. CIT shall have received (i) acknowledgement copies of all such filings (or, in lieu thereof, CIT shall have received other evidence satisfactory to CIT that all such filings have been made), and (ii) evidence that all necessary filing fees, taxes and other expenses related to such filings have been paid in full.

(D) RESOLUTIONS. CIT shall have received a copy of the resolutions of the Board of Directors of each Company authorizing the execution, delivery and performance of the Loan Documents to be executed by each Company, certified by the Secretary or Assistant Secretary of each Company as of the date hereof, together with a certificate of such Secretary or Assistant Secretary as to the incumbency and signature of the officer(s) executing the Loan Documents on behalf of each Company.

(E) ORGANIZATIONAL DOCUMENTS. CIT shall have received a copy of the Certificate or Articles of Incorporation of each Company, certified by the applicable authority in each Company's State of incorporation, and copies of the by-laws (as amended through the date hereof) of each Company, certified by the respective Secretary or an Assistant Secretary thereof.

(F) OFFICER'S CERTIFICATE. CIT shall have received an executed Officer's Certificate of each Company, satisfactory in form and substance to CIT, certifying that as of the Closing Date (i)

the representations and warranties contained herein are true and correct in all material respects, (ii) each Company is in compliance with all of the terms and provisions set forth herein and (iii) no Default or Event of Default has occurred.

(G) APPRAISALS. CIT shall have received and be satisfied with an appraisal of the Companies' Inventory conducted by an appraiser selected by CIT.

(H) DISBURSEMENT AUTHORIZATIONS. The Companies shall have delivered to CIT all information necessary for CIT to issue wire transfer instructions on behalf of each Company for the initial and subsequent loans and/or advances to be made under this Financing Agreement, including disbursement authorizations in form acceptable to CIT.

(I) EXAMINATION & VERIFICATION; NET AVAILABILITY; PROJECTIONS. CIT shall have completed and be satisfied with an updated examination and verification of the Trade Accounts Receivable, Factored Accounts, Inventory and the books and records of the Companies, and such examination shall indicate that no material adverse change has occurred in the financial condition, business, prospects, profits, operations or assets of the Companies and their subsidiaries since April 2, 2006. In addition, the Companies shall have delivered to CIT, and CIT

shall be satisfied with, balance sheet, income statement, cash flows and Net Availability projections for the Companies on a consolidated basis for the fiscal year ending April 1, 2007.

(J) RESERVED.

(K) EXISTING CREDIT AGREEMENT. (i) The Existing Loan Agreements shall be terminated, (ii) all loans and obligations of the Companies with respect thereto shall be paid or satisfied in full utilizing the proceeds of the initial Revolving Loans to be made under this Financing Agreement, and (iii) all liens and security interests in connection therewith shall be terminated and/or released upon such payment.

(L) OPINIONS. Counsel for the Companies shall have delivered to CIT an opinion satisfactory to CIT and its counsel opining as to such matters as CIT shall reasonably require.

(M) LEGAL RESTRAINTS/LITIGATION. As of the Closing Date, there shall be no (x) injunction, writ or restraining order restraining or prohibiting the consummation of the financing arrangements contemplated under this Financing Agreement, or (y) suit, action, investigation or proceeding (judicial or administrative) pending against any Company, any subsidiary of any Company or any of their assets, which, in the good faith opinion of CIT, if adversely determined, could have a Material Adverse Effect.

(N) AMENDMENTS TO FACTORING AGREEMENTS. CCIP and Hamco shall have executed and delivered to CIT amendments to the Factoring Agreements extending the terms thereof and making such other changes as are mutually agreed upon by CIT, CCIP and Hamco.

(O) ADDITIONAL DOCUMENTS. The Companies shall have executed and delivered to CIT the Loan Documents necessary to consummate the lending arrangement contemplated by this Financing Agreement.

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(P) BACKGROUND CHECKS. CIT shall have received and be satisfied with background checks on key managers and stockholders of each Company as CIT shall designate.

(Q) PLEDGE AGREEMENTS. Each Company shall have executed and delivered to CIT a stock pledge agreement in form and substance satisfactory to CIT covering all capital stock in such Company's U.S. subsidiaries (including any other Company, if applicable) and 66.67% of the capital stock in such Company's non-U.S. subsidiaries, if any, together with all stock certificates and duly executed stock powers (undated and in-blank) with respect thereto.

(R) MORTGAGES. Weavers shall have executed and delivered to CIT (or to an agent of CIT or an agent of the Title Insurance Company) executed mortgages and deeds of trust in form and substance satisfactory to CIT covering the Owned Real Estate.

(S) TITLE INSURANCE POLICIES. CIT shall have received, in respect of each mortgage and deed of trust described in Section 2.1(r) above, a mortgagee's marked-up unconditional commitment for title insurance from a title insurance company reasonably satisfactory to CIT (the "Title Insurance Company"). Each such commitment shall obligate the Title Insurance Company to issue to CIT a title insurance policy: (i) in an amount not less than the appraised fair market value of the Owned Real Estate covered thereby; (ii) that insures that the mortgage or deed of trust insured thereby creates a valid first priority lien on the Owned Real Estate covered thereby, free and clear of all defects and encumbrances except for Permitted Encumbrances; (iii) that names CIT as the insured thereunder; and (iv) that contains such endorsements and effective coverage as CIT may reasonably require, including, without limitation, a revolving line of credit endorsement. CIT also shall have received evidence that all premiums in respect of the policies to be issued have or will be paid on the Closing Date and that all charges for mortgage taxes and recording fees, if any, shall be paid upon the recording of each mortgage or deed of trust.

(T) EXISTING LENDERS SUBORDINATED DEBT DOCUMENTS. CIT shall have received true, correct and complete copies of the Existing Lenders Subordinated Debt

Documents, certified by an officer of the Companies.

Upon the execution of this Financing Agreement and the initial disbursement of the initial loans hereunder, all of the above conditions precedent shall have been deemed satisfied, except as the Companies and CIT shall otherwise agree in a separate writing.

SECTION 3. REVOLVING LOANS AND COLLECTIONS

3.1 FUNDING CONDITIONS AND PROCEDURES.

(A) AMOUNTS AND REQUESTS. Subject to the terms and conditions of this Financing Agreement, CIT agrees to make loans and advances to the Funds Administrator on behalf of each Company on a revolving basis (i.e. subject to the limitations set forth herein, each Company, through the Funds Administrator, may borrow, repay and re-borrow Revolving Loans). In no event shall CIT have an obligation to make a Revolving Loan to any Company, nor shall the Funds Administrator or any Company be entitled to request or receive a Revolving Loan, if (i) a Default or Event of Default shall have occurred and remain outstanding on the date of request for such Revolving Loan or the date of the funding thereof, (ii) the amount of such Revolving Loan, when added to the principal

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amount of the Revolving Loans outstanding plus the undrawn amount of all Letters of Credit on the date of the request therefor or the funding thereof, would exceed the Revolving Line of Credit, or (iii) the amount of such Revolving Loan would exceed the Net Availability of the Companies on the date of the request therefor or the funding thereof. Any request for a Revolving Loan must be received from the Funds Administrator by an officer of CIT no later than 2:00 p.m., Charlotte, North Carolina time, (a) on the Business Day on which such Revolving Loan is required, if the request is for a Chase Bank Rate Loan, or (b) three (3) Business Days prior to the Business Day on which such Revolving Loan is required, if the request is for a LIBOR Loan. The funding of any LIBOR Loan is also subject to the satisfaction of the conditions set forth in Section 8.9 of this Financing Agreement.

(B) PHONE AND ELECTRONIC LOAN REQUESTS. The Companies hereby authorize CIT to make Revolving Loans to the Funds Administrator based upon a telephonic or e-mail request (or, if permitted by CIT, based upon a request posted on CIT's System) made by any officer or other employee of the Funds Administrator that the Funds Administrator has authorized in writing to request Revolving Loans hereunder, as reflected by CIT's records. Each telephonic, e-mail or posted request by the Funds Administrator shall be irrevocable, and the Funds Administrator agrees to confirm any such request for a Revolving Loan in a writing approved by CIT and signed by such authorized officer or employee, within one (1) Business Day of CIT's request for such confirmation. CIT shall have the right to rely on any telephonic, e-mail or posted request for a Revolving Loan made by anyone purporting to be an officer or other employee of the Funds Administrator that the Funds Administrator has authorized in writing to request Revolving Loans hereunder, without further investigation.

(C) REAFFIRMATION OF REPRESENTATIONS AND WARRANTIES. Except for the representations and warranties set forth in Sections 6.7, 6.8, 6.9 and 7.1, all of the representations and warranties made by the Companies in this Financing Agreement shall be deemed to be remade by the Companies each time that the Funds Administrator requests a Revolving Loan or a Letter of Credit under this Financing Agreement, and each such request shall also constitute a representation and warranty by the Companies that, after giving effect to the requested Revolving Loan or Letter of Credit, no Default or Event of Default shall have occurred and remain outstanding.

(D) FUNDS ADMINISTRATOR APPOINTMENT. Each Company hereby irrevocably appoints the Funds Administrator, as the agent for such Company on its behalf, to (i) request Revolving Loans from CIT, (ii) give and receive notices under the Loan Documents and (iii) take all other action which the Funds Administrator or the Companies are permitted or required to take under this Financing Agreement.

3.2 HANDLING OF PROCEEDS OF COLLATERAL; CASH DOMINION.

(A) COLLECTION OF TRADE ACCOUNTS RECEIVABLE AND OTHER PROCEEDS. The

Companies, at their expense, will enforce and collect payments and other amounts owing on all Trade Accounts Receivable in the ordinary course of the Companies' business subject to the terms hereof. Except in the case of sales to Wal-Mart, the payment of which is provided for by a Wal-Mart Letter of Credit, the Companies agree to direct their account debtors to send payments on all Trade Accounts Receivable directly to a lockbox associated with a Depository Account, and to include on all of the Companies' invoices the address of such a lockbox as the sole address for remittance of payment. The Companies agree to direct Wal-Mart to cause the issuer of the Wal-Mart Letters of Credit to

name CIT as the beneficiary under such Wal-Mart Letters of Credit issued after the Closing Date and to remit payment thereon directly to the CIT Account until the Obligations are paid in full. Notwithstanding the foregoing, should any Company ever receive any payment on a Trade Account Receivable, a Wal-Mart Letter of Credit or other Proceeds of the sale of Collateral, including checks, cash, receipts from credit card sales and receipts, notes or other instruments or property with respect to any Collateral, such Company agrees to hold such proceeds in trust for CIT, separate from such Company's other property and funds, and to deposit such proceeds directly into a Depository Account on the Business Day received.

(B) TRANSFER OF FUNDS FROM DEPOSITORY ACCOUNTS; APPLICATION OF FACTORING CREDIT BALANCES. Funds remaining on deposit in a Depository Account shall be transferred to CIT's Bank Account on each Business Day in accordance with the terms and provisions of the applicable Depository Account Control Agreement, and the Companies agree to take all actions reasonably required by CIT or any bank at which a Depository Account is maintained in order to effectuate the transfer of funds in this manner. Subject to charges for Collection Days, (i) all amounts received from a Depository Account and any other proceeds of the Collateral deposited into CIT's Bank Account will, for purposes of calculating Net Availability and interest, be credited to the Revolving Loan Account on the date of deposit in CIT's Bank Account and (ii) all Factoring Credit Balances will, for purposes of calculating Net Availability and interest, be credited to the Revolving Loan Account on the date such Factoring Credit Balances are payable to a Company pursuant to the Factoring Agreement with such Company. No checks, drafts or other instruments received by CIT shall constitute final payment to CIT unless and until such instruments have actually been collected.

(C) NEW DEPOSITORY ACCOUNTS. Each Company agrees not to open any lockbox or new bank account into which Proceeds of Collateral are to be delivered or deposited unless concurrently with the opening of such lockbox and/or bank account, CIT, such Company and the bank which will maintain such lockbox or at which such account will be maintained, execute a Depository Account Control Agreement with respect to such lockbox and/or related bank account. Upon compliance with the terms set forth above, such lockbox and/or bank account shall constitute a Depository Account for purposes of this Financing Agreement.

3.3 REVOLVING LOAN ACCOUNT. CIT shall charge the Revolving Loan Account for all loans and advances made by CIT to the Funds Administrator, or otherwise for any Company's account, and for all other Obligations, including Out-of-Pocket Expenses, when due and payable hereunder. Subject to the provisions of Section 3.5 below, CIT will credit the Revolving Loan Account with all amounts received by CIT from each Depository Account or from others for the Companies' account, including, as set forth above, all amounts received by CIT in payment of Trade Accounts Receivable and the Factoring Credit Balances, and such amounts will be applied to payment of the Obligations in the order and manner set forth herein. In no event shall prior recourse to any Trade Accounts Receivable or other security granted to or by the Companies be a prerequisite to CIT's right to demand payment of any of the Obligations. In addition, the Companies agree that CIT shall have no obligation whatsoever to perform in any respect any Company's contracts or obligations relating to the Accounts.

3.4 REPAYMENT OF OVERADVANCES. If at any time (a) the sum of the outstanding balance of Revolving Loans and undrawn amount of Letters of Credit exceed the Revolving Line of Credit, or (b) an Overadvance exists, the amount of such excess (in the case of clause (a)) or the amount of

the Overadvance (in the case of clause (b)) shall be immediately due and payable, unless CIT otherwise agrees in writing. Should CIT for any reason honor requests for Overadvances, such Overadvances shall be made in CIT's sole discretion and subject to any additional terms CIT deems necessary.

3.5 APPLICATION OF PROCEEDS OF COLLATERAL.

(A) GENERALLY. Unless this Financing Agreement expressly provides otherwise, so long as no Event of Default shall have occurred and remain outstanding, CIT agrees to apply (i) all Proceeds of Trade Accounts Receivable, Wal-Mart Letters of Credit, Inventory and the Factoring Credit Balances to the Revolving Loan Account and (ii) any other payment received by CIT with respect to the Obligations, in such order and manner as CIT shall elect in the exercise of its reasonable business judgment.

(B) APPLICATION OF PROCEEDS TO CHASE BANK RATE LOANS AND LIBOR LOANS. So long as no Event of Default shall have occurred and remain outstanding, CIT agrees to apply all Proceeds of Collateral and other payments described in Section 3.5(a) to Chase Bank Rate Loans until there are no Chase Bank Rate Loans outstanding, and then to LIBOR Loans; provided that in the event the aggregate outstanding principal amount of Revolving Loans that are LIBOR Loans exceeds Net Availability or any other applicable limit set forth herein, CIT may apply all proceeds of Collateral received by CIT to the payment of the Obligations in such manner and in such order as CIT may elect in the exercise of its reasonable business judgment; and provided further that in no event shall CIT have any obligation to apply Proceeds of Trade Accounts Receivable to other Obligations until all Revolving Loans are fully paid and satisfied. So long as no Event of Default shall have occurred and remain outstanding, if CIT receives Proceeds of Collateral or other payments that exceed the outstanding principal amount of Revolving Loans that are Chase Bank Rate Loans, the Funds Administrator may request, in writing, that CIT not apply such excess Proceeds to outstanding Revolving Loans that are LIBOR Loans, in which case CIT shall remit such excess to the Funds Administrator. If as a result of the application of the provisions of this Section 3.5(b), any Proceeds of Collateral are applied to loans that are LIBOR Loans, such application shall be treated as a prepayment of such LIBOR Loans and CIT shall be entitled to the costs and fees provided for in Section 8.10 hereof.

(C) APPLICATION OF PROCEEDS DURING AN EVENT OF DEFAULT. If an Event of Default shall have occurred and remain outstanding, CIT may apply all Proceeds of Collateral and all other payments received by CIT to the payment of the Obligations in such manner and in such order as CIT may elect in its sole discretion. If, as a result of the application of the provisions of this Section 3.5(c), any Proceeds or payments are applied to loans that are LIBOR Loans, such application shall be treated as a prepayment of such LIBOR Loans and CIT shall be entitled to the costs and fees provided for in Section 8.10 hereof.

3.6 MONTHLY STATEMENT. After the end of each month, CIT agrees to prepare and make available to the Companies (by posting to CIT's System), a statement showing the accounting for the charges, loans, advances and other transactions occurring among CIT, the Funds Administrator and each Company during that month. Absent manifest error, each monthly statement shall be deemed correct and binding upon each Company and the funds Administrator, and shall constitute an account stated between the Companies and the Funds Administrator and CIT unless CIT receives a

written statement of exception from the Companies or the Funds Administrator within thirty (30) days of the date of such monthly statement. The statement referred to in this Section 3.6 shall be in addition to the statements provided by CIT to the Companies pursuant to the Factoring Agreements.

3.7 ACCESS TO CIT'S SYSTEM. CIT shall provide to the Funds Administrator access to CIT's System during normal business hours, for the purposes of (i) obtaining information regarding loan balances and Net Availability, and (ii) if permitted by CIT, making requests for Revolving Loans and submitting borrowing base certificates. Such access shall be subject to the following terms, in addition to all terms set forth on the website for CIT's System:

(a) CIT shall provide to the Funds Administrator an initial password for secured access to CIT's System. The Funds Administrator shall provide CIT with a list of officers and employees that are authorized from time to time to access CIT's System, and the Funds Administrator agrees to limit access to the password and CIT's System to such authorized officers and employees. After the initial access, the Funds Administrator shall be solely responsible for (i) changing and maintaining the integrity of the Funds Administrator's password and (ii) any unauthorized use of the Funds Administrator's password or CIT's System by any Company's officers and employees.

(b) The Companies shall use CIT's System and the Companies' information thereon solely for the purposes permitted above, and shall not access CIT's System for the benefit of third parties or provide any information obtained from CIT's System to third parties. CIT makes no representation that loan balance or Net Availability information is or will be available, accurate, complete, correct or current at all times. CIT's System may be inoperable or inaccessible from time to time, whether for required website maintenance, upgrades to CIT's System, or for other reasons, and in any such event the Funds Administrator must obtain loan balance and Net Availability information, and (if permitted by CIT) make requests for Revolving Loans and submit borrowing base certificates using other available means.

(c) The Companies hereby confirm and agree that CIT's System consists of proprietary software, data, tools, scripts, algorithms, business logic, website designs and interfaces and related intellectual property, information and documentation. CIT's System and related intellectual property, information and documentation are the sole and exclusive property of CIT, and the Companies shall have no right, title or interest therein or thereto, except for the limited right to access CIT's System for the purposes permitted above. Upon termination of this Financing Agreement, the Companies agree to cease any use of CIT's System.

(d) All agreements, covenants and representations and warranties made by the Funds Administrator in any borrowing base certificate submitted to CIT by means of CIT's System are incorporated herein by reference and shall be deemed to be made by each Company.

SECTION 4. RESERVED

SECTION 5. LETTERS OF CREDIT

In order to assist the Companies (or any of them) in establishing or opening Letters of Credit with an Issuing Bank, the Companies have requested that CIT join in the applications for such Letters of Credit, and/or guarantee payment or performance of such Letters of Credit and any drafts

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or acceptances thereunder through the issuance of one or more Letter of Credit Guaranties, thereby lending CIT's credit to the Companies, and CIT has agreed to do so. These arrangements shall be handled by CIT subject to satisfaction of the conditions set forth in Section 2.1 hereof and the terms and conditions set forth below.

5.1 ASSISTANCE AND PURPOSE. Within the Revolving Line of Credit and subject to sufficient Net Availability, CIT shall assist the Companies in obtaining Letters of Credit in an aggregate undrawn amount outstanding at any time not to exceed the Letter of Credit Sub-Line. The term, form and purpose of each Letter of Credit and all documentation in connection therewith, and any amendments, modifications or extensions thereof, must be mutually acceptable to CIT, the Issuing Bank and the Funds Administrator, provided that the Companies shall not request a Letter of Credit to support the purchase of domestic Inventory or to secure present or future indebtedness owed to suppliers of domestic Inventory. Notwithstanding any other provision of this Financing Agreement to the contrary, if a Default or an Event of Default shall have occurred and remain outstanding, CIT's assistance in connection with any Letter of Credit shall be in CIT's sole discretion.

5.2 AUTHORITY TO CHARGE REVOLVING LOAN ACCOUNT. The Companies hereby authorize CIT, without notice to the Companies, to charge the Revolving Loan

Account with the amount of all indebtedness, liabilities and obligations of any kind incurred by CIT under a Letter of Credit Guaranty, including the charges of an Issuing Bank, as such indebtedness, liabilities and obligations are charged to or paid by CIT, or, if earlier, upon the occurrence of an Event of Default. Any amount charged to the Revolving Loan Account shall be deemed a Chase Bank Rate Loan hereunder and shall incur interest at the rate provided in Section 8.1 (or Section 8.2, if applicable) of this Financing Agreement. The Companies confirm that any charges which CIT may make to the Revolving Loan Account as provided herein will be made as an accommodation to the Companies and solely at CIT's discretion.

5.3 INDEMNITY RELATING TO LETTERS OF CREDIT. Each Company, jointly and severally, unconditionally indemnifies CIT and holds CIT harmless from any and all loss, claim or liability incurred by CIT arising from any transactions or occurrences relating to Letters of Credit established or opened for any Company's account, the Collateral relating thereto and any drafts or acceptances thereunder, and all Obligations thereunder, including any such loss, claim or liability arising from any error, omission, negligence, misconduct or other action taken by an Issuing Bank, other than for any such loss, claim or liability arising out of the gross negligence of or willful misconduct by CIT with respect to a Letter of Credit Guaranty. This indemnity shall survive the termination of this Financing Agreement and the repayment of the Obligations.

5.4 COMPLIANCE OF GOODS, DOCUMENTS AND SHIPMENTS WITH AGREED TERMS. CIT shall not be responsible for: (a) the existence, character, quality, quantity, condition, packing, value or delivery of the goods purporting to be represented by any documents relating to any Letter of Credit; (b) any difference or variation in the character, quality, quantity, condition, packing, value or delivery of the goods from that expressed in such documents; (c) the validity, sufficiency or genuineness of such documents or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (d) the time, place, manner or order in which shipment is made; (e) partial or incomplete shipment, or failure or omission to ship any or all of the goods referred to in the Letters of Credit or documents relating

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thereto; (f) any deviation from instructions; (g) delay, default, or fraud by the shipper and/or anyone else in connection with the goods or the shipping thereof; or (h) any breach of contract between the shipper or vendors and any Company.

5.5 HANDLING OF GOODS, DOCUMENTS AND SHIPMENTS. The Companies agree that any action taken by CIT, if taken in good faith, or any action taken by the Issuing Bank of whatever nature, under or in connection with the Letters of Credit, the Letter of Credit Guaranties, drafts or acceptances relating to Letters of Credit, or the goods subject thereto, shall be binding on each Company and shall not result in any liability whatsoever of CIT to the Companies. CIT shall have the full right and authority, in CIT's name, to (a) clear and resolve any questions of non-compliance of documents, (b) give any instructions as to acceptance or rejection of any documents or goods, (c) execute any and all steamship or airway guaranties (and applications therefor), indemnities or delivery orders, (d) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances, or documents, and (e) agree to any amendments, renewals, extensions, modifications, changes or cancellations of any of the terms or conditions of any of the applications, the Letters of Credit, the Letter of Credit Guaranties or drafts or acceptances relating to Letters of Credit. An Issuing Bank shall be entitled to comply with and honor any and all such documents or instruments executed by or received solely from CIT, without any notice to or any consent from the Companies or the Funds Administrator. Notwithstanding any prior course of conduct or dealing with respect to the foregoing (including amendments to and non-compliance with any documents, and/or the Companies' or the Funds Administrator's instructions with respect thereto), CIT may exercise its rights under this Section 5.5 in its sole but reasonable business judgment. In addition, each Company and the Funds Administrator agree not to: (a) at any time, (i) execute any application for steamship or airway guaranties, indemnities or delivery orders, (ii) grant any extensions of the maturity of, time of payment for, or time of presentation of, any drafts, acceptances or documents, or (iii) agree to any amendments, renewals, extensions,

modifications, changes or cancellations of any of the terms or conditions of any of the applications, Letters of Credit, drafts or acceptances; and (b) if an Event of Default shall have occurred and remain outstanding, (i) clear and resolve any questions of non-compliance of documents or (ii) give any instructions as to acceptances or rejection of any documents or goods.

5.6 COMPLIANCE WITH LAWS; PAYMENT OF LEVIES AND TAXES. The Companies agree that (a) all necessary import and export licenses and certificates necessary for the import or handling of the Collateral will be promptly procured, (b) all foreign and domestic governmental laws and regulations in regard to the shipment and importation of the Collateral or the financing thereof will be promptly and fully complied with, and (c) any certificate in that regard that CIT may at any time request will be promptly furnished to CIT. In connection herewith, the Companies represent and warrant to CIT that all shipments made under any Letter of Credit are and will be in compliance with the laws and regulations of the countries in which the shipments originate and terminate, and are not prohibited by any such laws and regulations. The Companies assume all risk, liability and responsibility for, and agree to pay and discharge, all present and future local, state, federal or foreign Taxes, duties, or levies pertaining to the importation and delivery of the Collateral. Any embargo, restriction, law, custom or regulation of any country, state, city, or other political subdivision, where the Collateral is or may be located, or wherein payments are to be made, or wherein drafts may be drawn, negotiated, accepted, or paid, shall be solely the Companies' risk, liability and responsibility.

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5.7 SUBROGATION RIGHTS. Upon any payments being made to an Issuing Bank under a Letter of Credit Guaranty, CIT shall acquire by subrogation, any rights, remedies, duties or obligations granted to or undertaken by the Companies, or any of them, to the Issuing Bank in any application for Letter of Credit, any standing agreement relating to Letters of Credit or otherwise, all of which shall be deemed to have been granted to CIT and apply in all respects to CIT and shall be in addition to any rights, remedies, duties or obligations contained herein.

SECTION 6. COLLATERAL

6.1 GRANT OF SECURITY INTEREST. (A) As security for the prompt payment in full of all Obligations, each Company hereby pledges and grants to CIT a continuing general lien upon, and security interest in, all of the Collateral in which such Company has rights.

(B) EXTENT OF SECURITY INTERESTS. The security interests granted hereunder shall extend and attach to:

(i) all Collateral which is presently in existence or hereafter acquired and which is owned by any Company or in which any Company has any interest, whether held by such Company or by others for such Company's account, and wherever located, and, if any Collateral is Equipment, whether such Company's interest in such Equipment is as owner, lessee or conditional vendee;

(ii) all Equipment whether the same constitutes personal property or fixtures, including, but without limiting the generality of the foregoing, all dies, jigs, tools, benches, molds, tables, accretions, component parts thereof and additions thereto, as well as all accessories, motors, engines and auxiliary parts used in connection with, or attached to, the Equipment; and

(iii) all Inventory and any portion thereof which may be returned, rejected, reclaimed or repossessed by either CIT or the Companies from the Companies' customers, as well as to all supplies, goods, incidentals, packaging materials, labels and any other items which contribute to the finished goods or products manufactured or processed by the Companies, or to the sale, promotion or shipment thereof.

6.2 LIMITED LICENSE. Regardless of whether CIT's security interests in any of the General Intangibles has attached or is perfected, each Company hereby irrevocably grants to CIT a royalty-free, non-exclusive license to use such Company's Trademarks, Copyrights, Patents and other proprietary and intellectual property rights, in connection with the (i) advertisement for sale, and the sale or other disposition of, any finished goods Inventory by CIT in accordance with

the provisions of this Financing Agreement, and (ii) the manufacture, assembly, completion and preparation for sale of any unfinished Inventory by CIT in accordance with the provisions of this Financing Agreement.

6.3 REPRESENTATIONS, COVENANTS AND AGREEMENTS REGARDING COLLATERAL GENERALLY.

(A) REPRESENTATIONS AND WARRANTIES. The Companies represent and warrant to CIT that except for the Permitted Encumbrances, (i) upon the filing of UCC financing statements covering the Collateral in all required jurisdictions, this Financing Agreement creates a valid, perfected, first priority and exclusive security interest in all personal property of the Companies as to

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which perfection may be achieved by filing, (ii) CIT's security interests in the Collateral constitute, and will at all times constitute, first priority and exclusive liens on the Collateral, and (iii) each Company is, or will be at the time additional Collateral is acquired by such Company, the absolute owner of such additional Collateral with full right to pledge, sell, transfer and create a security interest therein, free and clear of any and all claims or liens other than Permitted Encumbrances.

(B) COVENANTS. The Companies, at their expense, agree to forever warrant and defend the Collateral from any and all claims and demands of any other person, other than holders of Permitted Encumbrances.

6.4 REPRESENTATIONS REGARDING TRADE ACCOUNTS RECEIVABLE AND INVENTORY. The Companies represent and warrant to CIT that:

(A) each Trade Account Receivable is based on an actual and bona fide sale and delivery of Inventory or rendition of services to customers, made by the Companies in the ordinary course of their business;

(B) the Inventory being sold and the Trade Accounts Receivable created by such sales are the exclusive property of the Companies and are not subject to any lien, consignment arrangement, encumbrance, security interest or financing statement whatsoever, other than Permitted Encumbrances and other than Inventory of Weavers that is subject to consignment arrangements;

(C) the invoices evidencing such Trade Accounts Receivable are in the name of the Companies;

(D) the customers of the Companies have accepted the Inventory or services, owe and are obligated to pay the full amounts stated in the invoices according to their terms, without dispute, offset, defense, counterclaim or contra, except for disputes and other matters arising in the ordinary course of business of which the Companies have notified CIT pursuant to Section 7.2(g) hereof; and

(E) the Companies' Inventory is marketable in the ordinary course of the Companies' businesses, and no Inventory has been produced in violation of the Fair Labor Standards Act (29 U.S.C. Section 201 et seq.), as amended.

6.5 COVENANTS AND AGREEMENTS REGARDING TRADE ACCOUNTS RECEIVABLE AND INVENTORY.

(A) Each Company confirms to CIT all Taxes and fees relating to such Company's business, such Company's sales, and the Trade Accounts Receivable or Inventory relating thereto, are such Company's sole responsibility, and that same will be paid by such Company when due, subject to Section 7.2(d) hereof, and that none of said Taxes or fees represents a lien on or claim against the Trade Accounts Receivable, other than a Permitted Tax Lien.

(B) Each Company agrees not to acquire any Inventory on a consignment basis, nor co-mingle its Inventory with any goods of its customers or any other person (whether pursuant to any bill and hold sale or otherwise).

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(C) Each Company agrees to maintain such books and records regarding Trade Accounts Receivable and Inventory as CIT reasonably may require and agrees that the books and records of such Company will reflect CIT's interest in the Trade Accounts Receivable and Inventory. In support of the continuing assignment and security interest of CIT in the Trade Accounts Receivable and Inventory, the Companies agree to deliver to CIT all of the schedules, reports and other information described in Section 7.2(g) of this Financing Agreement. The Companies' failure to maintain their books in the manner provided herein or to deliver to CIT any of the foregoing information shall in no way affect, diminish, modify or otherwise limit the security interests granted to CIT in the Trade Accounts Receivable and Inventory.

(D) Each Company agrees to issue credit memoranda promptly after accepting returns or granting allowances, and to deliver to CIT copies of such credit memoranda as and when required to do so under Section 7.2(g) hereof.

(E) Each Company agrees to safeguard, protect and hold all Inventory for the account of CIT, and to make no sale or other disposition thereof except in the ordinary course of such Company's business, on open account and on commercially reasonable terms consistent with such Company's past practices. Except for certain Inventory of Weavers that is subject to consignment arrangements, notwithstanding the ordinary course of any Company's business or any Company's past practices, each Company agrees not to sell inventory on a consignment basis, nor retain any lien on or security interest in any Inventory sold. As to any sale or other disposition of Inventory, CIT shall have all of the rights of an unpaid seller, including stoppage in transit, replevin, rescission and reclamation. Each Company agrees to handle all Proceeds of sales of Inventory in accordance with the provisions of Section 3.2 hereof.

6.6 COVENANTS AND AGREEMENTS REGARDING EQUIPMENT.

(A) MAINTENANCE OF EQUIPMENT. Each Company agrees to (i) maintain the Equipment in as good and substantial repair and condition as the Equipment owned by such Company is now maintained (or at the time that CIT's security interest may attach to such Equipment), ordinary wear and tear excepted, (ii) make any and all repairs and replacements when and where necessary, and (iii) safeguard, protect and hold all Equipment owned by such Company in accordance with the terms hereof and subject to CIT's security interest. The Equipment will only be used by the Companies in the operation of their respective businesses and will not be sold or held for sale or lease, except as expressly provided in Section 6.6(b) below.

(B) SALES OF EQUIPMENT. The Companies may sell obsolete Equipment or surplus Equipment from time to time, provided that in each such instance: (i) no Event of Default shall have occurred and remain outstanding at the time of such sale; (ii) the aggregate net book value of the Equipment subject to sale does not exceed \$25,000 in any fiscal year of the Companies; and (iii) all net proceeds of such sales are either (x) promptly delivered by the Companies to CIT by deposit to the Depository Account, for application to Obligations in such manner and in such order as CIT may elect in the exercise of its reasonable business judgment, or (y) within 90 days of such sale, used to purchase replacement Equipment that the Companies determine in their reasonable business judgment to have a value at least equal to the Equipment sold. Except as set forth above, the Companies agree not to sell, transfer, lease or otherwise dispose of any item of Equipment without CIT's prior written consent, which shall not be unreasonably withheld, conditioned or delayed.

Upon the sale, transfer, lease or other disposition of Equipment, CIT's security interest in the Equipment shall, without break in continuity and without further formality or act, continue in, and attach to, all Proceeds. Such Proceeds shall be deposited into a Depository Account on the Business Day next following their receipt. As to any such sale, transfer, lease or other disposition, CIT shall have all of the rights of an unpaid seller, including stoppage in transit, replevin, rescission and reclamation.

6.7 GENERAL INTANGIBLES. Each Company represents and warrants to CIT that as of the date hereof, such Company possesses all General Intangibles necessary to conduct its business as presently conducted. Each Company agrees to maintain such Company's rights in, and the value of, all such General Intangibles, and to

pay when due all payments required to maintain in effect any licensed rights. The Companies shall provide CIT with adequate notice of the acquisition of rights with respect to any additional Patents, Trademarks and Copyrights so that CIT may, to the extent permitted under the documentation granting such rights or applicable law, perfect its security interest in such rights in a timely manner.

6.8 COMMERCIAL TORT CLAIMS. Each Company represents and warrants to CIT that as of the date hereof, such Company holds no interest in any commercial tort claim. If any Company at any time holds or acquires a commercial tort claim, such Company agrees to promptly notify CIT in writing of the details thereof, and in such writing such Company shall grant to CIT a security interest in such commercial tort claim and in the Proceeds thereof, all upon the terms of this Financing Agreement.

6.9 LETTER OF CREDIT RIGHTS. Each Company represents and warrants to CIT that as of the date hereof, such Company is not the beneficiary of any letter of credit, other than the Wal-Mart Letters of Credit. If any Company becomes a beneficiary under any additional letters of credit, such Company agrees to promptly notify CIT, and upon request by CIT, such Company agrees to either (a) cause the issuer of such letter of credit to consent to the assignment of the proceeds of such letter of credit to CIT pursuant to an agreement in form and substance satisfactory to CIT, or (b) cause the issuer of such letter of credit to name CIT as the transferee beneficiary of such letter of credit.

6.10 REFERENCE TO OTHER LOAN DOCUMENTS. Reference is hereby made to the other Loan Documents for additional representations, covenants and other agreements of the Companies regarding the Collateral covered by such Loan Documents.

6.11 CREDIT BALANCES; ADDITIONAL COLLATERAL.

(a) The rights and security interests granted to CIT hereunder shall continue in full force and effect, notwithstanding the termination of this Financing Agreement or the fact that the Revolving Loan Account may from time to time be temporarily in a credit position, until the termination of this Financing Agreement and the full and final payment and satisfaction of the Obligations. Any reserves or balances to the credit of the Companies (in the Revolving Loan Account or otherwise), and any other property or assets of the Companies (or any of them) in the possession of CIT, may be held by CIT as Other Collateral, and applied in whole or partial satisfaction of such Obligations when due, subject to the terms of this Financing Agreement. The liens and security interests granted to CIT herein and any other lien or security interest which CIT

may have in any other assets of the Companies secure payment and performance of all present and future Obligations.

(b) Notwithstanding CIT's security interests in the Collateral, to the extent that the Obligations are now or hereafter secured by any assets or property other than the Collateral, or by the guaranty, endorsement, assets or property of any other person, CIT shall have the right in its sole discretion to determine which rights, security, liens, security interests or remedies CIT shall at any time pursue, foreclose upon, relinquish, subordinate, modify or take any other action with respect to, without in any way modifying or affecting any of such rights, security, liens, security interests or remedies, or any of CIT's rights under this Financing Agreement.

SECTION 7. REPRESENTATIONS, WARRANTIES AND COVENANTS

7.1 INITIAL DISCLOSURE REPRESENTATIONS AND WARRANTIES. The Companies represent and warrant to CIT that as of the date hereof:

(A) FINANCIAL CONDITION. (i) The amount of each Company's assets, at fair valuation, exceeds the book value of such Company's liabilities, (ii) each Company is generally able to pay its debts as they become due and payable, and (iii) each Company does not have unreasonably small capital to carry on its business as currently conducted absent extraordinary and unforeseen circumstances. All financial statements of the Companies previously furnished to CIT present fairly, in all material respects, the financial condition of the

Companies as of the date of such financial statements.

(B) ORGANIZATION MATTERS; COLLATERAL LOCATIONS. Schedule 7.1(b) attached hereto correctly and completely sets forth (w) each Companies' exact name, as currently reflected by the records of each Companies' State of incorporation or formation, (x) each Companies' State of incorporation or formation, (y) each Companies' federal employer identification number and State organization identification number (if any), and (z) the address of each Companies' chief executive office and all locations of Collateral.

(C) POWER AND AUTHORITY; CONFLICTS; ENFORCEABILITY.

(i) Each Company has full power and authority to execute and deliver this Financing Agreement and the other Loan Documents to which such Company is a party, and to perform all of such Company's obligations thereunder.

(ii) The execution and delivery by each of this Financing Agreement and the other Loan Documents to which such Company is a party, and the performance of such Company's obligations hereunder and thereunder, have been duly authorized by all necessary corporate or other relevant action, and do not (w) require any consent or approval of any director, shareholder, partner or member of such Company that has not been obtained, (x) violate any term, provision or covenant contained in the organizational documents of such Company (such as the certificate or articles of incorporation, certificate of origin, partnership agreement, by-laws or operating agreement), (y) violate, or cause such Company to be in default under, any law, rule, regulation, order, judgment or award applicable to such Company or its assets, or (z) violate any term, provision, covenant or representation contained in, or constitute a default under, or result in the creation of any lien under, any loan agreement, lease, indenture, mortgage, deed of trust, note, security agreement or pledge

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agreement to which such Company a signatory or by which such Company or such Company's assets are bound or affected.

(iii) This Financing Agreement and the other Loan Documents to which the Companies (or any of them) are parties constitute legal valid and binding obligations of the Companies, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, moratorium, fraudulent transfer and other laws affecting creditors' rights generally, and subject to general principles of equity, regardless of whether considered in a proceeding at law or in equity.

(D) SCHEDULES. Each of the Schedules attached to this Financing Agreement set forth a true, correct and complete description of the matter or matters covered thereby.

(E) COMPLIANCE WITH LAWS. Each Company and such Company's properties are in compliance with all federal, state and local acts, rules and regulations, and all orders of any federal, state or local legislative, administrative or judicial body or official, except to the extent the failure to so comply would not have a Material Adverse Effect. Each Company has obtained and maintains all permits, approvals, authorizations and licenses necessary to conduct its business as presently conducted, except to the extent the failure to have such permits, approvals, authorizations or licenses would not have a Material Adverse Effect.

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(F) ENVIRONMENTAL MATTERS. Except as set forth on Schedule 7.1(f):

(i) None of the operations of any Company are the subject of any federal, state or local investigation to determine whether any remedial action is needed to address the presence or disposal of any environmental pollution, hazardous material or environmental clean-up of the Real Estate. No enforcement proceeding, complaint, summons, citation, notice, order, claim, litigation, investigation, letter or other communication from a federal, state or local authority has been filed against or delivered to any Company, regarding or

involving any release of any environmental pollution or hazardous material on any real property now or previously owned or operated by such Company.

(ii) No Company has any known contingent liability with respect to any release of any environmental pollution or hazardous material on any real property now or previously owned or operated by such Company.

(iii) Each Company is in compliance with all environmental statutes, acts, rules, regulations and orders applicable to the operation of such Company's business, except to the extent that the failure to so comply would not have a Material Adverse Effect.

(G) PENDING LITIGATION. Except as set forth on Schedule 7.1(g), there exist no actions, suits or proceedings of any kind by or against any Company pending in any court or before any arbitrator or governmental body, that, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

7.2 AFFIRMATIVE COVENANTS. Until the termination of this Financing Agreement and the full and final payment and satisfaction of the Obligations:

(A) MAINTENANCE OF FINANCIAL RECORDS; INSPECTIONS. Each Company agrees to maintain books and records pertaining to such Company's financial matters in such detail, form and scope as CIT reasonably shall require. The Companies agree that CIT or its agents may enter upon any Company's premises at any time during normal business hours, and from time to time, in order to (i) examine and inspect the books and records of any Company, and make copies thereof and take extracts therefrom, and (ii) verify, inspect and perform physical counts and other valuations of the Collateral and any and all records pertaining thereto. The Companies irrevocably authorize all accountants and third parties to disclose and deliver directly to CIT, at the Companies' expense, all financial statements and information, books, records, work papers and management reports generated by them or in their possession regarding the Companies or the Collateral. All costs, fees and expenses incurred by CIT in connection with such examinations, inspections, physical counts and other valuations shall constitute Out-of-Pocket Expenses for purposes of this Financing Agreement.

(B) FURTHER ASSURANCES. Each Company agrees to comply with the requirements of all state and federal laws in order to grant to CIT valid and perfected first priority security interests in the Collateral, subject only to the Permitted Encumbrances. CIT is hereby authorized by the Companies to file any financing statements, continuations and amendments covering the Collateral without the Companies' signatures in accordance with the provisions of the UCC. The Companies hereby consent to and ratify the filing of any financing statements covering the Collateral by CIT on

or prior to the Closing Date. The Companies agree to do whatever CIT reasonably may request from time to time, by way of (i) filing notices of liens, financing statements, amendments, renewals and continuations thereof, (ii) cooperating with CIT's agents and employees, (iii) keeping Collateral records, (iv) transferring proceeds of Collateral to CIT's possession in accordance with the terms hereof and (v) performing such further acts as CIT reasonably may require in order to effect the purposes of this Financing Agreement, including the execution of control agreements with respect to Depository Accounts and Investment Property.

(C) INSURANCE AND CONDEMNATION.

(I) REQUIRED INSURANCE. The Companies agree to maintain insurance on all Real Estate, Equipment and Inventory under such policies of insurance, with such insurance companies, in such reasonable amounts and covering such insurable risks as are at all times reasonably satisfactory to CIT (the "Required Insurance"). All policies covering the Real Estate, Equipment and Inventory are, subject to the rights of any holder of a Permitted Encumbrance having priority over the security interests of CIT, to be made payable solely to CIT, in case of loss, under a standard non-contributory "mortgagee", "secured party" or "lender's loss payable" clause or endorsement, and are to contain such other provisions as CIT reasonably may require to fully protect CIT's interest in the Real Estate, Inventory and Equipment and to any payments to be made under such

policies. Each loss payable endorsement in favor of CIT shall provide (x) for not less than thirty (30) days prior written notice to CIT of the exercise of any right of cancellation and (y) that CIT's right to payment under any property insurance policy will not be invalidated by any act or neglect of, or any breach of warranty or condition by, the Companies (or any of them) or any other party. If an Event of Default shall have occurred and remain outstanding, CIT, subject to the rights of any holder of a Permitted Encumbrance having priority over the security interests of CIT, shall have the sole right, in the name of CIT or the Companies (or any of them), to file claims under any insurance policies, to receive, receipt and give acquittances for any payments that may be payable thereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies.

(II) CIT'S PURCHASE OF INSURANCE. In the event the Companies fail to provide CIT with evidence of the Required Insurance in the manner set forth in Section 7.2(c)(i) above, CIT may purchase insurance at the Companies' expense to protect CIT's interests in the Collateral. The insurance purchased by CIT may, but need not, protect the Companies' interests in the Collateral, and therefore such insurance may not pay any claim which the Companies may make or any claim which is made against the Companies in connection with the Collateral. The Companies may later request that CIT cancel any insurance purchased by CIT, and CIT shall cancel such insurance as so requested, but only after providing CIT with satisfactory evidence that the Companies have the Required Insurance. If CIT purchases insurance covering all or any portion of the Collateral, the Companies shall be responsible for the costs of such insurance, including interest (at the applicable rate set forth hereunder) and other charges accruing on the purchase price therefor, until the effective date of the cancellation or the expiration of the insurance, and CIT may charge all of such costs, interest and other charges to the Revolving Loan Account. The costs of the premiums of any insurance purchased by CIT may exceed the costs of insurance which the Companies may be able to purchase on their own. In the event that CIT purchases insurance, CIT will notify the Companies of such purchase within thirty (30) days after the date of such purchase. If, within thirty (30) days after

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the date of receipt of such notice, the Companies provides CIT with proof that the Companies had the Required Insurance as of the date on which CIT purchased insurance and the Companies have continued at all times thereafter to have the Required Insurance, then CIT agrees to cancel the insurance purchased by CIT and credit the Revolving Loan Account for the amount of all costs, interest and other charges associated with such insurance that CIT previously charged to the Revolving Loan Account.

(III) APPLICATION OF INSURANCE AND CONDEMNATION PROCEEDS. So long as no Default or Event of Default shall have occurred and remain outstanding as of the date of CIT's receipt of any Casualty Proceeds:

(x) In the event of any loss or damage to any Inventory by condemnation, fire or other casualty, CIT agrees to apply the Casualty Proceeds to repay the outstanding Revolving Loans.

(y) In the event of any loss or damage to any item of Equipment by condemnation, fire or other casualty, the Companies' may elect (by delivering written notice to CIT within ten (10) Business Days following CIT's receipt of such Casualty Proceeds) to replace or repair such item of Equipment. If the Companies elect to replace or repair any item of Equipment, CIT initially shall apply all such Casualty Proceeds to the outstanding Revolving Loans and will establish an Availability Reserve in an amount equal to such Casualty Proceeds. CIT agrees to reduce this Availability Reserve dollar-for-dollar as and when payments then are due under the contract(s) for the purchase of replacement Equipment or the repair of such item of Equipment. Upon the replacement or completion of repair of such item of Equipment, CIT will eliminate any remaining Availability Reserve established hereunder.

(z) In the event of any loss or damage to any Real Estate leased by any Company by condemnation, fire or other casualty, such Company may use the Casualty Proceeds in the manner required or permitted by the lease agreement relating thereto. In the event of any loss or damage to any Real Estate owned by

any Company by condemnation, fire or other casualty, such Company or CIT may use the Casualty Proceeds in the manner required or permitted by the mortgage or deed of trust covering the Real Estate.

If a Default or an Event of Default shall have occurred and remain outstanding as of the date of CIT's receipt of any Casualty Proceeds, or if the Companies do not or cannot elect to use the Casualty Proceeds in the manner set forth in paragraphs (y) or (z) above, CIT may, subject to the rights of any holder of a Permitted Encumbrance having priority over the security interests of CIT, apply the Casualty Proceeds to the payment of the Obligations in such manner and in such order as CIT may elect in its sole discretion.

(D) PAYMENT OF TAXES. The Companies agree to pay when due all Taxes lawfully levied, assessed or imposed upon the Companies or the Collateral (including all sales taxes collected by the Companies on behalf of the Companies' customers in connection with sales of Inventory and all payroll taxes collected by the Companies on behalf of the Companies' employees), unless the Companies are contesting such Taxes in good faith, by appropriate proceedings, and are maintaining adequate reserves for such Taxes in accordance with GAAP. Notwithstanding the foregoing, if a lien securing any Taxes is filed in any public office and such lien is not a Permitted Tax Lien, then the Companies shall pay all Taxes secured by such lien immediately and remove such lien of record

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promptly. Pending the payment of such Taxes and removal of such lien, CIT may, at its election and without curing or waiving any Event of Default which may have occurred as a result thereof, (i) establish an Availability Reserve in the amount of such Taxes (or such lesser amount as CIT shall deem appropriate in the exercise of its reasonable business judgment) or (ii) pay such Taxes on behalf of the Companies, and the amount paid by CIT shall become an Obligation which is due and payable on demand by CIT.

(E) COMPLIANCE WITH LAWS.

(i) The Companies agree to comply with all federal, state and local acts, rules and regulations, and all orders of any federal, state or local legislative, administrative or judicial body or official, if the failure to so comply would have a Material Adverse Effect, provided that the Companies may contest any acts, rules, regulations, orders and directions of such bodies or officials in any reasonable manner which CIT determines, in the exercise of its reasonable business judgment, will not materially and adversely effect CIT's rights or priorities in the Collateral.

(ii) Without limiting the generality of the foregoing, each Company agrees to comply with all environmental statutes, acts, rules, regulations or orders, as presently existing or as adopted or amended in the future, applicable to the ownership and/or use of such Company's real property and operation of its business, if the failure to so comply would have a Material Adverse Effect. No Company shall be deemed to have breached any provision of this Section 7.2(e) if (x) the failure to comply with the requirements of this Section 7.2(e) resulted from good faith error or innocent omission, (y) such Company promptly commences and diligently pursues a cure of such breach and (z) such failure is cured within thirty (30) days following the Companies' receipt of notice from CIT of such failure, or if such breach cannot in good faith be cured within thirty (30) days following the Companies' receipt of such notice, then such breach is cured within a reasonable time frame based on the extent and nature of the breach and the necessary remediation, and in conformity with any applicable consent order, consensual agreement and applicable law.

(F) NOTICES CONCERNING ENVIRONMENTAL, EMPLOYEE BENEFIT AND PENSION MATTERS. The Companies agree to notify CIT in writing of:

(i) any expenditure (actual or anticipated) in excess of \$50,000 for environmental clean-up, environmental compliance or environmental testing and the impact of said expenses on the any Company's working capital;

(ii) any Company's receipt of notice from any local, state or federal authority advising the Companies of any environmental liability (real or potential) arising from such Company's operations, its premises, its waste

disposal practices, or waste disposal sites used by such Company; and

(iii) any Company's receipt of notice from any governmental agency or any sponsor of any "multiemployer plan" (as that term is defined in ERISA) to which such Company has contributed, relating to any of the events described in Section 10.1(h) hereof.

The Companies agree to provide CIT promptly with copies of all such notices and other information pertaining to any matter set forth above if CIT so requests.

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(G) COLLATERAL REPORTING - SEE ANNEX A.

(H) FINANCIAL REPORTING. The Companies agree to furnish to CIT:

(i) within ninety (90) days after the end of each fiscal year of each Company, a Consolidated Balance Sheet and a Consolidating Balance Sheet as at the close of such year, consolidated and consolidating statements of profit and loss and consolidated statement of cash flow of the Companies for such year, audited by independent public accountants selected by the Companies and reasonably satisfactory to CIT, together with (x) the unqualified opinion of the accountants preparing such financial statements and (y) if requested by CIT, such accountants' management practice letter;

(ii) except as provided in Section 7.2(h)(iii), within thirty (30) days after the end of each fiscal month, (x) a Consolidated Balance Sheet and a Consolidating Balance Sheet as at the end of such month, (y) consolidated and consolidating statements of profit and loss and consolidated statement of cash flow of the Companies for such month and for the period commencing on the first day of the current fiscal year through the end of such month, and (z) comparative statements of profit and loss and cash flow of the Companies for the same month and same fiscal year-to-date period in the prior fiscal year, certified by an authorized financial or accounting officer of the Funds Administrator (or any other authorized officer satisfactory to CIT);

(iii) within forty-five (45) days after the end of each fiscal quarter, (x) a Consolidated Balance Sheet and a Consolidating Balance Sheet as at the end of such quarter, (y) consolidated and consolidating statements of profit and loss and consolidated statement of cash flow of the Companies for such quarter and for the period commencing on the first day of the current fiscal year through the end of such quarter, and (z) comparative statements of profit and loss and cash flow of the Companies for the same quarter and same fiscal year-to-date period in the prior fiscal year, certified by an authorized financial or accounting officer of the Funds Administrator (or any other authorized officer satisfactory to CIT);

(iv) as and when filed by each Company, copies of all (x) financial reports, registration statements and other documents filed by such Company with the U.S. Securities and Exchange Commission, as and when filed by such Company, and (ii) annual reports filed pursuant to ERISA in connection with each benefit plan of each Company subject to ERISA; and

(v) no later than the first Business Day of each fiscal year of the Companies, monthly projections of the Companies' Consolidated Balance Sheet and Consolidating Balance Sheet, and consolidated and consolidating statements of profits and loss and quarterly projections of consolidated statement of cash flow of the Companies, as well as monthly projected Net Availability for the Companies for such fiscal year.

Each financial statement which the Companies are required to submit pursuant to clauses (i) and (ii) above must be accompanied by an officer's certificate substantially in the form set forth on Exhibit A attached hereto, signed by an authorized financial or accounting officer of the Funds Administrator (or any other authorized officer satisfactory to CIT). In addition, should the Companies modify their accounting principles and procedures from those in effect on the Closing

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Date, the Companies agree to prepare and deliver to CIT statements of reconciliation in form and substance reasonably satisfactory to CIT.

(I) ASSET APPRAISALS. From time to time upon the request of CIT, the Companies agree to permit CIT to perform appraisals of the Companies' Owned Real Estate, Inventory and Equipment. The Companies agree to reimburse CIT for the costs and expenses relating to (w) one (1) Inventory appraisal in any twelve-month period, so long as no Event of Default shall have occurred and remain outstanding, (x) one (1) Equipment appraisal in any twelve-month period, so long as no Event of Default shall have occurred and remain outstanding, (y) one (1) Real Estate appraisal in any twelve-month period, so long as no Event of Default shall have occurred and remain outstanding, and (z) all such appraisals performed while an Event of Default remains outstanding. All appraisals shall be performed by qualified appraisers selected by CIT. To the extent that the Companies are required by this Section 7.2(i) to reimburse CIT for CIT's costs and expenses relating to appraisals, such costs and expenses shall constitute Out-of-Pocket Expenses.

(J) BUSINESS QUALIFICATION. The Companies agree to qualify to do business, and to remain qualified to do business and in good standing, in each jurisdiction where the failure to so qualify, or to remain qualified or in good standing, would have a Material Adverse Effect.

(K) ANTI-MONEY LAUNDERING AND TERRORISM REGULATIONS. The Companies agree to comply with all applicable anti-money laundering and terrorism laws, regulations and executive orders in effect from time to time (including, without limitation, the USA Patriot Act (Pub. L. No. 107-56)). The Companies also agree to ensure that no person who owns a controlling interest in or otherwise controls the Companies (or any of them) is a person designated under Section 1(b), (c) or (d) of Executive Order No. 13224 (issued September 23, 2001) or any other similar Executive Order. The Companies acknowledge that CIT's performance hereunder is subject to compliance with all such laws, regulations and executive orders, and in furtherance of the foregoing, the Companies agree to provide to CIT all information about the Companies' ownership, officers, directors, customers and business structure as CIT reasonably may require to comply with, such laws, regulations and executive orders.

(L) POST CLOSING MATTERS.

(i) Within ninety (90) days after the Closing Date, the Companies shall provide CIT and the Title Insurance Company a survey of the Owned Real Estate and all improvements thereon, which survey shall be in form and substance reasonably satisfactory to CIT, prepared by an independent licensed land surveyor reasonably satisfactory to CIT and certified to CIT and the Title Insurance Company.

(ii) Within thirty (30) days after the Closing Date, (x) The Companies or CIT shall have established one or more Depository Accounts with respect to the collection of Trade Accounts Receivable and the deposit of proceeds of Collateral, and (y) CIT, the applicable Company and each depository bank shall have entered into a Depository Account Control Agreement with respect to each Depository Account.

(iii) Within thirty (30) days after the Closing Date, the Companies will execute trademark and patent security agreements in form satisfactory to CIT for recordation in the United States Patent

and Trademark Office to evidence CIT's lien in each Company's Patents and Trademarks and will cooperate with CIT to record assignments of such Patents and Trademarks, if necessary, to the Company that owns such Patents and Trademarks or otherwise properly evidence the ownership of such Patents and Trademarks.

(iv) The Company's failure to comply with the requirements of clauses (i)-(iii) of this Section 7.2(l) shall, at CIT's option, constitute an Event of Default.

7.3 FINANCIAL COVENANT.

(A) FIXED CHARGE COVERAGE. Until termination of this Financing Agreement and the full and final payment and satisfaction of all Obligations, but subject to Section 7.3(b), the Companies agree to maintain a Fixed Charge Coverage Ratio, calculated and tested at the end of each fiscal quarter (beginning with the fiscal quarter ended June 30, 2006) based on the period of twelve consecutive months then ended, of not less than 1.75 to 1.0.

(B) FINANCIAL COVENANT INAPPLICABILITY. Until the occurrence of a Financial Covenant Applicability Date, the financial covenant in Section 7.3(a) shall not apply or be tested for any periods described in Section 7.3(a). After the occurrence of a Financial Covenant Applicability Date, and until the occurrence of a Financial Covenant Inapplicability Date, the financial covenant in Section 7.3(a) shall apply and be tested (i) retroactively for the most recently ended period described in Section 7.3(a) and (ii) thereafter for any periods described in Section 7.3(a). To avoid confusion, it is understood and agreed that the occurrence of a Financial Covenant Inapplicability Date shall not result in the waiver or cure of an Event of Default that exists as a result of the testing of a financial covenant prior to such Financial Covenant Inapplicability Date.

7.4 NEGATIVE COVENANTS. Until termination of this Financing Agreement and full and final payment and satisfaction of all Obligations, each Company agrees not to:

(A) LIENS AND ENCUMBRANCES. Mortgage, assign, pledge, transfer or otherwise permit any lien, charge, security interest, encumbrance or judgment (whether as a result of a purchase money or title retention transaction, or other security interest, or otherwise) to exist on any of the Collateral or its other assets, whether now owned or hereafter acquired, except for the Permitted Encumbrances.

(B) INDEBTEDNESS. Incur or create any Indebtedness other than the Permitted Indebtedness.

(C) SALE OF ASSETS. Sell, lease, assign, transfer or otherwise dispose of (i) Collateral, except as otherwise specifically permitted by this Financing Agreement, or (ii) all or any substantial part of its assets, if any, which do not constitute Collateral.

(E) CORPORATE CHANGE. (i) Merge or consolidate with any other entity, (ii) change its name or principal places of business, (iii) change its structure or organizational form, or reincorporate or reorganize in a new jurisdiction, (iv) enter into or engage in any operation or activity materially different from that presently being conducted by such Company; provided that any Company may change its name or its principal place of business so long as the Companies provide the Agent with thirty (30) days prior written notice thereof and the appropriate parties

execute and deliver to CIT, prior to making such change, all documents and agreements required by CIT in order to ensure that the liens and security interests granted to CIT hereunder continue in effect without any break or lapse in perfection.

(F) GUARANTY OBLIGATIONS. Assume, guarantee, endorse, or otherwise become liable upon the obligations of any person, firm, entity or corporation, except pursuant to this Agreement and the other Loan Documents, and by the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business.

(G) DIVIDENDS AND DISTRIBUTIONS. Declare or pay any dividend or distribution of any kind on, or purchase, acquire, redeem or retire, any of its equity interests (of any class or type whatsoever), whether now or hereafter issued and outstanding, other than Permitted Distributions.

(H) INVESTMENTS. (i) Create any new subsidiary, or (ii) make any advance or loan to, or any investment in, any firm, entity, person or corporation other than loans from one Company to another Company, or (iii) acquire all or substantially all of the assets of, or any capital stock or any equity interests in, any firm, entity or corporation, other than current investments of such Company in existing subsidiaries of such entities.

(I) RELATED PARTY TRANSACTIONS. Enter into any transaction, including, without limitation, any purchase, sale, lease, loan or exchange of property, with any shareholder, officer, director, parent (direct or indirect), subsidiary (direct or indirect) or other person or entity otherwise affiliated with the Companies, unless (i) such transaction otherwise complies with the provisions of this Financing Agreement, (ii) such transaction is for the sale of goods or services rendered in the ordinary course of business and pursuant to the reasonable requirements of the Companies and upon standard terms and conditions and fair and reasonable terms, no less favorable to such entity than such entity could obtain in a comparable arms length transaction with an unrelated third party, and (iii) no Event of Default shall have occurred and remain outstanding at the time such transaction occurs, or would occur after giving effect to such transaction.

(J) RESTRICTED PAYMENTS. (i) Make any payment of the principal of, or interest on, any Subordinated Debt, or purchase, acquire or redeem any of the Subordinated Debt, unless (x) such payment, purchase, acquisition or redemption is expressly permitted by the terms of the applicable Subordination Agreement and (y) no Default or Event of Default shall have occurred and remain outstanding on the date on which such payment or transaction occurs, or would occur as a result thereof; or (ii) pay any management, consulting or other similar fees to any shareholder, director (other than fees payable to non-employee directors of CIT for their service in such capacity), parent (direct or indirect), subsidiary (direct or indirect) or other person or entity otherwise affiliated with the Companies.

SECTION 8. INTEREST, FEES AND EXPENSES

8.1 INTEREST. Interest on the outstanding principal balance of the Revolving Loans that are Chase Bank Rate Loans shall be due and payable monthly on the first day of each month and shall accrue at a rate per annum equal to the Applicable Margin plus the Chase Bank Rate on the average net principal balance of such Revolving Loans at the close of each day during the immediately preceding month, as reflected by CIT's System. On each Revolving Loan that is a LIBOR Loan, interest shall be due and payable on the LIBOR Interest Payment Date and shall

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accrue at a rate per annum equal to the Applicable Margin plus the applicable LIBOR on the outstanding principal balance of such LIBOR Loan. In the event of any change in said Chase Bank Rate, the rate set forth in the first sentence of this Section 8.1(a) shall change, effective as of the date of such change, so as to remain equal to the Applicable Margin plus the new Chase Bank Rate. All interest rates shall be calculated based on a 360-day year and actual days elapsed.

8.2 DEFAULT INTEREST RATE. Upon the occurrence of an Event of Default, (a) provided that CIT has given the Companies written notice of such Event of Default (other than an Event of Default described in Section 10.1(c) of this Financing Agreement, for which no written notice shall be required), all Obligations may, at the election of CIT, bear interest at the Default Rate of Interest until such Event of Default is waived, and (b) at CIT's election at any time thereafter, interest on each outstanding LIBOR Loan shall be due and payable on the first day of each month, notwithstanding the Interest Period with respect thereto.

8.3 FEES AND EXPENSES RELATING TO LETTERS OF CREDIT. In consideration of the issuance of any Letter of Credit Guaranty by CIT or other assistance of CIT in obtaining Letters of Credit pursuant to Section 5 hereof, the Company agrees to pay to CIT the Letter of Credit Fees described in Exhibit B attached hereto.

8.4 OUT-OF-POCKET EXPENSES. The Companies agree to reimburse CIT for all Out-of-Pocket Expenses when charged to or paid by CIT.

8.5 REVOLVING LINE OF CREDIT FEE; COLLECTION DAYS. On the first day of each month, commencing on July 1, 2006, (a) the Companies agree to pay to CIT the Revolving Line of Credit Fee, and (b) CIT shall charge the Companies for interest at the rate set forth in Section 8.1 (or Section 8.2, if applicable) hereof on the Collection Days for the immediately preceding month.

8.6 RESERVED.

8.7 ADMINISTRATIVE MANAGEMENT FEE. On the first day of the month following the Closing Date and on the first day of each month thereafter, the Companies agree to pay to CIT the Administrative Management Fee, which shall be fully earned when paid.

8.8 STANDARD OPERATIONAL FEES. In addition to the Administrative Management Fee and all Out-of-Pocket Expenses incurred by CIT in connection with any action taken under Section 7.2(a) hereof (but without duplication), the Companies agree to pay to CIT (a) all Documentation Fees, (b) CIT's standard charges for any employee of CIT used to conduct any of the examinations, verifications, inspections, physical counts and other valuations described in Section 7.2(a) hereof (currently \$1000 per person, per day), and (c) CIT's standard charges for each wire transfer made by CIT to or for the benefit of the Companies (currently \$30) and for Dunn and Bradstreet searches conducted by CIT for any Company's account (currently \$65), provided that such standard charges may be increased by CIT from time to time. Such charges shall be due and payable in accordance with CIT's standard practices, as in effect from time to time.

8.9 LIBOR LOANS.

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(A) CONDITIONS APPLICABLE TO LIBOR LOANS. The Companies may elect to use LIBOR as to any Revolving Loans, convert any Chase Bank Rate Loan to a new LIBOR Loan or continue any existing LIBOR Loan as a new LIBOR Loan on the last day of the Interest Period with respect to such existing LIBOR Loan, so long as:

(i) no Default or Event of Default shall have occurred and remain outstanding on the date on which such new LIBOR Loan is requested and on the first day of the Interest Period for such new LIBOR Loan;

(ii) the Funds Administrator requests the new LIBOR Loan no later than three (3) Business Days preceding the first day of the Interest Period for such new LIBOR Loan (or three (3) Business Days prior to the expiration of any Interest Period, in the case of a continuation of an existing LIBOR Loan);

(iii) if CIT requests written confirmation of any new LIBOR Loan from the Funds Administrator, the Funds Administrator shall have signed and returned to CIT any such confirmation on or prior to the first day of the Interest Period for such new LIBOR Loan; and

(iv) with respect to the Interest Period selected by the Funds Administrator for such new LIBOR Loan, (x) either (1) JPMorgan Chase Bank provides a LIBOR quote for such Interest Period or CIT otherwise determines the LIBOR for such Interest Period, as provided in the definition of LIBOR, or (2) the LIBOR for such Interest Period as quoted by JPMorgan Chase Bank or as determined by CIT adequately and fairly reflects the cost of maintaining or funding CIT's loans bearing interest at LIBOR for such Interest Period, and (y) such Interest Period ends on or before the Termination Date.

Any LIBOR election must be for at least \$3,000,000 and if greater, in integral multiples of \$1,000,000, and there shall be no more than four (4) LIBOR Loans outstanding at one time. Elections for LIBOR Loans shall be irrevocable once made. If any condition for a LIBOR election is not satisfied, then the requested new loan (or continuation of an existing LIBOR Loan) shall be made to the Companies as a Chase Bank Rate Loan.

(B) RESTRICTIONS AFFECTING THE MAKING OR FUNDING OF LIBOR LOANS. Notwithstanding any other provision of this Financing Agreement to the contrary, if any law, regulation, treaty or directive, or any amendment thereto or change in the interpretation or application thereof, shall make it unlawful for CIT to make or maintain any LIBOR Loan, then (x) such LIBOR Loan shall convert automatically to a Chase Bank Rate Loan at the end of the applicable Interest Period, or such earlier date as may be required by such law, regulation, treaty or directive, and (y) the obligation of CIT thereafter to make or continue LIBOR Loans and to convert Chase Bank Rate Loans into LIBOR Loans hereunder shall be suspended until CIT determines that it is no longer unlawful to make and maintain LIBOR Loans as contemplated herein. In addition, in the event that, by reason of any Regulatory Change, CIT either (x) incurs any material additional

costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of CIT which includes deposits by reference to which the interest rate on LIBOR Loans is determined hereunder, or a category of extensions of credit or other assets of CIT which includes LIBOR Loans, or (y) becomes subject to any material restrictions on the amount of such a category of liabilities or assets which CIT may hold, then if CIT so elects by notice to the Companies, the obligation of CIT

thereafter to make or continue LIBOR Loans and to convert Chase Bank Rate Loans into LIBOR Loans hereunder shall be suspended until such Regulatory Change ceases to be in effect.

(C) INABILITY TO DETERMINE LIBOR. Notwithstanding any other provision of this Financing Agreement to the contrary, if CIT determines in the exercise of its reasonable business judgment (which determination shall be conclusive and binding upon each Company) that by reason of circumstances affecting the interbank LIBOR market, adequate and reasonable means do not exist for ascertaining LIBOR applicable to an Interest Period with respect to any election of a new LIBOR Loan, CIT shall give written notice of such determination to the Companies prior to the effective date of such election. Upon receipt of such notice, the Funds Administrator may cancel the Funds Administrator's request for such new LIBOR Loan, in which case the requested LIBOR Loan shall be made as a Chase Bank Rate Loan. Until such notice has been withdrawn by CIT, the obligation of CIT thereafter to make or continue LIBOR Loans and to convert Chase Bank Rate Loans into LIBOR Loans hereunder shall be suspended until CIT determines, in its reasonable business judgment, that adequate and reasonable means again exist for ascertaining LIBOR applicable to an Interest Period with respect to any election of a new LIBOR Loan.

(D) COMPENSATION FOR COSTS. The Companies hereby agree to pay to CIT, on demand, any additional amounts necessary to compensate CIT for any costs incurred by CIT in making any conversions from LIBOR Loans to Chase Bank Rate Loans in accordance with this Section 8.9, including, without limitation, breakage costs provided for in Section 8.10 of this Financing Agreement.

(E) LOAN PARTICIPANTS. For purposes of this Section 8.9, the term "CIT" shall include any financial institution that purchases from CIT a participation in the loans made by CIT to the Companies hereunder.

8.10 LIBOR BREAKAGE COSTS AND FEES. In the event that the Companies (i) pay all or any part of the principal amount of a LIBOR Loan on a date prior to the last day of an Interest Period for such LIBOR Loan, (ii) fail to borrow a LIBOR Loan, or fail to convert a Chase Bank Rate Loan to a LIBOR Loan, on the date for such borrowing or conversion specified in the relevant request to CIT, or (iii) fail to pay to CIT the principal of, or interest on, any LIBOR Loan when due, the Companies agree to pay to CIT (and any financial institution that purchases from CIT a participation in the loans made by CIT to the Companies hereunder), on demand, the greater of (x) \$500, (y) such amount as shall compensate CIT and such financial institution for any actual loss, cost or expense that CIT or such financial institution may sustain or incur as a result of such event (including, without limitation, any interest or fees payable by CIT or such financial institution to lenders or depositors of funds obtained by CIT or such financial institution in order to make or maintain any LIBOR Loans under this Financing Agreement), and (z) in the case of a prepayment of any LIBOR Loan, the excess (if any) of the amount of interest that would have accrued on such loan from the first day of the Interest Period to the date of prepayment, assuming that such loan was a Chase Bank Rate Loan, over the amount of interest that actually accrued on such loan from the first day of the Interest Period to the date of prepayment. The determination by CIT of the amount of any such loss, cost or expense described in clause (y) of the preceding sentence, when set forth in a written notice to the Companies containing CIT's calculations thereof in reasonable detail, shall be conclusive and binding upon each Company, in the absence of manifest error.

8.11 EARLY TERMINATION FEE. In the event the Companies terminate the

Revolving Line of Credit or this Financing Agreement on an Early Termination Date, the Early Termination Fee, if any, shall be due and payable in full on the date of termination.

8.12 CAPITAL ADEQUACY. In the event that CIT (or any financial institution that purchases from CIT a participation in the loans made by CIT to the Companies hereunder), subsequent to the Closing Date, determines in the exercise of its reasonable business judgment that (x) any change in applicable law, rule, regulation or guideline regarding capital adequacy, or (y) any change in the interpretation or administration thereof, or (z) compliance by CIT or such financial institution with any new request or directive regarding capital adequacy (whether or not having the force of law) of any central bank or other governmental or regulatory authority, has or would have the effect of reducing the rate of return on CIT's or such financial institution's capital as a consequence of its obligations hereunder to a level below that which CIT or such financial institution could have achieved but for such change or compliance (taking into consideration CIT's or such financial institution's policies with respect to capital adequacy) by an amount deemed material by CIT or such financial institution in the exercise of its reasonable business judgment, the Companies agree to pay to CIT, no later than five (5) days following demand by CIT, such additional amount or amounts as will compensate CIT or such financial institution for such reduction in rate of return. In determining such amount or amounts, CIT and such financial institution may use any reasonable averaging or attribution methods. The protection of this Section 8.12 shall be available to CIT and such financial institution regardless of any possible contention of invalidity or inapplicability with respect to the applicable law, regulation or condition. A certificate of CIT or such financial institution setting forth such amount or amounts as shall be necessary to compensate CIT or such financial institution with respect to this Section 8.12 and the calculation thereof, when delivered to the Companies, shall be conclusive and binding on each Company absent manifest error. In the event CIT or such financial institution exercises its rights pursuant to this Section 8.12, and subsequent thereto determines that the amounts paid by the Companies exceeded the amount which CIT or such financial institution actually required to compensate CIT or such financial institution for any reduction in rate of return on its capital, such excess shall be returned to the Companies by CIT or such financial institution, as the case may be.

8.13. TAXES, RESERVES AND OTHER CONDITIONS. In the event that any applicable law, treaty or governmental regulation, or any change therein or in the interpretation or application thereof, or compliance by CIT (or by any financial institution that purchases from CIT a participation in the loans made by CIT to the Companies hereunder) with any new request or directive (whether or not having the force of law) of any central bank or other governmental or regulatory authority, shall:

(a) subject CIT or such financial institution to any tax of any kind whatsoever with respect to this Financing Agreement or the other Loan Documents, or change the basis of taxation of payments to CIT or such financial institution of principal, fees, interest or any other amount payable hereunder or under any of the other Loan Documents (except for changes in the rate of tax on the overall net income of CIT or such financial institution by the federal government or other jurisdiction in which it maintains its principal office);

(b) impose, modify or hold applicable any reserve, special deposit, assessment or similar requirement against assets held by, or deposits in or for the account of, advances or loans by, or other credit extended by CIT or such financial institution by reason of or in respect to this Financing

Agreement and the Loan Documents, including (without limitation) pursuant to Regulation D of the Board of Governors of the Federal Reserve System; or

(c) impose on CIT or such financial institution any other condition with respect to this Financing Agreement or any other document;

and the result of any of the foregoing is to (i) increase the cost to CIT of making, renewing or maintaining CIT's loans hereunder (or the cost to such financial institution in participating in such loans) by an amount deemed material by CIT or such financial institution in the exercise of its reasonable

business judgment, or (ii) reduce the amount of any payment (whether of principal, interest or otherwise) in respect of any of the loans made hereunder by an amount that CIT or such financial institution deems to be material in the exercise of its reasonable business judgment, the Companies agree to pay to CIT, no later than five (5) days following demand by CIT, such additional amount or amounts as will compensate CIT or such financial institution for such increase in cost or reduction in payment, as the case may be. A certificate of CIT or such financial institution setting forth such amount or amounts as shall be necessary to compensate CIT or such financial institution with respect to this Section 8.13 and the calculation thereof, when delivered to the Companies, shall be conclusive and binding on the Companies absent manifest error. In the event CIT or such financial institution exercises its rights pursuant to this Section 8.13, and subsequent thereto determines that the amounts paid by the Companies in whole or in part exceeded the amount which CIT or such financial institution actually required to compensate CIT or such financial institution for any increase in cost or reduction in payment, such excess shall be returned to the Companies by CIT or such financial institution, as the case may be.

8.14 AUTHORITY TO CHARGE REVOLVING LOAN ACCOUNT. The Companies hereby authorize CIT to charge the Revolving Loan Account with the amount of all payments due under this Section 8 as such payments become due. Any amount charged to the Revolving Loan Account shall be deemed a Chase Bank Rate Loan hereunder and shall bear interest at the rate provided in Section 8.1 (or Section 8.2, if applicable) of this Financing Agreement. The Companies confirm that any charges which CIT may make to the Revolving Loan Account as provided herein will be made as an accommodation to the Companies and solely at CIT's discretion.

SECTION 9. POWERS

9.1 AUTHORITY. The Companies hereby authorize CIT, or any person or agent which CIT may designate, at the Companies' cost and expense, to exercise all of the following powers, which authority shall be irrevocable until the termination of this Financing Agreement and the full and final payment and satisfaction of the Obligations:

(a) To receive, take, endorse, sign, assign and deliver, all in the name of CIT or the Companies (or any of them), any and all checks, notes, drafts, and other documents or instruments relating to the Collateral;

(b) To receive, open and dispose of all mail addressed to the Companies (or any of them), and to notify postal authorities to change the address for delivery thereof to such address as CIT may designate;

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(c) To request from customers indebted on Accounts at any time, in the name of CIT, information concerning the amounts owing on the Accounts;

(d) To request from customers indebted on Accounts at any time, in the name of the Companies (or any of them), any certified public accountant designated by CIT or any other designee of CIT, information concerning the amounts owing on the Accounts;

(e) To transmit to customers indebted on Accounts notice of CIT's interest therein and to notify customers indebted on Accounts to make payment directly to CIT for the Companies' account; and

(f) To take or bring, in the name of CIT or the Companies (or any of them), all steps, actions, suits or proceedings deemed by CIT necessary or desirable to enforce or effect collection of the Accounts.

9.2 LIMITATIONS ON EXERCISE. Notwithstanding any other provision of this Financing Agreement to the contrary, the powers set forth in Sections 9.1(b), (c), (e) and (f) may only be exercised if an Event of Default shall have occurred and remain outstanding.

SECTION 10. EVENTS OF DEFAULT AND REMEDIES

10.1 EVENTS OF DEFAULT. Each of the following events shall constitute an "Event of Default" under this Agreement:

(a) the cessation of the business of any Company or the calling of a meeting of the creditors of any Company for purposes of compromising its debts and obligations;

(b) the failure of any Company to generally meet its debts as those debts mature;

(c) (i) the commencement by any Company of any bankruptcy, insolvency, arrangement, reorganization, receivership, assignment for the benefit of creditors or similar proceedings under any federal or state law; or (ii) the commencement against any Company of any bankruptcy, insolvency, arrangement, reorganization, receivership, assignment for the benefit of creditors or similar proceeding under any federal or state law by creditors of any of them, but only if such proceeding is not contested by such Company within ten (10) days and not dismissed or vacated within sixty (60) days of commencement, or any of the actions or relief sought in any such proceeding shall occur or be authorized by such Company;

(d) Any representation, warranty or other statement made or furnished to CIT by or on behalf of any Company in this Financing Agreement, any other Loan Document or any certificate or financial statement furnished in compliance with or in reference thereto proves to have been false or misleading in any material respect when made or furnished or when reaffirmed pursuant to Section 3.1(c) above;

(e) the breach or violation by any Company of any covenant contained in this Financing Agreement (other than those referred to in Section 10.1(f) below), provided that such breach or violation shall not be deemed to be an Event of Default unless such Company fails to cure such

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breach or violation to CIT's reasonable satisfaction within ten (10) Business Days from the earlier of (i) the date CIT provides the Funds Administrator notice of such breach or violation or (ii) any officer of the Companies becomes aware of such breach or violation;

(f) the breach or violation by any Company of any covenant contained in Sections 3.2, 6.3, 6.5, 6.6(b), 7.2(c), 7.2(d), 7.2(g)(i), 7.3 and 7.4;

(g) the failure of the Companies to pay any of the Obligations within five (5) Business Days of the due date thereof, provided that nothing contained herein shall prohibit CIT from charging such amounts to the Revolving Loan Account on the due date thereof;

(h) any Company shall (i) engage in any "prohibited transaction" as defined in ERISA, (ii) incur any "accumulated funding deficiency" as defined in ERISA, (iii) incur any "reportable event" as defined in ERISA, (iv) terminate any "plan", as defined in ERISA or (v) become involved in any proceeding in which the Pension Benefit Guaranty Corporation shall seek appointment, or is appointed, as trustee or administrator of any "plan", as defined in ERISA, and with respect this Section 10.1(h), such event or condition (x) remains uncured for a period of thirty (30) days from date of occurrence and (y) such event or condition is reasonably likely to subject any Company to any tax, penalty or other liability having a Material Adverse Effect;

(i) the occurrence of any default or event of default (after giving effect to any applicable grace or cure period) under any of the other Loan Documents, or any of the other Loan Documents ceases to be valid, binding and enforceable in accordance with its terms;

(j) the occurrence of any default or event of default (after giving effect to any applicable grace or cure period) under any instrument or agreement evidencing or governing (i) the Subordinated Debt or (ii) other Indebtedness of the Companies (or any of them) having a principal amount in excess of \$100,000;

(k) the Companies (or any of them) shall modify the terms or provisions of any agreement, instrument or other document relating to any Subordinated Debt without CIT's prior written consent, unless such modification is permitted by the applicable Subordination Agreement;

(l) a Change of Control shall occur;

(m) a final judgment for the payment of money in excess of \$250,000 shall be rendered against the Companies (or any one of them) (other than a judgment as to which a financially sound and reputable insurance company has acknowledged coverage of such claim in writing), and either (i) within thirty (30) days after the entry of such judgment, shall not have been discharged or stayed pending appeal (or if stayed pending appeal, shall not have been discharged within thirty (30) days after the entry of a final order of affirmance on appeal), or (ii) enforcement proceedings shall be commenced by any holder of such judgment; or

(n) any Company receiving a "going concern" opinion from the Companies' auditors.

10.2 REMEDIES WITH RESPECT TO OUTSTANDING LOANS. Upon the occurrence of a Default or an Event of Default, at the option of CIT, all loans, advances and extensions of credit provided for

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in Sections 3 and 5 of this Financing Agreement thereafter shall be made in CIT's sole discretion, and the obligation of CIT to make Revolving Loans and to assist the Companies in opening Letters of Credit, shall cease unless such Default is cured to CIT's satisfaction or such Event of Default is waived in accordance herewith. In addition, upon the occurrence of an Event of Default, CIT may, at its option (a) declare all Obligations immediately due and payable, (b) charge the Companies the Default Rate of Interest on all then outstanding or thereafter incurred Obligations in lieu of the interest provided for in Sections 8.1 of this Financing Agreement, provided that CIT has given the Companies written notice of such Event of Default if required by Section 8.2, and (c) immediately terminate this Financing Agreement and the Factoring Agreements upon notice to the Companies. Notwithstanding the foregoing, (x) CIT's commitment to make loans, advances and extensions of credit provided for in Sections 3 and 5 of this Financing Agreement automatically shall terminate without any declaration, notice or demand by CIT upon the commencement of any proceeding described in clause (ii) of Section 10.1(c), and (y) this Financing Agreement and the Factoring Agreements automatically shall terminate and all Obligations shall become due and payable immediately without any declaration, notice or demand by CIT, upon the commencement of any proceeding described in clause (i) of Section 10.1(c) or the occurrence of an Event of Default described in clause (ii) of Section 10.1(c). The exercise of any option is not exclusive of any other option that may be exercised at any time by CIT.

10.3 REMEDIES WITH RESPECT TO COLLATERAL. Immediately after the occurrence of an Event of Default, CIT may, at its option, to the extent permitted by applicable law: (a) remove from any premises where same may be located any and all books and records, computers, electronic media and software programs associated with any Collateral (including electronic records, contracts and signatures pertaining thereto), documents, instruments and files, and any receptacles or cabinets containing same, relating to the Accounts, and CIT may use, at the Companies' expense, such of the Companies' personnel, supplies or space at any Company's place of business or otherwise, as may be necessary to properly administer and control the Accounts or the handling of collections and realizations thereon; (b) bring suit, in the name of the Companies (or any of them) or CIT, and generally shall have all other rights respecting the Accounts, including, without limitation, the right to (i) accelerate or extend the time of payment, (ii) settle, compromise, release in whole or in part any amounts owing on any Accounts and (iii) issue credits in the name of the Companies (or any of them) or CIT; (c) sell, assign and deliver the Collateral and any returned, reclaimed or repossessed merchandise, with or without advertisement, at public or private sale, for cash, on credit or otherwise, at CIT's sole option and discretion, and CIT may bid or become a purchaser at any such sale, free from any right of redemption, which right is hereby expressly waived by the Companies; (d) foreclose CIT's security interests in the Collateral by any available judicial procedure, or take possession of any or all of the Collateral without judicial process, and to enter any premises where any Collateral may be located for the purpose of taking possession of or removing the same; and (e) exercise any other rights and remedies provided in law, in equity, by contract or otherwise. CIT shall have the right, without notice or advertisement, to

sell, lease, or otherwise dispose of all or any part of the Collateral whether in its then condition or after further preparation or processing, in the name of the Companies (or any of them) or CIT, or in the name of such other party as CIT may designate, either at public or private sale or at any broker's board, in lots or in bulk, for cash or for credit, with or without warranties or representations (including, without limitation, warranties of title, possession, quiet enjoyment and the like), and upon such other terms and conditions as CIT in its sole discretion may deem advisable, and CIT shall have the right to purchase at any such sale. If any Inventory and Equipment shall require rebuilding, repairing, maintenance or preparation, CIT

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shall have the right, at its option, to do such of the aforesaid as is necessary, for the purpose of putting the Inventory and Equipment in such saleable form as CIT shall deem appropriate. The Companies agree, at the request of CIT, to assemble the Inventory and Equipment, and to make it available to CIT at premises of the Companies or elsewhere and to make available to CIT the premises and facilities of the Companies for the purpose of CIT's taking possession of, removing or putting the Inventory and Equipment in saleable form. If notice of intended disposition of any Collateral is required by law, it is agreed that ten (10) days notice shall constitute reasonable notification and full compliance with the law. The net cash proceeds resulting from CIT's exercise of any of the foregoing rights (after deducting all Out-of-Pocket Expenses relating thereto) shall be applied by CIT to the payment of the Obligations, whether due or to become due, in such order as CIT may elect, and the Companies shall remain liable to CIT for any deficiencies, and CIT in turn agrees to remit to the Companies or their successors or assigns, any surplus resulting therefrom. The enumeration of the foregoing rights is not intended to be exhaustive and the exercise of any right shall not preclude the exercise of any other right of CIT under applicable law or the other Loan Documents, all of which shall be cumulative.

10.4 GENERAL INDEMNITY. In addition to the Companies' agreement to reimburse CIT for Out-of-Pocket Expenses, but without duplication, the Companies hereby agree to indemnify CIT and its officers, directors, employees, attorneys and agents (each, an "Indemnified Party") from, and to defend and hold each Indemnified Party harmless against, any and all losses, liabilities, obligations, claims, actions, judgments, suits, damages, penalties, costs, fees, expenses (including reasonable attorney's fees) of any kind or nature which at any time may be imposed on, incurred by, or asserted against, any Indemnified Party:

(a) as a result of CIT's exercise of (or failure to exercise) any of CIT's rights and remedies hereunder, including, without limitation, (i) any sale or transfer of the Collateral, (ii) the preservation, repair, maintenance, preparation for sale or securing of any Collateral, and (iii) the defense of CIT's interests in the Collateral (including the defense of claims brought by the Companies (or any of them) as a debtor-in-possession or otherwise, any secured or unsecured creditors of the Companies (or any of them), or any trustee or receiver in bankruptcy);

(b) as a result of any environmental pollution, hazardous material or environmental clean-up relating to the Real Estate, the Companies' operation and use of the Real Estate, and the Companies' off-site disposal practices;

(c) arising from or relating to (i) the maintenance and operation of any Depository Account, (ii) any Depository Account Control Agreements and (iii) any action taken (or failure to act) by any Indemnified Party with respect thereto;

(d) in connection with any regulatory investigation or proceeding by any regulatory authority or agency having jurisdiction over the Companies (or any of them); and

(e) otherwise relating to or arising out of the transactions contemplated by this Financing Agreement and the other Loan Documents, or any action taken (or failure to act) by any Indemnified Party with respect thereto;

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provided that an Indemnified Party's conduct in connection with the any of the foregoing matters does not constitute bad faith, gross negligence or willful misconduct, as finally determined by a court of competent jurisdiction. This indemnification shall survive the termination of this Financing Agreement and the payment and satisfaction of the Obligations. CIT may from time to time establish Availability Reserves with respect to this indemnity as CIT may deem advisable in the exercise of its reasonable business judgment and which are customary either in the commercial finance industry or in the lending practices of CIT, and upon termination of this Financing Agreement, CIT may hold such reserves as cash reserves as security for this indemnity.

SECTION 11. TERMINATION

Unless previously terminated as provided in this Section 11, this Financing Agreement shall terminate on the Termination Date. CIT may terminate this Financing Agreement and the Revolving Line of Credit only as provided in Section 10.2 hereof. The Companies, or any one of them, may terminate this Financing Agreement at any time prior to the Termination Date upon thirty (30) days prior written notice to CIT, provided that the Companies pays to CIT any Early Termination Fee due and payable hereunder on the date of termination. A termination by one Company shall be deemed to be a termination by all Companies, and termination of this financing Agreement shall be deemed to be termination of the Factoring Agreements. All Obligations shall become due and payable in full on the Termination Date or, if earlier, the date of any termination hereunder and, pending a final accounting of the Obligations, CIT may withhold any credit balances in the Revolving Loan Account (unless supplied with an indemnity satisfactory to CIT) as a cash reserve to cover any contingent Obligation then outstanding, including, but not limited to, an amount equal to 110% of the face amount of any outstanding Letters of Credit. All of CIT's rights, liens and security interests granted pursuant to the Loan Documents shall continue after any termination of this Financing Agreement until all Obligations have been fully and finally paid and satisfied.

SECTION 12. MISCELLANEOUS

12.1 WAIVERS. The Companies hereby waive diligence, demand, presentment, protest and any notices thereof as well as notices of nonpayment, intent to accelerate and acceleration. No waiver of an Event of Default by CIT shall be effective unless such waiver is in writing and signed by CIT. No delay or failure of CIT to exercise any right or remedy hereunder, whether before or after the happening of any Event of Default, shall impair any such right or remedy, or shall operate as a waiver of such right or remedy, or as a waiver of such Event of Default. A waiver on any occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion. No single or partial exercise by CIT of any right or remedy precludes any other or further exercise thereof, or precludes any other right or remedy.

12.2 ENTIRE AGREEMENT; AMENDMENTS. This Financing Agreement and the other Loan Documents: (a) constitute the entire agreement between the Companies and CIT; (b) supersede any prior agreements; (c) may be amended only by a writing signed by the Companies and CIT; and (d) shall bind and benefit the Companies and CIT and their respective successors and assigns. Should the provisions of any other Loan Document conflict with the provisions of this Financing Agreement, the provisions of this Financing Agreement shall apply and govern.

12.3 USURY LIMIT. In no event shall the Companies, upon demand by CIT for payment of any indebtedness relating hereto, by acceleration of the maturity thereof, or otherwise, be obligated to pay interest and fees in excess of the amount permitted by law. Regardless of any provision herein or in any agreement made in connection herewith, CIT shall never be entitled to receive, charge or apply, as interest on any indebtedness relating hereto, any amount in excess of the maximum amount of interest permissible under applicable law. If CIT ever receives, collects or applies any such excess, it shall be deemed a partial repayment of principal and treated as such. If as a result, the entire principal amount of the Obligations is paid in full, any remaining excess shall be refunded to the Companies. This Section 12.3 shall control every other provision of the Financing Agreement, the other Loan Documents and any other agreement made in connection herewith.

12.4 SEVERABILITY. If any provision hereof or of any other Loan Document is held to be illegal or unenforceable, such provision shall be fully severable, and the remaining provisions of the applicable agreement shall remain in full force and effect and shall not be affected by such provision's severance. Furthermore, in lieu of any such provision, there shall be added automatically as a part of the applicable agreement a legal and enforceable provision as similar in terms to the severed provision as may be possible.

12.5 WAIVER OF JURY TRIAL; SERVICE OF PROCESS. EACH COMPANY AND CIT EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREUNDER. EACH COMPANY HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE OF PROCESS BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED. IN NO EVENT WILL CIT BE LIABLE FOR LOST PROFITS OR OTHER SPECIAL OR CONSEQUENTIAL DAMAGES.

12.6 NOTICES. Except as otherwise herein provided, any notice or other communication required hereunder shall be in writing (messages sent by e-mail or other electronic transmission (other than by telecopier) shall not constitute a writing, however any signature on a document or other writing that is transmitted by e-mail or telecopier shall constitute a valid signature for purposes hereof), and shall be deemed to have been validly served, given or delivered when received by the recipient if hand delivered, sent by commercial overnight courier or sent by facsimile, or three (3) Business Days after deposit in the United States mail, with proper first class postage prepaid and addressed to the party to be notified as follows:

(a) if to CIT, at:

The CIT Group/Commercial Services, Inc.
Two Wachovia Center, Suite 2500
301 South Tryon Street
Charlotte, North Carolina 28202
Attn: Regional Credit Manager
Telecopier No.: (704) 339-2910;

with a copy to:

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Hunton & Williams LLP
Bank of America Plaza, Suite 3500
101 South Tryon Street
Charlotte, North Carolina 28280
Attn: Haywood A. Barnes, Esq.
Telecopier No.: (704) 378-4890;

(b) if to the Companies at:

Physical Address:

Crown Crafts, Inc.
916 South Burnside Avenue
Gonzales, Louisiana 70737
Attn: Mr. E. Randall Chestnut
Telecopier No.: (225) 647-9112;

Mailing Address:

Crown Crafts, Inc.
P.O. Box 1028
Gonzales, Louisiana 70707-1028
Attn: Mr. E. Randall Chestnut
Telecopier No.: (225) 647-9112

with a copy to:

Rogers & Hardin LLP
229 Peachtree Street NE
2700 International Tower

Atlanta, Georgia 30303
Attn: Steven E. Fox, Esq.
Telecopier No.: (404) 525-2224; or

- (c) to such other address as any party may designate for itself by like notice.

12.7 JOINT AND SEVERAL LIABILITY.

(A) JOINT AND SEVERAL LIABILITY. All Revolving Loans made to the Companies shall be deemed jointly funded to, and received by, each Company. Each Company jointly and severally agrees to pay, and shall be jointly and severally liable for the payment and performance of, all Obligations. Each Company acknowledges and agrees that the joint and several liability of the Companies is provided as an inducement to CIT to provide loans and other financial accommodations to the Companies, and that each such loan or other financial accommodation shall be deemed to have been done or extended by CIT in consideration of, and in reliance upon, the joint and several liability of the Companies. The joint and several liability of each Company hereunder is absolute, unconditional and continuing, regardless of the validity or enforceability of any of the

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Obligations, or the fact that a security interest or lien in any Collateral may not be enforceable or subject to equities or defenses or prior claims in favor of others, or may be invalid or defective in any way and for any reason. Each Company hereby waives: (i) all notices to which such Company may be entitled as a co-obligor with respect to the Obligations, including, without limitation, notice of (x) acceptance of this Financing Agreement, (y) the making of loans or other financial accommodations under this Financing Agreement, or the creation or existence of the Obligations, and (z) presentment, demand, protest, notice of protest and notice of non-payment; and (ii) all defenses based on (w) any modification (or series of modifications) of this Financing Agreement or the other Loan Documents that may create a substituted contract, or that may fundamentally alter the risks imposed on such Company hereunder, (x) the release of any other Company from its duties under this Financing Agreement or the other Loan Documents, or the extension of the time of performance of any other Company's duties hereunder or thereunder, (y) the taking, releasing, impairment or abandonment of any Collateral, or the settlement, release or compromise of the Obligations or any other Company's liabilities with respect to all or any portion of the Obligations, or (z) any other act (or any failure to act) that fundamentally alters the risks imposed on such Company by virtue of its joint and several liability hereunder. It is the intent of each Company by this paragraph to waive any and all suretyship defenses available to such Company with respect to the Obligations, whether or not specifically enumerated above.

(B) SUBROGATION AND CONTRIBUTION RIGHTS. Each Company hereby agrees that until the full and final payment and satisfaction of the Obligations and the termination of this Financing Agreement, such Company will not exercise any subrogation, contribution or other right or remedy against any other Company or any security for any of the Obligations arising by reason of such Company's performance or satisfaction of its joint and several liability hereunder. In addition, each Company agrees that (i) such Company's right to receive any payment of amounts due with respect to such subrogation, contribution or other rights is subordinated to the full and final payment and satisfaction of the Obligations, and (ii) such Company agrees not to demand, sue for or otherwise attempt to collect any such payment until the full and final payment and satisfaction of the Obligations and the termination of this Financing Agreement.

(C) LIMITATION OF JOINT AND SEVERAL LIABILITY. Notwithstanding any provisions of this Financing Agreement to the contrary, it is the intent of the parties hereto that the joint and several nature of the liabilities of the Companies, and the security interests granted by the Companies to secure the Obligations, not constitute a fraudulent conveyance under Section 548 of Chapter 11 of Title II of the United States Code (11 U.S.C. Section 101, et seq.), as amended, or a fraudulent conveyance or fraudulent transfer under the applicable provisions of any fraudulent conveyance, fraudulent transfer or similar law of any state, nation or other governmental unit, as in effect from time to time. Accordingly, CIT and the Companies agree that if the obligations and liabilities of any Company hereunder, or any security interests granted by such Company securing the Obligations would, but for the application of this sentence,

constitute a fraudulent conveyance or fraudulent transfer under applicable law, the obligations and liabilities of such Company hereunder, as well as the security interests securing such obligations and liabilities, shall be valid and enforceable only to the maximum extent that would not cause such obligations, liabilities or security interests to constitute a fraudulent conveyance or fraudulent transfer under applicable law.

(D) SUBORDINATION. Each Company hereby subordinates any claims, including any right of payment, subrogation, contribution and indemnity, that it may have from or against any other

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Company, and any successor or assign of any other Company, including any trustee, receiver or debtor-in-possession, howsoever arising, due or owing or whether heretofore, now or hereafter existing, to the payment in full of all of the Obligations. Notwithstanding the immediately preceding sentence to the contrary, for so long as no Event of Default exists, each Company may pay to each other Company loans and advances made to such Company in the ordinary course of such Companies' business.

12.8 CHOICE OF LAW. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS FINANCING AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT THAT ANY OTHER LOAN DOCUMENT INCLUDES AN EXPRESS ELECTION TO BE GOVERNED BY THE LAWS OF ANOTHER JURISDICTION.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have caused this Financing Agreement to be executed, accepted and delivered by their proper and duly authorized officers as of the date set forth above.

THE COMPANIES: CIT:

CROWN CRAFTS, INC., as a Company and the Funds Administrator THE CIT GROUP/COMMERCIAL SERVICES, INC.

| | |
|-----------------------------|----------------------------|
| By: /s/ E. Randall Chestnut | By: /s/ William Johanessen |
| ----- | ----- |
| E. Randall Chestnut | William Johanessen |
| President and CEO | Senior Vice President |

CHURCHILL WEAVERS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut

Vice President

HAMCO, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut

President and CEO

CROWN CRAFTS INFANT PRODUCTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
Vice President

EXHIBIT 10.2

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (this "Pledge Agreement") is entered into as of July 11, 2005 among CROWN CRAFTS, INC., a Delaware corporation (the "Company"), the subsidiaries of the Company identified on the signature pages hereto and such other subsidiaries of the Company as may from time to time become party hereto (the "Subsidiary Borrowers") (hereinafter, the Company and the Subsidiary Borrowers are collectively referred to as the "Pledgors" and, individually, as a "Pledgor") and THE CIT GROUP/COMMERCIAL SERVICES, INC. (the "Lender").

RECITALS

WHEREAS, pursuant to that certain Financing Agreement dated as of the date hereof (as amended, modified, extended, renewed or replaced from time to time, the "Financing Agreement"), among the Company, the Subsidiary Borrowers and the Lender, the Lender has agreed to make Revolving Loans and to cause Letters of Credit to be issued upon the terms and subject to the conditions set forth therein; and

WHEREAS, it is a condition precedent to the effectiveness of the Financing Agreement and the obligations of the Lender to make the Revolving Loans and cause Letters of Credit to be issued under the Financing Agreement that the Pledgors shall have executed and delivered this Pledge Agreement in favor of the Lender.

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. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to such terms in the Financing Agreement.

2. Pledge and Grant of Security Interest. To secure the prompt payment and performance in full when due, whether by lapse of time or otherwise, of the Pledgor Obligations (as defined in Section 3 hereof), each Pledgor hereby pledges and assigns to the Lender, and grants to the Lender, a continuing security interest in any and all right, title and interest of such Pledgor in and to the following, whether now owned or existing or owned, acquired, or arising hereafter (collectively, the "Pledged Collateral"):

(a) Pledged Capital Stock. (i) 100% of the issued and outstanding capital stock of each domestic subsidiary set forth on Schedule 2(a) attached hereto and (ii) 65% of the issued and outstanding capital stock entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) ("Voting Equity") and 100% of the issued and outstanding capital stock not entitled to vote (within the meaning of Treas. Reg. Section 1.956-2(c)(2)) ("Non-Voting Equity") of each foreign subsidiary set forth on Schedule 2(a) attached hereto, in each case together with the certificates (or other agreements or instruments), if any, representing such capital stock, and all options and other rights, contractual or otherwise, with respect thereto (collectively, together with the capital stock described in Section 2(b) and 2(c) below, the "Pledged Capital Stock"), including, but not limited to, the following:

(y) subject to the percentage restrictions described above, all shares, securities, membership interests or other equity interests representing a dividend on any of the Pledged Capital Stock, or representing a distribution or return of capital upon or in respect of the Pledged Capital Stock, or resulting from a stock split, revision, reclassification or other exchange therefor, and any subscriptions, warrants, rights or options issued to the holder of, or otherwise in respect of, the Pledged Capital Stock; and

(z) without affecting the obligations of the Pledgors under any provision prohibiting such action hereunder or under the Financing Agreement, in the event of any consolidation or merger involving the issuer of any Pledged Capital Stock and in which such

issuer is not the surviving entity, all shares (or other interests) of each class of the capital stock of the successor entity formed by or resulting from such consolidation or merger.

(b) Additional Interests. (i) 100% (or, if less, the full amount owned by such Pledgor) of the issued and outstanding capital stock of any Person which hereafter becomes a domestic subsidiary and (ii) 65% (or, if less, the full amount owned by such Pledgor) of the Voting Equity and 100% (or, if less, the full amount owned by such Pledgor) of the Non-Voting Equity of any Person which hereafter becomes a foreign subsidiary, in each case together with the certificates (or other agreements or instruments), if any, representing such capital stock.

(c) Other Equity Interests. Subject to the percentage restrictions described above, any and all other capital stock owned by any Pledgor in any domestic subsidiary or any foreign subsidiary.

(d) Proceeds. All proceeds and products of the foregoing, however and whenever acquired and in whatever form.

Without limiting the generality of the foregoing, it is hereby specifically understood and agreed that a Pledgor may from time to time hereafter deliver additional shares of stock (or other interests) to the Lender as collateral security for the Pledgor Obligations. Upon delivery to the Lender, such additional shares of stock (or other interests) shall be deemed to be part of the Pledged Collateral of such Pledgor and shall be subject to the terms of this Pledge Agreement whether or not Schedule 2(a) is amended to refer to such additional shares (or other interests).

3. Security for Pledgor Obligations. The security interest created hereby in the Pledged Collateral of each Pledgor constitutes continuing collateral security for all of the following, whether now existing or hereafter incurred (the "Pledgor Obligations"):

(a) all Obligations; and

(b) all expenses and charges, legal and otherwise, incurred by the Lender in collecting or enforcing any of the Obligations or in realizing on or protecting any security therefor, including without limitation the security afforded hereunder.

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4. Delivery of the Pledged Collateral; Perfection of Security Interest. Each Pledgor hereby agrees that:

(a) Delivery of Certificates. Each Pledgor shall deliver to the Lender (i) simultaneously with or prior to the execution and delivery of this Pledge Agreement, all certificates representing the Pledged Capital Stock of such Pledgor and (ii) promptly upon the receipt thereof by or on behalf of a Pledgor, all other certificates and instruments constituting Pledged Collateral of a Pledgor. Prior to delivery to the Lender, all such certificates and instruments constituting Pledged Collateral of a Pledgor shall be held in trust by such Pledgor for the benefit of the Lender pursuant hereto. All such certificates shall be delivered in suitable form for transfer by delivery or shall be accompanied by duly executed instruments of transfer or assignment in blank, substantially in the form provided in Exhibit 4(a) attached hereto.

(b) Additional Securities. If such Pledgor shall receive by virtue of its being or having been the owner of any Pledged Collateral, any (i) certificate, including without limitation, any certificate representing a dividend or distribution in connection with any increase or reduction of capital, reclassification, merger, consolidation, sale of assets, combination of shares or membership or equity interests, stock splits, spin-off or split-off, promissory notes or other instrument; (ii) option or right, whether as an addition to, substitution for, or an exchange for, any Pledged Collateral or otherwise; (iii) dividends payable in securities; or (iv) distributions of securities or other equity interests in connection with a partial or total liquidation, dissolution or reduction of capital, capital surplus or paid-in surplus, then such Pledgor shall receive such certificate, instrument, option, right or distribution in trust for the benefit of the Lender, shall segregate it

from such Pledgor's other property and shall deliver it forthwith to the Lender in the exact form received together with any necessary endorsement and/or appropriate stock power duly executed in blank, substantially in the form provided in Exhibit 4(a), to be held by the Lender as Pledged Collateral and as further collateral security for the Pledgor Obligations.

5. Representations and Warranties. Each Pledgor hereby represents and warrants to the Lender that so long as any of the Pledgor Obligations remain outstanding or any Loan Document is in effect or any Letter of Credit shall remain outstanding:

(a) Authorization of Pledged Capital Stock. The Pledged Capital Stock is duly authorized and validly issued, fully paid and non assessable and is not subject to the preemptive rights of any Person. All other shares of capital stock constituting Pledged Collateral will be duly authorized and validly issued, fully paid and nonassessable and not subject to the preemptive rights of any Person.

(b) Title. Each Pledgor has good and indefeasible title to the Pledged Collateral of such Pledgor and will at all times be the legal and beneficial owner of such Pledged Collateral free and clear of any lien. There exists no "adverse claim" within the meaning of Section 8-105 of the Uniform Commercial Code as in effect in the State of North Carolina (the "UCC") with respect to the Pledged Capital Stock of such Pledgor.

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(c) Exercising of Rights. The exercise by the Lender of its rights and remedies hereunder will not violate any law or governmental regulation or any material contractual restriction binding on or affecting a Pledgor or any of its property.

(d) Pledgor's Authority. No authorization, approval or action by, and no notice or filing with any Governmental Authority, the issuer of any Pledged Capital Stock or third party is required either (i) for the pledge made by a Pledgor or for the granting of the security interest by a Pledgor pursuant to this Pledge Agreement or (ii) for the exercise by the Lender of its rights and remedies hereunder (except as may be required by laws affecting the offering and sale of securities).

(e) Security Interest/Priority. This Pledge Agreement creates a valid security interest in favor of the Lender in the Pledged Collateral. The taking possession by the Lender of any certificates representing Pledged Capital Stock and all other certificates and instruments constituting Pledged Collateral will perfect and establish the first priority of the Lender's security interest in such Pledged Capital Stock and such certificates and instruments. Upon obtaining control (as defined in Section 8-106 of the UCC) of any Pledged Capital Stock consisting of uncertificated securities or securities entitlements pursuant to a control agreement between the Lender and the issuer of such uncertificated securities or the securities intermediary, as applicable, or upon filing financing statements in the appropriate jurisdictions, the Lender will acquire a first priority, perfected security interest in such Pledged Capital Stock. Except as set forth in this Section 5(e), no action is necessary to perfect or otherwise protect such security interest.

(f) No Other Capital Stock. Except as set forth on Schedule 2(a) attached hereto, no Pledgor owns any capital stock of the Company or any of its Subsidiaries as of the date hereof.

(g) Partnership and Limited Liability Company Interests. Except as previously disclosed to the Lender, none of the Pledged Capital Stock consisting of partnership or limited liability company interests (i) is dealt in or traded on a securities exchange or in a securities market, (ii) by its terms expressly provides that it is a security governed by Article 8 of the UCC, (iii) is an investment company security, (iv) is held in a securities account or (v) constitutes a "security" or a "financial asset" as such terms are defined in Article 8 of the UCC.

6. Covenants. Each Pledgor hereby covenants that so long as any of the Pledgor Obligations remain outstanding or any Loan Document is in effect or any Letter of Credit shall remain outstanding, such Pledgor shall:

(a) Books and Records. Mark its books and records (and shall cause the issuer of the Pledged Capital Stock owned by such Pledgor to mark its books and records) to reflect the security interest granted to the Lender pursuant to this Pledge Agreement.

(b) Defense of Title. Warrant and defend title to and ownership of the Pledged Collateral of such Pledgor at its own expense against the claims and demands of all other parties claiming an interest therein, keep the Pledged Collateral free from all

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liens, and not sell, exchange, transfer, assign, lease or otherwise dispose of Pledged Collateral of such Pledgor or any interest therein, except as permitted under the Financing Agreement and the other Loan Documents.

(c) Further Assurances. Promptly execute and deliver at its expense all further instruments and documents and take all further action that may be reasonably necessary and desirable or that the Lender may reasonably request in order to (i) perfect and protect the security interest created hereby in the Pledged Collateral of such Pledgor (including, without limitation, the filing of UCC financing statements and any and all action necessary to satisfy the Lender that the Lender has obtained a first priority perfected security interest in all Pledged Capital Stock); (ii) enable the Lender to exercise and enforce its rights and remedies hereunder in respect of the Pledged Collateral of such Pledgor; and (iii) otherwise effect the purposes of this Pledge Agreement, including, without limitation and if requested by the Lender, delivering to the Lender irrevocable proxies in respect of the Pledged Collateral of such Pledgor.

(d) Amendments. Not make or consent to any amendment or other modification or waiver with respect to any of the Pledged Collateral of such Pledgor or enter into any agreement or allow to exist any restriction with respect to any of the Pledged Collateral of such Pledgor other than pursuant hereto or as may be permitted under the Financing Agreement.

(e) Compliance with Securities Laws. File all reports and other information now or hereafter required to be filed by such Pledgor with the United States Securities and Exchange Commission and any other state, federal or foreign agency in connection with the ownership of the Pledged Collateral of such Pledgor.

(f) Issuance or Acquisition of Capital Stock. Not without executing and delivering, or causing to be executed and delivered, to the Lender such agreements, documents and instruments as the Lender may reasonably require, issue or acquire any capital stock consisting of an interest in a partnership or a limited liability company that (i) is dealt in or traded on a securities exchange or in a securities market, (ii) by its terms expressly provides that it is a security governed by Article 8 of the UCC, (iii) is an investment company security, (iv) is held in a securities account or (v) constitutes a "security" or a "financial asset" as such terms are defined in Article 8 of the UCC.

7. Performance of Obligations; Advances by Lender. On failure of any Pledgor to perform any of the covenants and agreements contained herein, the Lender may, at its sole option and in its sole discretion, perform or cause to be performed the same and in so doing may expend such sums as the Lender may 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 Lender 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 Pledgors on a joint and several basis promptly upon timely notice thereof and demand therefor, shall constitute additional Pledgor Obligations and shall bear interest from the date said amounts are expended at the Default Rate specified in Section 4.2 of the Financing Agreement. No such performance of any covenant or agreement by the Lender on

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behalf of any Pledgor, and no such advance or expenditure therefor, shall

relieve the Pledgors of any default under the terms of this Pledge Agreement or the other Loan Documents. The Lender 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 a Pledgor in appropriate proceedings and against which adequate reserves are being maintained in accordance with GAAP.

8. Events of Default. The occurrence of an event which under the Financing Agreement would constitute an Event of Default (as defined in the Financing Agreement) shall be an event of default hereunder (an "Event of Default").

9. Remedies.

(a) General Remedies. Upon the occurrence of an Event of Default and during the continuation thereof, the Lender shall have, in respect of the Pledged Collateral of any Pledgor, in addition to the rights and remedies provided herein, in the Loan Documents or by law, the rights and remedies of a secured party under the UCC or any other applicable law.

(b) Sale of Pledged Collateral. Upon the occurrence of an Event of Default and during the continuation thereof, without limiting the generality of this Section and without notice, the Lender may, in its sole discretion, sell or otherwise dispose of or realize upon the Pledged Collateral, or any part thereof, in one or more parcels, at public or private sale, at any exchange or broker's board or elsewhere, at such price or prices and on such other terms as the Lender may deem commercially reasonable, for cash, credit or for future delivery or otherwise in accordance with applicable law. To the extent permitted by law, any Lender may in such event, bid for the purchase of such securities. Each Pledgor agrees that, to the extent notice of sale shall be required by law and has not been waived by such Pledgor, any requirement of reasonable notice shall be met if notice, specifying the place of any public sale or the time after which any private sale is to be made, is personally served on or mailed, postage prepaid, to such Pledgor, in accordance with the notice provisions of Section 12.6 of the Financing Agreement at least ten (10) days before the time of such sale. The Lender shall not be obligated to make any sale of Pledged Collateral of such Pledgor regardless of notice of sale having been given. The Lender may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(c) Private Sale. Upon the occurrence of an Event of Default and during the continuation thereof, the Pledgors recognize that the Lender may deem it impracticable to effect a public sale of all or any part of the Pledged Collateral and that the Lender may, therefore, determine to make one or more private sales of any such Pledged Collateral to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such Pledged Collateral for their own account, for investment and not with a view to the distribution or resale thereof. Each Pledgor acknowledges that any such private sale may be at prices and on terms less favorable to the seller than the prices and other

terms which might have been obtained at a public sale and, notwithstanding the foregoing, agrees that such private sale shall be deemed to have been made in a commercially reasonable manner and that the Lender shall have no obligation to delay sale of any such Pledged Collateral for the period of time necessary to permit the issuer of such Pledged Collateral to register such Pledged Collateral for public sale under the Securities Act of 1933, as amended. Each Pledgor further acknowledges and agrees that any offer to sell such Pledged Collateral which has been (i) publicly advertised on a bona fide basis in a newspaper or other publication of general circulation in the financial community of New York, New York (to the extent that such offer may be advertised without prior registration under the Securities Act of 1933, as amended), or (ii) made privately in the manner described above shall be deemed to involve a "public sale" under the UCC, notwithstanding that such sale may not constitute a "public offering" under the Securities Act of 1933, as amended, and the Lender may, in such

event, bid for the purchase of such Pledged Collateral.

(d) Retention of Pledged Collateral. In addition to the rights and remedies hereunder, upon the occurrence of an Event of Default and during the continuation thereof, the Lender may, after providing the notices required by Section 9-621 of the UCC or otherwise complying with the requirements of applicable law of the relevant jurisdiction, retain all or any portion of the Pledged Collateral in satisfaction of the Pledgor Obligations. Unless and until the Lender shall have provided such notices, however, the Lender shall not be deemed to have retained any Pledged Collateral in satisfaction of any Pledgor Obligations for any reason.

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

10. Rights of the Lender.

(a) Power of Attorney. In addition to other powers of attorney contained herein, each Pledgor hereby designates and appoints the Lender and each of its designees or agents as attorney-in-fact of such Pledgor, 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 or settle, compromise, adjust and give discharges and releases concerning the Pledged Collateral of such Pledgor, all as the Lender may reasonably determine;

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

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

(iv) to pay or discharge taxes, liens, security interests, or other encumbrances levied or placed on or threatened against the Pledged Collateral of such Pledgor;

(v) to direct any parties liable for any payment under any of the Pledged Collateral to make payment of any and all monies due and to become due thereunder directly to the Lender or as the Lender shall direct;

(vi) to receive payment of and receipt for any and all monies, claims, and other amounts due and to become due at any time in respect of or arising out of any Pledged Collateral of such Pledgor;

(vii) to sign and endorse any drafts, assignments, proxies, stock powers, verifications, notices and other documents relating to the Pledged Collateral of such Pledgor;

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

(ix) to exchange any of the Pledged Collateral of such Pledgor or other property upon any merger, consolidation, reorganization,

recapitalization or other readjustment of the issuer thereof and, in connection therewith, deposit any of the Pledged Collateral of such Pledgor with any committee, depository, transfer agent, registrar or other designated agency upon such terms as the Lender may determine;

(x) to vote for a shareholder, partner or member resolution, or to sign an instrument in writing, sanctioning the transfer of any or all of the Pledged Capital Stock of such Pledgor into the name of the Lender or into the name of any transferee to whom the Pledged Capital Stock of such Pledgor or any part thereof may be sold pursuant to Section 10 hereof; and

(xi) to do and perform all such other acts and things as the Lender may reasonably deem to be necessary, proper or convenient in connection with the Pledged Collateral of such Pledgor.

This power of attorney is a power coupled with an interest and shall be irrevocable for so long as any of the Pledgor Obligations remain outstanding or any Loan Document is in effect or any Letter of Credit shall remain outstanding. The Lender shall be under no duty to exercise or withhold the exercise of any of the rights, powers, privileges and

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options expressly or implicitly granted to the Lender in this Pledge Agreement, and shall not be liable for any failure to do so or any delay in doing so. The Lender 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 Lender solely to protect, preserve and realize upon its security interest in the Pledged Collateral.

(b) Assignment by the Lender. Subject to the terms of the Financing Agreement, the Lender may from time to time assign the Pledgor Obligations or any portion thereof and/or the Pledged Collateral or any portion thereof, and the assignee shall be entitled to all of the rights and remedies of the Lender under this Pledge Agreement in relation thereto.

(c) The Lender's Duty of Care. Other than the exercise of reasonable care to ensure the safe custody of the Pledged Collateral while being held by the Lender hereunder, the Lender shall have no duty or liability to preserve rights pertaining thereto, it being understood and agreed that the Pledgors shall be responsible for preservation of all rights in the Pledged Collateral of such Pledgor, and the Lender shall be relieved of all responsibility for Pledged Collateral upon surrendering it or tendering the surrender of it to the Pledgors. The Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Pledged Collateral in its possession if such Pledged Collateral is accorded treatment substantially equal to that which the Lender 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 Lender shall not have responsibility for (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Pledged Collateral, whether or not the Lender has or is deemed to have knowledge of such matters; or (ii) taking any necessary steps to preserve rights against any parties with respect to any Pledged Collateral.

(d) Voting Rights in Respect of the Pledged Collateral.

(i) So long as no Event of Default shall have occurred and be continuing, to the extent permitted by law, each Pledgor may exercise any and all voting and other consensual rights pertaining to the Pledged Collateral of such Pledgor or any part thereof for any purpose not inconsistent with the terms of this Pledge Agreement or the Financing Agreement; and

(ii) Upon the occurrence and during the continuance of an Event of Default, all rights of a Pledgor to exercise the voting and other consensual rights which it would otherwise be entitled to exercise pursuant to paragraph (i) of this subsection (d) shall cease and all such rights shall thereupon become vested in the

Lender which shall then have the sole right to exercise such voting and other consensual rights.

(e) Dividend and Distribution Rights in Respect of the Pledged Collateral.

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(i) So long as no Event of Default shall have occurred and be continuing and subject to Section 4(b) hereof, each Pledgor may receive and retain any and all dividends (other than stock or ownership interest dividends and other dividends constituting Pledged Collateral which are addressed hereinabove), distributions or interest paid in respect of the Pledged Collateral to the extent they are allowed under the Financing Agreement.

(ii) Upon the occurrence and during the continuation of an Event of Default:

(A) all rights of a Pledgor to receive the dividends, distributions and interest payments which it would otherwise be authorized to receive and retain pursuant to paragraph (i) of this subsection (e) shall cease and all such rights shall thereupon be vested in the Lender which shall then have the sole right to receive and hold as Pledged Collateral such dividends, distributions and interest payments; and

(B) all dividends, distributions and interest payments which are received by a Pledgor contrary to the provisions of paragraph (A) of this clause (ii) shall be received in trust for the benefit of the Lender, shall be segregated from other property or funds of such Pledgor, and shall be forthwith paid over to the Lender as Pledged Collateral in the exact form received, to be held by the Lender as Pledged Collateral and as further collateral security for the Pledgor Obligations.

(g) Release of Pledged Collateral. The Lender may release any of the Pledged Collateral from this Pledge Agreement or may substitute any of the Pledged Collateral for other Pledged Collateral without altering, varying or diminishing in any way the force, effect, lien, pledge or security interest of this Pledge Agreement as to any Pledged Collateral not expressly released or substituted, and this Pledge Agreement shall continue as a first priority lien on all Pledged Collateral not expressly released or substituted.

11. Application of Proceeds. Upon the occurrence and during the continuation of an Event of Default, any payments in respect of the Pledgor Obligations and any proceeds of any Pledged Collateral, when received by the Lender in cash or its equivalent, will be applied as follows: first, to all costs and expenses of the Lender (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection with the implementation and/or enforcement of this Pledge Agreement and/or any of the other Loan Documents; second, to all costs and expenses of the Lender (including, without limitation, reasonable attorneys' fees and expenses) incurred in connection with the implementation and/or enforcement of this Pledge Agreement and/or any of the other Loan Documents; third, to the principal amount of the Pledgor Obligations; fourth, to such of the Pledgor Obligations consisting of accrued but unpaid interest and fees; fifth, to all other amounts payable with respect to the Pledgor Obligations; and sixth, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus. The Pledgors shall remain liable to the Lender for any deficiency.

12. Costs of Counsel. If at any time hereafter, whether upon the occurrence of an Event of Default or not, the Lender employs counsel to prepare or consider amendments, waivers

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or consents with respect to this Pledge Agreement, or to take action or make a response in or with respect to any legal or arbitral proceeding relating to this Pledge Agreement or relating to the Pledged Collateral, or to protect the Pledged Collateral or exercise any rights or remedies under this Pledge Agreement or with respect to the Pledged Collateral, then the Pledgors agree to

promptly pay upon demand any and all such reasonable costs and expenses of the Lender, all of which costs and expenses shall constitute Pledgor Obligations hereunder.

13. Continuing Agreement.

(a) This Pledge Agreement shall be a continuing agreement in every respect and shall remain in full force and effect so long as any of the Pledgor Obligations remain outstanding or any Loan Document is in effect or any Letter of Credit shall remain outstanding. Upon such payment and termination, this Pledge Agreement shall be automatically terminated and the Lender shall, upon the request and at the expense of the Pledgors, forthwith release all of the liens and security interests hereunder and shall execute and deliver all UCC termination statements and/or other documents reasonably requested by the Pledgors evidencing such termination. Notwithstanding the foregoing all releases and indemnities provided hereunder shall survive termination of this Pledge Agreement.

(b) This Pledge 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 Pledgor Obligations is rescinded or must otherwise be restored or returned by the Lender 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 Pledgor 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 Lender in defending and enforcing such reinstatement shall be deemed to be included as a part of the Pledgor Obligations.

14. Amendments; Waivers; Modifications. This Pledge Agreement and the provisions hereof may not be amended, waived, modified, changed, discharged or terminated except as set forth in Section 12.2 of the Financing Agreement.

15. Consent and Waiver. Each Pledgor hereby consents to the pledge by each other Pledgor of such other Pledgor's interests in each issuer of Pledged Capital Stock (each an "Issuer"). Each Pledgor agrees that, without the prior written consent of the Lender, no Pledgor shall take any action that would operate to dilute the interest of any Pledgor in any Issuer other than as permitted by this Pledge Agreement and the Financing Agreement. Each Pledgor further agrees that, upon the written request of the Lender after an Event of Default has occurred and is continuing, any Pledgor may be removed as a member of any Issuer which is a limited liability company and replaced with the assignee designated in such request. If the Lender so requests after an Event of Default has occurred and is continuing, each Pledgor covenants and agrees to execute an amendment to the operating agreement of the relevant Issuer to reflect any such assignee's substitution in place of such Pledgor as a member of such Issuer, provided that such assignee shall adopt such operating agreement, and agrees to be bound by the terms and provisions thereof. In the event that any such assignee is admitted as a member of any Issuer in substitution of a Pledgor, each Pledgor agrees that such assignee shall not be liable for the

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obligations of such Pledgor with respect to such Issuer arising before such assignee's admission to such Issuer, except to the extent required by law. Each Pledgor agrees that neither the execution and delivery of this Pledge Agreement, the enforcement by the Lender of any of its rights thereunder, or the transfer (or agreement to transfer) by the Lender of any of its rights in any Issuer shall constitute a default under any operating agreement of any Issuer, and each Pledgor expressly waives any rights it may have under any operating agreement of any Issuer as a result of the foregoing. Each Pledgor hereby waives any and all rights under any operating agreement of any Issuer which, whether exercised by such Pledgor or not, would prevent, inhibit or interfere with the granting of a security interest in the Collateral to the Lender, the foreclosure of such security interest in the Collateral by the Lender or the full realization by the Lender of any of its other rights under this Pledge Agreement or the other Loan Documents.

16. Successors in Interest. This Pledge Agreement shall create a continuing security interest in the Pledged Collateral and shall be binding upon each Pledgor, its successors and assigns and shall inure, together with the

rights and remedies of the Lender hereunder, to the benefit of the Lender and its and permitted assigns; provided, however, that none of the Pledgors may assign its rights or delegate its duties hereunder without the prior written consent of the Lender. To the fullest extent permitted by law, each Pledgor hereby releases the Lender, and its successors and permitted assigns, from any liability for any act or omission relating to this Pledge Agreement or the Pledged Collateral, except for any liability arising from the gross negligence or willful misconduct of the Lender, or its officers, employees or agents.

18. Notices. All notices required or permitted to be given under this Pledge Agreement shall be in conformance with Section 12.6 of the Financing Agreement.

19. Counterparts. This Pledge 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 Pledge Agreement to produce or account for more than one such counterpart.

20. 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 Pledge Agreement.

21. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial; Venue. THIS PLEDGE 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 NORTH CAROLINA. THE PROVISIONS OF THE FINANCING AGREEMENT RELATING TO SUBMISSION TO JURISDICTION, WAIVER OF JURY TRIAL AND VENUE ARE HEREBY INCORPORATED BY REFERENCE HEREIN, MUTATIS MUTANDIS.

22. Severability. If any provision of this Pledge 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.

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23. Entirety. This Pledge 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 this Pledge Agreement or the other Loan Documents or the transactions contemplated herein and therein.

24. Survival. All representations and warranties of the Pledgors hereunder shall survive the execution and delivery of this Pledge Agreement and the other Loan Documents, the making of the Revolving Credit Loans and the issuance of the Letters of Credit under the Financing Agreement.

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

26. Joint and Several Obligations of Pledgors.

(a) Each of the Pledgors is accepting joint and several liability hereunder in consideration of the financial accommodation to be provided by the Lender under the Financing Agreement, for the mutual benefit, directly and indirectly, of each of the Pledgors and in consideration of the undertakings of each of the Pledgors to accept joint and several liability for the obligations of each of them.

(b) Each of the Pledgors jointly and severally hereby irrevocably and unconditionally accepts, not merely as a surety but also as a

co-debtor, joint and several liability with the other Pledgors with respect to the payment and performance of all of the Pledgor Obligations arising under this Pledge Agreement and the other Loan Documents, it being the intention of the parties hereto that all the Pledgor Obligations shall be the joint and several obligations of each of the Pledgors without preferences or distinction among them.

(c) Notwithstanding any provision to the contrary contained herein or in any other of the Loan Documents, to the extent the obligations of a Pledgor shall be adjudicated to be invalid or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers) then the obligations of each Pledgor hereunder shall be limited to the maximum amount that is permissible under applicable law (whether federal or state and including, without limitation, the Bankruptcy Code).

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

PLEDGORS:

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and CEO

CROWN CRAFTS INFANT PRODUCTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
Vice President

CHURCHILL WEAVERS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
Vice President

HAMCO, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and CEO

Accepted and agreed to as of the date first above written.

LENDER:

THE CIT GROUP/COMMERCIAL
SERVICES, INC.

By: /s/ William Johanessen

William Johanessen
Senior Vice President

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STATE OF KENTUCKY
COUNTY OF MADISON

MORTGAGE, ASSIGNMENT OF LEASES AND RENTS,
FIXTURE FILING AND SECURITY AGREEMENT

THIS MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, FIXTURE FILING AND SECURITY AGREEMENT ("Mortgage"), made and executed this 11th day of July, 2006, by and among CHURCHILL WEAVERS, INC., a Kentucky corporation, whose address is 916 South Burnside Avenue, Gonzalez, Louisiana 70707, as Party of the First Part, being hereinafter called "Mortgagor"; and THE CIT GROUP/COMMERCIAL SERVICES, INC., a New York corporation, whose address is 301 South Tryon Street, Charlotte, Mecklenberg County, North Carolina 28202, as Party of the Second Part, being hereinafter called "Lender";

WITNESSETH:

That for and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, and in order to secure the indebtedness and other obligations of Mortgagor and its affiliates as hereinafter set forth, Mortgagor does hereby grant, bargain, mortgage, sell and convey unto Lender and its successors and assigns the following:

(A) THE LAND. The land (the "Land") situated in Madison County, Kentucky, which is described in detail in Schedule A attached hereto and incorporated herein and made a part of this document for all purposes.

(B) THE IMPROVEMENTS: TOGETHER WITH (1) all the buildings, structures and improvements of every nature whatsoever now or hereafter situated on the Land, and (2) all fixtures, machinery, appliances, equipment, furniture and personal property of every nature whatsoever now or hereafter owned by Mortgagor and located in or on, attached to, and used or intended to be used in connection with or with the operation of, the Land, buildings, structures or other improvements, or in connection with any construction being conducted or which may be conducted thereon, and all extensions, additions, improvements, betterments, renewals, substitutions and replacements to any of the foregoing, and all of the right, title and interest of Mortgagor in and to any such personal property or fixtures, which, to the fullest extent permitted by law, shall be conclusively deemed fixtures and a part of the real property encumbered hereby (hereinafter called the "Improvements").

(C) EASEMENTS AND OTHER PROPERTY INTERESTS: TOGETHER WITH all easements, rights-of-way, gores of land, streets, ways, alleys, passages, sewer rights, water courses, water rights and powers, other real property and interests therein, and all appurtenances whatsoever, in any way belonging, relating or appertaining to any of the property described in

paragraphs (A) and (B) hereof, or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Mortgagor by adverse possession or in any other manner.

(D) TOGETHER WITH (i) all of the estate, right, title and interest of Mortgagor of, in and to all judgments, insurance proceeds, awards of damages and settlements hereafter made resulting from condemnation proceedings or the taking of the property described in paragraphs (A), (B) and (C) hereof or any part thereof under the power of eminent domain, or for any damage (whether caused by such taking or otherwise) to the property described in paragraphs (A), (B) and (C) hereof or any part thereof, or to any rights appurtenant thereto, and all proceeds of any sales or other disposition of the property described in paragraphs (A), (B) and (C) hereof or any part thereof; and Lender is hereby authorized to collect and receive said awards and proceeds in accordance with this Mortgage and to give proper receipts and acquittances therefor, and (if it so elects) to apply the same in accordance with this Mortgage toward the payment of the indebtedness and other sums secured hereby, notwithstanding the fact that the amount owing thereon may not then be due and payable; and (ii) all contract rights, general intangibles, actions and rights in action, including without limitation all rights to insurance proceeds and unearned premiums arising from or relating to the property described in paragraphs (A), (B) and (C) above; and

(iii) all proceeds, products, replacements, additions, substitutions, renewals and accessions of and to the property described in paragraphs (A), (B) and (C).

(E) TOGETHER WITH all rents, income, accounts receivable and other benefits to which Mortgagor may now or hereafter be entitled from the property described in paragraphs (A), (B) and (C) hereof to be applied against the indebtedness and other sums secured hereby; provided, however, that permission is hereby given to Mortgagor, so long as no Event of Default (as defined in Section 2.01) has occurred hereunder, to collect and use such rents, income and other benefits as they become due and payable, but not in advance thereof. Upon the occurrence of any such Event of Default, the permission hereby given to Mortgagor to collect such rents, accounts receivable, income and other benefits from the property described in paragraphs (A), (B) and (C) hereof shall terminate and such permission shall not be reinstated upon a cure of such Event of Default without Lender's specific written consent.

The foregoing provisions hereof shall constitute an absolute and present assignment of the rents, income and other benefits from the property described in (A), (B) and (C) above, subject, however, to the conditional permission given to Mortgagor to collect and use such rents, income and other benefits as hereinabove provided; and the existence or exercise of such right of Mortgagor shall not operate to subordinate this assignment to any subsequent assignment, in whole or in part, by Mortgagor, and any such subsequent assignment by Mortgagor shall be subject to the rights of Lender hereunder.

(F) TOGETHER WITH all right, title and interest of Mortgagor in and to any and all leases now or hereafter on or affecting the property described in paragraphs (A), (B) and (C) hereof, and all books and records which contain payments made under the leases and all security therefor.

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(G) TOGETHER WITH (i) the Mortgagor's rights further to encumber the property described in paragraphs (A), (B), (C) and (F) above for debt; and (ii) all of the Mortgagor's rights to enter into any lease or lease agreement.

All of the property described in paragraphs (A), (B), (C), (D), (E), (F) and (G) above, and each item of property therein described, is hereinafter referred to as the "Property".

TO HAVE AND TO HOLD the Property and all parts thereof unto Lender and its successors and assigns, forever upon the trust, terms and conditions contained herein.

This Mortgage is executed and delivered by Mortgagor to secure the following described obligations, liabilities and indebtedness of Mortgagor and its affiliates to Lender (hereinafter collectively referred as the "Obligations"):

(a) All loans, advances, indebtedness, obligations and liabilities now or from time to time hereafter owing by Mortgagor, Crown Crafts, Inc., a Delaware corporation ("CCI"), Crown Crafts Infant Products, Inc., a Delaware corporation ("CCIP") and Hamco, Inc., a Louisiana corporation ("Hamco"; together with Mortgagor, CCI and CCIP, the "Borrowers" and each a "Borrower"), to Lender under that certain Financing Agreement, dated of even date herewith (such Financing Agreement, as it may hereafter be amended from time to time, being hereinafter called the "Financing Agreement," capitalized terms used but not otherwise defined herein having the same meaning given therein), or under any agreement, instrument or document executed or delivered to Lender in respect of the Financing Agreement or the transactions contemplated thereby, pursuant to which Lender has agreed to make a revolving line of credit available to the Borrowers pursuant to which revolving loans may be made, repaid and re-advanced in accordance with and evidenced by the Financing Agreement up to a maximum aggregate principal amount of such revolving loans outstanding at any one time in the sum of \$22,000,000, which revolving loans have a maturity date of July 11, 2009.

(b) All indebtedness, obligations and liabilities of Mortgagor arising under this Mortgage;

(c) All advances made by Lender to protect or preserve the Property or

the lien hereof on the Property, or for taxes, assessments, insurance premiums, or other advances authorized under the terms of this Mortgage (whether or not Mortgagor remains the owner of the Property at the time of such advance);

(d) Any and all renewals, extensions, modifications, substitutions, replacements or consolidations of the Note or any other indebtedness, liabilities and obligations described in paragraphs (a), (b) or (c) above; and

(e) All other obligations, liabilities and indebtedness of every kind and character now or hereafter owing by Mortgagor or any other Borrower to Lender, however created, incurred or evidenced, direct or indirect, absolute or contingent, and whether owing under the Financing Agreement, this Mortgage or the other Loan Documents (as hereinafter

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defined), including without limitation, all "Obligations" of Mortgagor and each other Borrower to Lender, as such term is defined in the Financing Agreement.

The Financing Agreement, this Mortgage, and all other instruments, agreements, documents and guaranty agreements executed in connection with the Financing Agreement or the transactions contemplated thereby are hereinafter collectively called the "Loan Documents".

PROVIDED, HOWEVER, that if Mortgagor shall promptly pay or cause to be paid the Obligations secured hereby in accordance with the terms thereof when the same shall become due and payable and shall keep, perform and observe, or cause to be kept, performed and observed, all the terms, conditions and requirements of the Loan Documents and of this Mortgage, then, upon complete payment and satisfaction thereof, this Mortgage shall be null and void and of no further force and effect and shall be released by Lender upon the written request and at the expense of Mortgagor.

ARTICLE ONE

COVENANTS OF MORTGAGOR

Mortgagor covenants and agrees with Lender, or any successor in title as holder of the Obligations secured hereby, as follows:

1.01 Performance of Loan Documents. Mortgagor shall perform, observe and comply with, or cause to be performed, observed and complied with, all provisions of the Loan Documents and will promptly pay or cause to be paid to Lender the principal with interest thereon of all Obligations when payment shall become due.

1.02 General Representations, Covenants and Warranties. Mortgagor represents, warrants and covenants that (a) subject only to the rights of others provided in the instruments described in Schedule B attached hereto and incorporated herein, Mortgagor is seized of an indefeasible estate in fee simple in, and has good and absolute title to, the Property, and has good right, full power and lawful authority to encumber the same as provided herein and Lender may at all times peaceably and quietly enter upon, hold, occupy and enjoy the Property in accordance with applicable law and with the terms hereof; (b) the Property is free and clear of all liens, security interests, charges and encumbrances whatsoever except those described in Schedule B; (c) Mortgagor will maintain and preserve the lien of this Mortgage until the Obligations secured hereby have been paid in full; (d) the Property is improved with those improvements described in Schedule C attached hereto and incorporated herein and made a part hereof and has frontage on, and direct access of ingress, egress, and regress to, the street(s) described therein; (e) electric, gas, sewer, water facilities and any other necessary utilities are, and at all times hereafter shall be, available in sufficient capacity to service the Property satisfactorily, and any easements necessary to the furnishing of such utility service to Mortgagor have been obtained; and (f) the representations, warranties and covenants made by Mortgagor in the Loan Documents are incorporated herein by reference and made a part hereof.

1.03 Compliance with Laws. Mortgagor covenants and warrants that the Property presently complies with and will continue to comply with all applicable restrictive covenants, applicable zoning and subdivision ordinances and building codes, all applicable health and environmental laws and regulations and other applicable laws, rules and regulations which affect the Property and the operations of Mortgagor on the Property. If Mortgagor receives notice from any federal, state or other governmental body that it is not in compliance with any such covenant, ordinance, code, law or regulation, Mortgagor will provide Lender with a copy of such notice and comply with the provisions of such notice promptly.

1.04 Taxes and Other Charges.

1.04.1 Taxes and Assessments. Mortgagor shall pay promptly when due all taxes, assessments, rates, dues, charges, fees, levies, fines, impositions, liabilities, obligations and encumbrances of every kind whatsoever now or hereafter imposed, levied or assessed upon or against the Property or any part thereof, or upon or against this Mortgage or the Obligations secured hereby, or upon or against the interest of Lender in the Property, as well as all income taxes, assessments and other governmental charges levied and imposed by the United States of America or any state, county, municipality or other taxing authority upon or against Mortgagor or in respect of the Property or any part thereof.

1.04.2 Mechanic's and Other Liens. Mortgagor shall not permit or suffer any mechanic's, laborer's, materialman's, statutory or other lien (other than any lien for taxes not yet due) to be created upon or filed against the Property. If Mortgagor shall desire to contest the validity of a lien claimed by any mechanic, laborer or materialman, Mortgagor shall cause the lien to be bonded off in accordance with applicable law, without expense to Lender, or shall furnish such other security with respect thereto as is acceptable to Lender.

1.04.3 Taxes Affecting Lender's Interest. If any state, federal, municipal or other governmental law, order, rule or regulation, passed subsequent to the date hereof, in any manner changes or modifies existing laws governing the taxation of deeds of trust, mortgages or debts secured by deeds of trust, mortgages, or the manner of collecting taxes so as to materially, adversely affect Lender's security in the Property, the entire balance of the Obligations secured by this Mortgage and all interest accrued thereon shall upon commercially reasonable notice to Mortgagor become due and payable forthwith at the option of Lender.

1.04.4 Tax Escrow. In order to secure the performance and discharge of Mortgagor's obligations under this paragraph 1.04, but not in lieu of such obligations, Mortgagor, upon Lender's request, will pay over to Lender an amount equal to one-twelfth (1/12th) of the next maturing annual ad valorem taxes, assessments and charges (which taxes, assessments and charges, for purposes of this paragraph, shall include without limitation water and sewer rents, and shall hereinafter be collectively called "Taxes") of the nature described in paragraph 1.04 for each month that has elapsed since the last date to which the Taxes were paid; and Mortgagor will, in addition, during the continuance of an Event of Default and upon Lender's request, pay over to Lender together with each installment of the Obligations sufficient funds (as estimated

from time to time by Lender in its sole discretion) to permit Lender to pay when due the Taxes. During the continuance of an Event of Default and upon Lender's request, Mortgagor shall also deliver to Lender such additional monies as are required to make up any deficiencies in the amounts necessary to enable Lender to pay the Taxes. Such deposits shall not be, nor be deemed to be, trust funds but may be commingled with the general funds of Lender, and no interest shall be payable in respect thereof. Lender may apply to the reduction of the Obligations secured hereby (without prepayment penalty), in such manner as Lender shall determine, any amount under this paragraph 1.04.4 remaining to Mortgagor's credit.

1.04.5 No Credit Against the Obligations Secured Hereby. Mortgagor shall not claim, demand or be entitled to receive any credit, against the principal or interest payable on the Obligations for so much of the Taxes assessed against

the Property or any part thereof or that are applicable to the Obligations secured hereby or to Lender's interest in the Property. No deduction shall be claimed from the taxable value of the Property or any part thereof by reason of the Obligations, this Mortgage or any other instrument securing the Obligations.

1.04.6 Insurance.

(a) Mortgagor shall, at its sole expense, keep the Property insured in such amounts and against such risks and damages as is required by the Financing Agreement. All policies of insurance shall contain an endorsement, in form and substance acceptable to Lender, showing loss payable to Lender as its interests appear. Such endorsement, or an independent instrument delivered to Lender, shall provide that the insurance companies will give Lender at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or cancelled and that no act or default of Mortgagor or any other person shall affect the right of Lender to recover under such policy or policies of insurance in case of loss or damage.

(b) In order to secure the performance and discharge of Mortgagor's obligations under this paragraph 1.04.6, but not in lieu of such obligations, Mortgagor, during the continuance of an Event of Default, upon Lender's request, will pay over to Lender an amount equal to one-twelfth (1/12th) of the next maturing annual insurance premiums for each month that has elapsed since the last date to which such premiums were paid; and Mortgagor will, in addition, during the continuance of an Event of Default, upon Lender's request, pay over to Lender together with each installment on the Obligations sufficient funds (as estimated from time to time by Lender in its sole discretion) to permit Lender to pay said premiums when due. Such deposits shall not be, nor be deemed to be, trust funds but may be commingled with the general funds of Lender, and no interest shall be payable in respect thereof. During the continuance of an Event of Default, upon Lender's request, Mortgagor shall also deliver to Lender such additional monies as are necessary to make up any deficiencies in the amounts necessary to enable Lender to pay such premiums when due.

(c) Pursuant to its rights granted hereunder in all proceeds from any insurance policies, Lender is hereby authorized and empowered at its option to adjust or compromise any loss under any insurance policies on the Property and to collect and receive the proceeds from

any such policy or policies. Each insurance company is hereby authorized and directed to make payment for all such losses directly to Lender alone and not to Mortgagor and Lender jointly. After deducting from such insurance proceeds any expenses incurred by Lender in the collection or handling of such funds, the net proceeds received by Lender shall be applied as follows: (i) if a Default (as such term is defined in the Financing Agreement) or Event of Default shall have occurred and is continuing, the entire net proceeds of any insurance claim received by Lender shall, at Lender's option, be applied to the Obligations secured hereby; and (ii) if a Default or Event of Default shall not have occurred and be continuing, then the net proceeds of any claim of less than \$50,000 shall be released to Mortgagor to be used solely by Mortgagor for repairing and restoring the Property, and the net proceeds of any claim of more than \$50,000 shall be held by Lender for Mortgagor's benefit (subject to the lien of Lender therein as security for the Obligations) and advanced to Mortgagor from time to time, but not more often than monthly, against such requisition or other evidence of restoration or repair of the Property, including architect's or engineer's certificates and copies of bills and invoices for work and materials used in connection therewith, as Lender may reasonably require, without affecting the lien of this Mortgage for the full amount of the Obligations secured hereby. In no event, however, shall any advance be made which will result in the funds remaining with Lender being less than the cost of completion of restoration of the Property as estimated by an architect or engineer reasonably satisfactory to Lender. If, upon completion of restoration of the Property there remain funds with Lender, Lender shall apply the remaining funds to the Obligations secured hereby (without any prepayment penalty). Any funds applied against the Obligations secured hereby shall be applied to particular Obligations, whether then matured or to mature in the future, in such order and in such manner as Lender in its discretion determines. Although Lender intends to use its best efforts to collect such payments in a timely fashion, Lender shall not be responsible for any failure to collect any

insurance proceeds due under the terms of any policy regardless of the cause of such failure.

1.04.7 Non-Impairment of Lender's Rights. Nothing contained in either of paragraphs 1.04.4 and 1.04.6(b) shall be deemed to affect any right or remedy of Lender under any provision of this Mortgage or of any statute or rule of law to pay any amount required to be paid by paragraphs 1.04.1 and 1.04.6 and to add the amount so paid to the Obligations hereby secured. Although Lender intends to use its best efforts to make such payments in a timely fashion, the arrangements provided for in paragraph 1.04.4 and 1.04.6 are solely for the added protection of Lender and entail no responsibility on Lender's part beyond the allowing of due credit, without interest, for sums actually received by it. Upon assignment of this Mortgage, any funds on hand shall be turned over to the assignee and any responsibility of Lender with respect thereto shall terminate.

1.05 Condemnation. Lender shall be entitled to all compensation awards, damages, claims, rights of action and proceeds of, or on account of, any damage or taking through condemnation and is hereby authorized, at its option, to commence, appear in and prosecute in its own or Mortgagor's name any action or proceeding relating to any condemnation and to settle or compromise any claim in connection therewith. All such compensation awards, damages, claims, rights of action and proceeds, and any other payments or relief, and the right thereto, are

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included in the Property and Lender, after deducting therefrom all of its expenses including reasonable attorneys' fees incurred in the collection or handling of such funds, shall apply the net proceeds thereof as follows: (i) if a Default or Event of Default shall have occurred and is continuing, the entire net proceeds of any condemnation award received by Lender shall, at Lender's option, be applied to the Obligations secured hereby, and (ii) if a Default or Event of Default shall not have occurred and be continuing, then the net proceeds of any condemnation award of less than \$50,000 shall be released to Mortgagor to be used solely by Mortgagor for repairing and restoring the Property, and the net proceeds of any condemnation award of more than \$50,000 shall be held by Lender for Mortgagor's benefit (subject to the lien of Lender therein as security for the Obligations) and advanced to Mortgagor from time to time, but not more often than monthly, against such requisition or other evidence of restoration or repair of the Property, including architect's or engineer's certificates and copies of bills and invoices for work and materials used in connection therewith, as Lender may reasonably require, without affecting the lien of this Mortgage for the full amount of the Obligations secured hereby. In no event, however, shall any advance be made which will result in the funds remaining with Lender being less than the cost of completion of restoration of the Property as estimated by an architect or engineer reasonably satisfactory to Lender. If, upon completion of restoration of the Property there remain funds with Lender, Lender shall apply the remaining funds to the Obligations secured hereby (without any prepayment penalty). Any funds applied against the Obligations secured hereby shall be applied to particular Obligations, whether then matured or to mature in the future, in such order and in such manner as Lender in its discretion determines. Mortgagor agrees to execute such further assignments of any compensation awards, damages, claims, rights of action and proceeds as Lender may reasonably require. Notwithstanding any such condemnation, Mortgagor shall continue to pay interest, computed at the rate provided in the Loan Documents, on the entire unpaid principal amount thereof.

1.06 Care of Property.

(a) Mortgagor shall preserve and maintain the Property in good condition and repair, ordinary wear and tear excepted. Mortgagor shall not permit, commit or suffer any waste, impairment or deterioration of the Property or of any part thereof, and will not take any action which will increase the risk of fire or other hazard to the Property or to any part thereof.

(b) No part of the Property shall be removed, demolished or altered without the prior written consent of Lender, except in the ordinary course of business.

(c) Lender may enter upon and inspect the Property at any reasonable

time during the life of this Mortgage.

(d) If any part of the Property shall be lost, damaged or destroyed by fire or any other cause, Mortgagor will give immediate written notice thereof to Lender and shall promptly restore the Property to the equivalent of its original condition regardless of whether or not there shall be any insurance proceeds therefor (subject to Lender's obligations set forth in paragraph 1.04(6)(c) and 1.05 hereof). If a part of the Property shall be lost, physically

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damaged, or destroyed through condemnation, Mortgagor will promptly restore, repair or alter the remaining property in a manner satisfactory to Lender.

(e) No work required to be performed under paragraphs 1.04.6(c), 1.05 or 1.06(d) shall be undertaken until plans and specifications therefor have been submitted to and approved in writing by Lender.

1.07 Further Assurances. At any time and from time to time, upon Lender's request, Mortgagor shall make, execute and deliver, or cause to be made, executed and delivered, to Lender and where appropriate shall cause to be recorded or filed, and from time to time thereafter to be re-recorded and refiled at such time and in such offices and places as shall be deemed desirable by Lender, any and all such further deeds of trust, instruments or further assurance, certificates and other documents as Lender may consider necessary or desirable in order to effectuate, complete, or perfect, or to continue and preserve the obligations of Mortgagor under the Loan Documents and this Mortgage, and the lien of this Mortgage as a lien upon all of the Property, whether now owned or hereafter acquired by Mortgagor. Upon any failure by Mortgagor to do so, Lender may make, execute, record, file, re-record or refile any and all such deeds of trust, instruments, certificates and documents for and in the name of Mortgagor, and Mortgagor hereby irrevocably appoints Lender the agent and attorney-in-fact of Mortgagor to do so.

1.08 Security Agreements and Financing Statements. Mortgagor (as Debtor) hereby grants to Lender (as Creditor and Secured Party) a security interest in all fixtures, machinery, appliances, equipment, furniture and personal property of every nature whatsoever constituting part of the Property.

Mortgagor shall execute any and all such documents, including without limitation, financing statements pursuant to the applicable Uniform Commercial Code, as Lender may reasonably request, to preserve and maintain the priority of the lien created hereby on property which may be deemed personal property or fixtures, and shall pay to Lender on demand any expenses incurred by Lender in connection with the preparation, execution and filing of any such documents. Mortgagor hereby authorizes and empowers Lender to execute and file, on Mortgagor's behalf, all financing statements and refilings and continuations thereof as Lender reasonably deems necessary or advisable to create, preserve and protect said lien. When and if Mortgagor and Lender shall respectively become the Debtor and Secured Party in any Uniform Commercial Code financing statement affecting the Property, this Mortgage shall be deemed a security agreement as defined in said Uniform Commercial Code and the remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be (i) as prescribed herein, (ii) by general law, or (iii) as to such part of the security which is also reflected in said financing statement by the specific statutory consequences now or hereafter enacted and specified in the Uniform Commercial Code, all at Lender's sole election.

Mortgagor and Lender agree that the filing of a financing statement in the records normally having to do with personal property shall never be construed as in any way derogating

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from or impairing the express declaration and intention of the parties hereto, hereinabove stated, that everything used in connection with the production of income from the Property and/or adapted for use therein and/or which is described or reflected in this Mortgage is, and at all times and for all purposes and in all proceedings both legal or equitable, shall be regarded as

part of the real estate encumbered by this Mortgage irrespective of whether (i) any such item is physically attached to the Improvements, (ii) serial numbers are used for the better identification of certain equipment items capable of being thus identified in a recital contained herein or in any list filed with Lender, or (iii) any such item is referred to or reflected in any such financing statement so filed at any time. Similarly, the mention in any such financing statement of (1) rights in or to the proceeds of any fire and/or hazard insurance policy, or (2) any award in eminent domain proceedings for a taking or for loss of value, or (3) Mortgagor's interest as lessor in any present or future lease or rights to income growing out of the use and/or occupancy of the Property, whether pursuant to lease or otherwise, shall never be construed as in any way altering any of the rights of Lender as determined by this instrument or impugning the priority of Lender's lien granted hereby or by any other recorded document, but such mention in the financing statement is declared to be for the protection of Lender in the event any court or judge shall at any time hold with respect to (1), (2) and (3) that notice of Lender's priority of interest to be effective against a particular class of persons, including but not limited to the federal government and any subdivisions or entity of the federal government, must be filed in the Uniform Commercial Code records.

1.09 Assignment of Rents. The assignment contained in paragraph (E) of this Mortgage shall be fully operative without any further action on the part of either party and specifically Lender shall be entitled, at its option, upon the occurrence of an Event of Default hereunder, to all rents, income and other benefits from the property described in paragraphs (A), (B), (C) and (D) hereof whether or not Lender takes possession of such property. To the extent permitted under applicable law, Mortgagor hereby further grants to Lender the right (i) to enter upon and take possession of the Property for the purpose of collecting the said rents, income and other benefits, (ii) to dispossess by the usual summary ejectment proceedings any tenant defaulting in the payment thereof to Lender, (iii) to let the Property or any part thereof, and (iv) to apply said rents, income and other benefits, after payment of all necessary charges and expenses, on account of the Obligations secured hereby. Such assignment and grant shall continue in effect until the Obligations secured hereby are paid, the execution of this Mortgage constituting and evidencing the irrevocable consent of Mortgagor to the entry upon and taking possession of the Property by Lender pursuant to such grant to the extent permitted under applicable law, whether or not enforcement of this Mortgage has been instituted. Neither the exercise of any rights under this paragraph by Lender nor the application of any such rents, income or other benefits to the Obligations secured hereby, shall cure or waive any default or notice of default hereunder or invalidate any act done pursuant hereto or to any such notice, but shall be cumulative of all other rights and remedies.

1.10 After-Acquired Property. To the extent permitted by and subject to applicable law, the lien of this Mortgage will automatically attach, without further act, to all after-acquired property located in or on, or attached to the Property or any part thereof.

1.11 Leases Affecting Encumbered Property. Mortgagor represents that the schedule of leases set forth in Schedule C is true and correct; that all such leases are presently in effect and that no default by Mortgagor exists in such leases. As any such lease shall expire or terminate or as any new lease shall be made, Mortgagor shall so notify Lender in order that at all times Lender shall have a current list of all leases affecting the property described in paragraphs (A), (B) and (C) hereof. The assignment contained in paragraph (F) of this Mortgage shall not be deemed to impose upon Lender any of the obligations or duties of Mortgagor provided in any such lease (including, without limitation, any liability under the covenant of quiet enjoyment contained in any lease in the event that any tenant shall have been joined as a party defendant in any action to enforce this Mortgage and shall have been barred and foreclosed thereby of all right, title and interest and equity of redemption in the Property or any part thereof), and Mortgagor shall comply with and observe its obligations in all material respects as landlord under all leases affecting the Property or any part thereof. Mortgagor, if required by Lender, shall furnish promptly to Lender original or certified copies of all such leases now existing or hereafter created. Mortgagor shall not, without the express prior written consent of Lender, enter into any lease affecting the Property, or materially amend, modify, extend, terminate or cancel, accept the surrender of,

subordinate, accelerate the payment of rent as to, or change the terms of any renewal option of any such lease now existing or hereafter created, or permit or suffer an assignment or sublease. Mortgagor shall not accept payment of rent more than one (1) month in advance without the prior written consent of Lender.

With respect to the assignment contained in paragraph (F) of this Mortgage, Mortgagor shall, from time to time upon request of Lender, specifically assign to Lender as additional security hereunder, by an instrument in writing in such form as may be approved by Lender, all right, title and interest of Mortgagor in and to any and all leases now or hereafter on or affecting the Property, together with all security therefor and all monies payable thereunder, subject to the conditional permission hereinabove given to Mortgagor to collect the rentals under any such lease. Mortgagor shall also execute and deliver to Lender any notification, financing statement or other document required by Lender to perfect the foregoing assignment as to any such lease. The provisions of this paragraph 1.11 shall be subject to the provisions of said paragraph (F).

1.12 Lender's Performance of Defaults. If Mortgagor defaults in the payment of any tax, assessment, encumbrance or other imposition, in its obligation to furnish insurance hereunder, or in the performance or observance of any other covenant, condition or term in this Mortgage or the Loan Documents, Lender may, to preserve its interest in the Property, perform or observe the same, and all payments made (whether such payments are regular or accelerated payments) and costs and expenses incurred or paid by Lender in connection therewith shall become due and payable immediately. The amounts so incurred or paid by Lender together with interest thereon at the Default Rate (as such term is defined in the Financing Agreement) from the date incurred until paid by Mortgagor, shall be added to the Obligations and secured by the lien of this Mortgage. Lender is hereby empowered to enter and authorize others to enter upon the Property or any part thereof for the purpose of performing or observing any such defaulted covenant, condition or term, without thereby becoming liable to Mortgagor or any person in possession holding under Mortgagor.

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1.13 Use of Property. Mortgagor covenants that the Property will be used, if at all, for the purposes set forth in Schedule C.

1.14 Required Notices. Mortgagor shall notify Lender promptly of the occurrence of any of the following: (i) receipt of notice from any governmental authority relating to the Property; (ii) receipt of a notice from any tenant leasing all or any portion of the Property; (iii) any change in the occupancy of the Property; (iv) receipt of any notice from the holder of any other lien or security interest in the Property; or (v) commencement of any judicial or administrative proceedings by or against or otherwise affecting Mortgagor, the Property or any Borrower or entity controlled by or under common control with Mortgagor, or any other action by any creditor thereof as a result of any default under the terms of any loan.

1.15 Future Indebtedness of Mortgagor. The lien of this Mortgage secures, as of the date hereof, without further act, all Obligations, and any additional indebtedness, whether direct, indirect, existing, future, contingent or otherwise, made by Lender to or for the benefit of Mortgagor and the other Borrowers from time to time hereafter; provided, however, that the total additional indebtedness secured hereby shall in no event exceed the principal sum of Twenty-Two Million Dollars (\$22,000,000), plus interest, costs and advances made by Lender to protect or preserve the Property or the lien hereof on the Property, or for taxes, assessments, or insurance premiums as herein provided.

ARTICLE TWO

DEFAULTS

2.01 Event of Default. The term "Event of Default", wherever used in this Mortgage, shall have the meaning ascribed to such term in the Financing Agreement.

ARTICLE THREE

REMEDIES

3.01 Acceleration of Maturity. If an Event of Default shall have occurred, then all of the Obligations secured hereby shall, at Lender's option, immediately become due and payable without notice or demand, time being of the essence hereof; and no omission on the part of Lender to exercise such option when entitled to do so shall be construed as a waiver of such right.

3.02 Lender's Power of Enforcement. If an Event of Default shall have occurred, Lender may, either with or without entry or taking possession as hereinabove provided or otherwise, and without regard to whether or not the Obligations shall be due and without prejudice to the right of Lender thereafter to bring any action for any default existing at the time such earlier action was commenced, proceed by any appropriate action or proceeding: (a) to enforce payment of the Obligations or the performance of any term hereof or any other right; (b) to enforce this Mortgage and to sell, as an entirety or in separate lots or parcels, the Property

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under the judgment or decree of a court or courts of competent jurisdiction; and (c) to pursue any other remedy available to it. Lender shall take action either by such proceedings or by the exercise of its powers with respect to entry or taking possession, or both, as Lender may determine.

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3.03 Lender's Right to Enter and Take Possession, Operate and Apply Income.

(a) If an Event of Default shall have occurred, (i) Mortgagor upon demand of Lender shall forthwith surrender to Lender the actual possession and if and to the extent permitted by law, Lender itself, or by such officers or agents as it may appoint, may enter upon and take possession of the Property and may exclude Mortgagor and its agents and employees wholly therefrom and may have joint access with Mortgagor to the books, papers and accounts of Mortgagor; and (ii) Mortgagor will pay monthly in advance to Lender on Lender's entry into possession, or to any receiver appointed to collect the rents, income and other benefits of the Property, the fair and reasonable rental value for the use and occupation of such part of the Property as may be in possession of Mortgagor, and upon default in any such payment will vacate and surrender possession of such part of the Property to Lender or to such receiver and, in default thereof, Mortgagor may be evicted by summary proceedings or otherwise.

(b) If Mortgagor shall for any reason fail to surrender or deliver the Property or any part thereof after Lender's demand, Lender may obtain a judgment or decree conferring on Lender the right to immediate possession or requiring Mortgagor to deliver immediate possession of all or part of the Property to Lender, to the entry of which judgment or decree Mortgagor hereby specifically consents. Mortgagor shall pay to Lender, upon demand, all reasonable costs and expenses of obtaining such judgment or decree and compensation to Lender, its attorneys and agents, and all such costs, expenses and compensation shall, until paid, be secured by the lien of this Mortgage.

(c) Upon every such entering upon or taking of possession, Lender may hold, store, use, operate, manage and control the Property and conduct the business thereof, and, from time to time:

(i) Make all necessary and proper maintenance, repairs, renewals, replacements, additions, betterments and improvements thereto and thereon and purchase or otherwise acquire additional fixtures, personalty and other property;

(ii) Insure or keep the Property insured;

(iii) Manage and operate the Property and exercise all the rights and powers of Mortgagor in its name or otherwise with respect to the same;

(iv) Enter into agreements with others to exercise the powers herein granted Lender, all as Lender from time to time may determine; and Lender may collect and receive all the rents, income and other benefits

thereof, including those past due as well as those accruing thereafter; and shall apply the monies so received by Lender in such priority as Lender may determine to (1) the payment of the Obligations; (2) the deposits for taxes and assessments and insurance premiums due; (3) the cost of insurance, taxes, assessments and proper charges upon the Property or any part thereof; (4) the expenses of operating, maintaining, repairing and improving the Property, including without limitation renting commissions and rental collection commissions paid to an

agent of Lender or of the receiver; and (5) the compensation, expenses and disbursements of the agents, attorneys and other representatives of Lender. All costs, expenses and liabilities of every character incurred by Lender in managing, operating and maintaining the Property, not paid out of rent as hereinabove provided, shall constitute additional Obligations secured hereby. While in possession of the Property, Lender or the receiver shall be liable to account only for the rents, issues and profits actually received.

Lender shall surrender possession of the Property to Mortgagor only when all Obligations secured hereby and all amounts under any of the terms of this Mortgage shall have been paid and all defaults cured or waived. The same right of taking possession, however, shall exist if any subsequent Event of Default shall occur and be continuing.

3.04 Reserved.

3.05 Leases. Lender is authorized to enforce this Mortgage subject to the rights of any tenants of the Property, and the failure to make any such tenants parties defendant to any such enforcement proceedings and to foreclose their rights will not be, nor be asserted by Mortgagor to be, a defense to any proceedings instituted by Lender to collect the sums secured hereby or to collect any deficiency remaining unpaid after the sale of the Property.

3.06 Waiver of Appraisalment, Valuation, Stay, Extension and Redemption Laws. Mortgagor agrees to the full extent permitted by law that in case of a default in its part hereunder, neither Mortgagor nor anyone claiming through or under it shall or will set up, claim or seek to take advantage of any appraisalment, valuation, extension or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of this Mortgage or the absolute sale of the Property or the final and absolute putting into possession thereof, immediately after such sale, of the purchasers thereat, and Mortgagor, for itself and all who may at any time claim through or under it, hereby waives, to the full extent that it may lawfully so do, the benefit of all such laws, and any and all right to have the assets comprising the Property marshalled upon any enforcement of the lien hereof and agrees that any court having jurisdiction to enforce such lien may sell the Property in part or as an entirety.

3.07 Receiver. If an Event of Default shall have occurred, Lender, to the extent permitted by law and without regard to the value or adequacy of the security for the Obligations secured hereby, shall be entitled as a matter of right if it so elects to the appointment of a receiver to enter upon and take possession of the Property and to collect all rents, income and other benefits thereof and apply the same as the court may direct, and any such receiver shall be entitled to hold, store, use, operate, manage and control the Property and conduct the business thereof as would Lender pursuant to Paragraph 3.03(c) above. The expenses, including receiver's fees, attorney's fees, costs and agent's compensation, incurred pursuant to the powers herein contained shall be secured by this Mortgage. The right to enter and take possession of and to manage and operate the Property and to collect all rents, income and other benefits thereof, whether by a receiver or otherwise, shall be cumulative to any other right or remedy hereunder or afforded by law and may be exercised concurrently therewith or independently thereof. Lender

shall be liable to account only for such rents, income and other benefits actually received by Lender, whether received pursuant to this paragraph or

paragraph 3.03. Notwithstanding the appointment of any receiver or other custodian, Lender shall be entitled as pledgee to the possession and control of any cash, deposits, or instruments at the time held by, or payable or deliverable under the terms of this Mortgage to, Lender.

3.08 Suits to Protect the Property. Lender shall have the power and authority to institute and maintain any suits and proceedings as Lender may deem advisable (a) to prevent any impairment of the Property by any acts which may be unlawful or any violation of this Mortgage, (b) to preserve or protect its interest in the Property, and (c) to restrain the enforcement of or compliance with any legislation or other government enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement or compliance with such enactment, rule or order might impair the security hereunder or be prejudicial to Lender's interest.

3.09 Proofs of Claim. In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings affecting Mortgagor or any guarantor, co-maker or endorser of any of Mortgagor's obligations, its creditors or its property, Lender, to the extent permitted by law, shall be entitled to file such proofs of claim and other documents as may be necessary or advisable in order to have its claims allowed in such proceedings for the entire amount due and payable by Mortgagor under this Mortgage, the Financing Agreement and any other instrument securing the Obligations, at the date of the institution of such proceedings, and for any additional amounts which may become due and payable by Mortgagor after such date.

3.10 Application of Monies by Lender.

(a) Upon the occurrence of an Event of Default, Lender shall be entitled to sue for and to recover judgment against Mortgagor for the whole amount of the Obligations due and unpaid together with costs and expenses, including without limitation, the reasonable compensation, expenses and disbursements of Lender's agents, attorneys and other representatives, either before, after or during the pendency of any proceedings for the enforcement of this Mortgage, and the right of Lender to recover such judgment shall not be affected by any taking possession hereunder, or by the exercise of any other right, power or remedy for the enforcement of the terms of this Mortgage.

(b) In case of a sale of all or any part of the Property and the application of the proceeds of sale to the payment of the Obligations secured hereby, Lender shall be entitled to enforce payment from Mortgagor of all Obligations then remaining due and unpaid and to recover judgment against Mortgagor for any portion thereof remaining unpaid, with interest.

(c) Mortgagor hereby agrees, to the extent permitted by law, that no recovery of any such judgment by Lender and no attachment or levy of any execution upon any of the Property or any other property shall in any way affect the lien of this Mortgage upon the

Property or any part thereof or any lien, rights, powers or remedies of Lender hereunder, but such lien, rights, powers and remedies shall continue unimpaired as before.

(d) Any monies collected or received by Lender under this paragraph 3.10 shall be applied to the payment of reasonable compensation, expenses and disbursements of the agents, attorneys and other representatives of Lender, and the balance remaining shall be applied to the payment of the Obligations secured hereby.

(e) The provisions of this paragraph shall not be deemed to limit or otherwise modify the provisions of any guaranty of the Obligations of Mortgagor to Lender.

3.11 Delay or Omission; No Waiver. No delay or omission of Lender to exercise any right, power or remedy accruing upon any Event of Default shall exhaust or impair any such right, power or remedy or shall be construed to waive any such Event of Default or to constitute acquiescence therein. Every right, power and remedy given to Lender may be exercised from time to time and as often

as may be deemed expedient by Lender.

3.12 No Waiver of One Default to Affect Another. No waiver of any Event of Default hereunder shall extend to or affect any subsequent or any other Event of Default then existing, or impair any rights, powers or remedies consequent thereon. If Lender (a) grants forbearance or an extension of time for the payment of any Obligations secured hereby; (b) takes other or additional security for the payment thereof; (c) waives or does not exercise any right granted in the Financing Agreement; (d) releases any part of the Property from the lien of this Mortgage; (e) consents to the filing of any map, plat or replat of the Land; (f) consents to the granting of any easement on the Land; or (g) makes or consents to any agreement changing the terms of this Mortgage or subordinating the lien or any charge hereof, no such act or omission shall release, discharge, modify, change or affect the Obligations of Mortgagor. No such act or omission shall preclude Lender from exercising any right, power or privilege herein granted or intended to be granted in case of any Event of Default then existing or of any subsequent Event of Default nor shall the lien of this Mortgage be altered hereby, except to the extent of releases as described in subparagraph (d) above of this paragraph 3.12.

3.13 Discontinuance of Proceedings; Position of Parties Restored. If Lender shall have proceeded to enforce any right or remedy under this Mortgage and such proceedings shall have been discontinued or abandoned for any reason, or such proceedings shall have resulted in a final determination adverse to Lender, then and in every such case Mortgagor and Lender shall be restored to their former positions and rights hereunder, and all rights, powers and remedies of Lender shall continue as if no such proceedings had occurred or had been taken.

3.14 Remedies Cumulative. No right, power or remedy conferred upon or reserved to Lender by this Mortgage or the Loan Documents is exclusive of any other right, power or remedy, but each and every such right, power and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy given under the Loan Documents, or now or hereafter existing at law, in equity or by statute.

ARTICLE FOUR

TRANSFER OR FURTHER ENCUMBRANCE OF THE PROPERTY

4.01 Transfer or Further Encumbrance of the Property. In the event of any sale, conveyance, transfer, lease, pledge or further encumbrance of the Property or any interest in or any part of the Property, or any further assignment of rents from the Property without the prior written consent of Lender then, at Lender's option, Lender may declare all Obligations to be due and payable immediately without demand or notice. Lender's consent shall be within its sole and absolute discretion, and Lender specifically reserves the right to condition its consent upon (by way of illustration but not of limitation) its approval of the financial management ability of the purchaser, transferee, lessee, pledgee or assignee, upon an agreement to escalate the interest rate on the Obligations to Lender's then current interest rate for similarly situated properties, upon the assumption of the Obligations and this Mortgage by the purchaser, transferee, lessee, pledgee or assignee, upon the receipt of guaranties of the indebtedness satisfactory to Lender or upon payment to Lender of a reasonable assumption fee. Any purchaser, transferee, lessee, pledgee or assignee shall be deemed to have assumed and agreed to pay the Obligations secured by this Mortgage and to have assumed and agreed to be bound by the terms and conditions of this Mortgage, including the terms of this paragraph, unless Lender specifically agrees in writing to the contrary. Mortgagor agrees that in the event the ownership of the Property or any part thereof becomes vested in a person other than Mortgagor, Lender may, without notice to Mortgagor (except as required by applicable law), deal in any way with such successor or successors in interest with reference to this Mortgage and the Obligations hereby secured without in any way vitiating or discharging Mortgagor's liability hereunder or under the Loan Documents. No transfer or encumbrance of the Property or any interest therein and no forbearance or assumption by any person with respect to this Mortgage and no extension to any person of the time for payment of the Obligations hereby secured given by Lender shall operate to release, discharge, modify, change or affect the liability of Mortgagor either in whole or in part, unless Lender specifically agrees in writing to the contrary.

ARTICLE FIVE

MISCELLANEOUS PROVISIONS

5.01 Successors and Assigns Included in Parties. Whenever one of the parties hereto is named or referred to herein, the heirs, personal representatives, successors and assigns of such party shall be included and all covenants and agreements contained in this Mortgage, by or on behalf of Mortgagor or Lender shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

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5.02 Addresses for Notices, Etc.

(a) Except as may be otherwise provided herein, any notice, report, demand or other instrument authorized or required to be given or furnished under this Mortgage to Mortgagor or Lender shall be in writing, shall be sent by certified or registered mail, return receipt requested, personal delivery against receipt, or by telegraph or facsimile and, unless otherwise expressly permitted herein, shall be deemed to have been validly served, given or delivered when delivered against receipt or one (1) business day after deposit in the United States mail, postage prepaid, or, in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of facsimile notice, when sent, answer back, addressed as follows:

If to Lender, at: The CIT Group/Commercial Services, Inc.
301 South Tryon Street
Charlotte, North Carolina 28202
Attention: Account Executive - Crown Crafts et al.
Facsimile No.: 704-339-2894

with a copy to: Hunton & Williams LLP
Bank of America Plaza, Suite 3500
101 South Tryon Street
Charlotte, North Carolina 28280
Attention: Haywood A. Barnes
Facsimile No.: 704-378-4790

If to Mortgagor: Churchill Weavers, Inc.
c/o Crown Crafts, Inc.
916 South Burnside Avenue
Gonzalez, Louisiana 70707
Attention: Randall Chestnut
Facsimile No.: 225-647-9112

With a copy to: Rogers & Hardin
229 Peachtree Street NE
2700 International Tower
Atlanta, Georgia 30303
Attention: Steven E. Fox
Facsimile No.: 404-525-2224

(b) Either party may change the address to which any such notice, report, demand or other instrument is to be delivered or mailed, by furnishing written notice of such change to the other party, but no such notice of change shall be effective unless and until received by such other party.

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5.03 Headings. The headings of the articles, sections, paragraphs and subdivisions of this Mortgage are for convenience of reference only, are not to be considered a part hereof, and shall not limit or expand or otherwise affect any of the terms hereof.

5.04 Invalid Provisions to Affect No Others. In the event that any of the covenants, agreements, terms or provisions contained in the Loan Documents shall be deemed invalid, illegal or unenforceable in any respect, the validity of the

remaining covenants, agreements, terms or provisions contained in the Loan Documents shall be in no way affected, prejudiced or disturbed thereby; and if any application of any term, restriction or covenant to any person or circumstances is deemed illegal or unenforceable, the application of such term, restriction or covenant to other persons and circumstances shall remain unaffected to the extent permitted by law.

5.05 Changes, Etc. Neither this Mortgage nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by Lender or Mortgagor, as the case may be, against which enforcement of the change, waiver, discharge or termination is sought. The modification hereof or of any of the Loan Documents or the release of any part of the Property from the lien hereof shall not impair the priority of the lien of this Mortgage.

5.06 Governing Law. This Mortgage shall be construed, interpreted, enforced and governed by and in accordance with the laws of the State of Kentucky.

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IN WITNESS WHEREOF, Mortgagor has caused this Mortgage and Security Agreement to be duly executed under seal in its corporate name by its duly authorized corporate officers on the day and year first above written.

CHURCHILL WEAVERS, INC.

By: /s/ E. Randall Chestnut

Name: E. Randall Chestnut

Title: Vice President

STATE OF Louisiana

Parish OF Ascension

I, the undersigned authority, a Notary Public in and for said County, in said state, hereby certify that E. Randall Chestnut, the Vice President of Churchill Weavers, Inc., who is personally known to me to be the same person whose name is signed to the foregoing instrument, acknowledged before me on this day that, being informed of the contents of the instrument, he, in his capacity as such Vice President and with full authority, executed the same voluntarily for and as the act of said corporation on the day the same bears date.

Given under my hand this the 7th day of July, 2006.

/s/ Doretta Trichel

Notary Public Doretta Trichel ID # 50325

My Commission Expires: is for life

Resident of Ascension Parish

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This document was prepared by:

Haywood A. Barnes, Esq.

Hunton & Williams LLP

Bank of America Plaza,

Suite 3500, 101 South Tryon Street

Charlotte, North Carolina 28280

/s/ Haywood A. Barnes

Exhibit 10.4

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY HAS BEEN SUBORDINATED TO CERTAIN OBLIGATIONS OF THE MAKER PURSUANT TO A SUBORDINATION AGREEMENT AMONG, INTER ALIA, THE LENDERS AND THE CIT GROUP/COMMERCIAL SERVICES, INC., AS AMENDED FROM TIME TO TIME.

SECURED SUBORDINATED PROMISSORY NOTE

\$1,830,680.00

July 11, 2006

FOR VALUE RECEIVED, Crown Crafts, Inc., a Delaware corporation ("Maker"), promises to pay to the order of Wachovia Bank, National Association, its successors and assigns ("Lender"), the original principal sum of ONE MILLION EIGHT HUNDRED THIRTY THOUSAND SIX HUNDRED EIGHTY and No/100 Dollars (\$1,830,680.00), without interest thereon, in two equal installments of NINE HUNDRED FIFTEEN THOUSAND THREE HUNDRED FORTY and No/100 Dollars (\$915,340.00) each, with the first such installment to be paid on the fourth anniversary of the date hereof and the second such installment to be paid on the fifth anniversary of the date hereof.

1. Acceleration of Payment.

(a) The entire indebtedness evidenced by this Secured Subordinated Promissory Note (the "Note") shall, at the option of Lender and upon notice to Maker, at once become due and payable and may be collected forthwith, regardless of the stipulated date of maturity, in the event that (i) Maker fails to pay any principal hereunder on the date such payment is due, (ii) Maker fails to pay any other amount due hereunder within three (3) Business Days (as hereinafter defined) after the date such payment is due, (iii) there shall occur a Change in Control (as hereinafter defined), or (iv) there shall occur a Bankruptcy Event (as hereinafter defined).

(b) For purposes hereof, "Change in Control" shall mean one or more of the following shall have occurred:

(i) a merger or consolidation of Maker with or into another corporation other than a merger or consolidation (A) with a subsidiary of Maker; (B) in which (1) the holders of voting stock of Maker immediately prior to the merger as a class continue to hold immediately after the merger at least a majority of all outstanding voting power of the surviving or resulting corporation or its parent and (2) all holders of each outstanding class or series of voting stock of Maker immediately prior to the merger or consolidation have the right to receive substantially the same cash, securities or other property in exchange for their voting stock of Maker as all other holders of such class or series; (C) in connection with which E. Randall Chestnut shall serve as Chief Executive Officer of the surviving or resulting corporation or its parent; or (D) in connection with which a majority of the persons serving on the board of directors of the surviving or resulting corporation or its parent shall be persons who were members of the Board of Directors of Maker immediately prior to such merger or consolidation;

(ii) the sale or other disposition of all or substantially all of the assets of Maker (in one transaction or a series of transactions); or

(iii) the liquidation or dissolution of Maker.

(c) For purposes hereof, "Bankruptcy Event" shall mean one or more of the following shall have occurred:

(i) Maker (A) shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or (B) shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or (C) shall make a general assignment for the benefit of creditors, or (D) shall fail generally, or shall admit in writing its inability, to pay its debts as they become due,

or (E) shall take any corporate action to authorize any of the foregoing;
or

(ii) an involuntary case or other proceeding shall be commenced against Maker seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days, or an order for relief shall be entered against Maker under the federal bankruptcy laws as now or hereafter in effect.

2. Manner of Payment.

(a) Each date upon which a payment hereunder must be made (whether stated, defined or accelerated) shall be referred to herein as a "Payment Date." Any payment hereunder which is due on a Payment Date which is not a Business Day (as hereinafter defined) shall be made on the next succeeding Business Day. As used herein "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banks in New York, New York are authorized or required by law to be closed.

(b) Each payment hereunder shall be by wire transfer of immediately available funds to an account designated by Lender prior to the applicable Payment Date.

(c) If any amount hereunder shall not be paid when due (whether prior to or on the date specified in this Note or by acceleration or otherwise), interest shall accrue on such overdue amounts to the extent permitted by law at the rate of five percent (5%) per annum from the date due to and including the date of actual payment (after as well as before judgment).

3. Subordination of Note. This Note is subject in all respects to that certain Subordination Agreement of even date herewith to which The CIT Group/Commercial Services, Inc. ("CIT") and Lender, among others, are parties.

2

4. Guaranty; Security Agreement and Mortgages. This Note is one of three Notes (collectively, the "Notes") issued to Wachovia Bank, National Association, Banc of America Strategic Solutions, Inc. and The Prudential Insurance Company of America (collectively, the "Lenders"). Churchill Weavers, Inc., Hamco, Inc. and Crown Crafts Infant Products, Inc. (collectively, the "Subsidiary Guarantors") are executing and delivering a Guaranty of even date herewith (the "Guaranty") pursuant to which they jointly and severally and unconditionally guaranty the prompt payment in full of all obligations under the Notes. In addition, as security for the prompt payment in full of all obligations under the Notes, (i) Maker and each of the Subsidiary Guarantors are executing and delivering a Security Agreement of even date herewith (the "Security Agreement") in favor of Wachovia Bank, National Association, in its capacity as collateral agent for the Lenders (in such capacity, the "Lender Agent"), pursuant to which they pledge and grant to the Lender Agent, for the ratable benefit of the Lenders, a continuing, general lien upon, and security interest and security title in and to, all of the Collateral (as defined in that certain Financing Agreement of even date herewith among CIT, Maker and the Subsidiary Guarantors (the "Senior Debt Agreement")) and (ii) Churchill Weavers, Inc. is executing and delivering a mortgage (the "Mortgage") on the Real Estate (as defined in the Senior Debt Agreement) in favor of the Lender Agent, for the ratable benefit of the Lenders, the liens and security titles under the Security Agreement and the Mortgage being junior to the liens and security titles granted by Maker and the Subsidiary Guarantors in connection with the Senior Debt Agreement.

5. Waivers of Maker. Maker hereby waives (a) all presentments, demands for performance, notice of nonperformance (except to the extent specifically required by the provisions hereof), (b) any requirement of diligence or promptness on the part of Lender in the enforcement of its rights under this Note, (c) except to the extent specifically required by other provisions of this Note, any and all notices of every kind and description which may be required to be given by any statute or rule of law, and (d) any defense of any kind which it may now or hereafter have with respect to its liability under this Note.

6. Prepayments. Subject to the subordination provisions hereof, Maker may prepay the principal amount of this Note in whole or in part without penalty.

7. Interest Limited by Law. If from any circumstances whatsoever, Maker is at any time required or obligated to pay interest at a rate in excess of the maximum rate prescribed by any applicable usury statute or any other applicable law, then, ipso facto, the obligation to be fulfilled shall be reduced to such maximum rate, so that in no event shall any payment be possible under this Note that is in excess of such maximum rate.

8. Severability. Each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

9. Waiver and Amendment. Any provision of this Note may be amended, waived or modified upon the written consent of Maker and Lender.

3

10. Assignment. The rights and obligations of Maker and Lender hereunder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties; provided, that Maker may not assign its obligation hereunder without the prior written consent of the Lender.

11. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

12. Effectiveness of Waiver by Lender. No waiver by Lender of any default shall be effective unless in writing, nor shall it operate as a waiver of any other default or of the same default on a future occasion. No delay or omission by Lender in exercising any of its rights, remedies, powers and privileges hereunder or at law and no course of dealing between Lender and Maker or any other person shall be deemed a waiver by Lender of any of such rights, remedies, powers and privileges even if such delay or omission is continuous or repeated, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise thereof by Lender or the exercise of any other right, remedy, power or privilege by Lender.

13. Attorneys' Fees. If this Note is placed in the hands of any attorney for collection, or if collected by suit or through any bankruptcy or other legal proceedings, Maker hereby agrees to pay all reasonable expenses actually incurred by Lender with respect thereto, including, without limitation, attorneys' fees, all of which shall become a part of the principal hereof.

14. Remedies Cumulative. The remedies of Lender as provided herein and in any other documents governing or securing repayment hereof shall be cumulative and concurrent and may be pursued singly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefore shall arise.

15. Applicable Law. This Note shall be construed in accordance with the laws of the State of New York without giving effect to the conflict of law principles thereof.

16. Notice. Any notice, request, instruction or other document to be given hereunder by any party hereto to any other party hereto must be in writing and delivered personally (including by overnight courier) or sent by certified mail (postage pre-paid and return receipt requested), or be transmitted by facsimile:

If to Maker: Crown Crafts, Inc.
916 S. Burnside Avenue
Gonzales, Louisiana 70737
Attention: Mr. E. Randall Chestnut
Facsimile No.: (225) 647-9112

If to Lender: Wachovia Bank, National Association

171 17th Street, NW
MCGA: 4524
Atlanta, Georgia 30363

4

Attention: Monica Coles
Facsimile No.: 404-214-3962

or to such other address as may be specified from time to time in a notice given by such party. All notices and other communications required or permitted hereunder shall be deemed given when delivered personally, mailed by certified mail (postage pre-paid and return receipt requested), sent by overnight courier or faxed (transmission confirmed), or otherwise actually received.

[signature on following page]

5

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

MAKER:

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and Chief Executive
Officer

ACKNOWLEDGEMENT OF LENDER

Lender hereby acknowledges and agrees that (a) as additional consideration for Maker's issuance of this Note to Lender, Lender has delivered to Maker for cancellation that certain Series B Common Stock Purchase Warrant of Maker dated July 23, 2001, as issued to Lender on April 29, 2003, and (b) upon cancellation of such Warrant by Maker, Lender shall have no options, warrants, scrip, rights to subscribe for, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of the capital stock of Maker.

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Patrick Moody

Its: Vice President

Exhibit 10.5

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY HAS BEEN SUBORDINATED TO CERTAIN OBLIGATIONS OF THE MAKER PURSUANT TO A SUBORDINATION AGREEMENT AMONG, INTER ALIA, THE LENDERS AND THE CIT GROUP/COMMERCIAL SERVICES, INC., AS AMENDED FROM TIME TO TIME.

SECURED SUBORDINATED PROMISSORY NOTE

\$792,840.00

July 11, 2006

FOR VALUE RECEIVED, Crown Crafts, Inc., a Delaware corporation ("Maker"), promises to pay to the order of Banc of America Strategic Solutions, Inc., its successors and assigns ("Lender"), the original principal sum of SEVEN HUNDRED NINETY TWO THOUSAND EIGHT HUNDRED FORTY and No/100 Dollars (\$792,840.00), without interest thereon, in two equal installments of THREE HUNDRED NINETY SIX THOUSAND FOUR HUNDRED TWENTY and No/100 Dollars (\$396,420.00) each, with the first such installment to be paid on the fourth anniversary of the date hereof and the second such installment to be paid on the fifth anniversary of the date hereof.

1. Acceleration of Payment.

(a) The entire indebtedness evidenced by this Secured Subordinated Promissory Note (the "Note") shall, at the option of Lender and upon notice to Maker, at once become due and payable and may be collected forthwith, regardless of the stipulated date of maturity, in the event that (i) Maker fails to pay any principal hereunder on the date such payment is due, (ii) Maker fails to pay any other amount due hereunder within three (3) Business Days (as hereinafter defined) after the date such payment is due, (iii) there shall occur a Change in Control (as hereinafter defined), or (iv) there shall occur a Bankruptcy Event (as hereinafter defined).

(b) For purposes hereof, "Change in Control" shall mean one or more of the following shall have occurred:

(i) a merger or consolidation of Maker with or into another corporation other than a merger or consolidation (A) with a subsidiary of Maker; (B) in which (1) the holders of voting stock of Maker immediately prior to the merger as a class continue to hold immediately after the merger at least a majority of all outstanding voting power of the surviving or resulting corporation or its parent and (2) all holders of each outstanding class or series of voting stock of Maker immediately prior to the merger or consolidation have the right to receive substantially the same cash, securities or other property in exchange for their voting stock of Maker as all other holders of such class or series; (C) in connection with which E. Randall Chestnut shall serve as Chief Executive Officer of the surviving or resulting corporation or its parent; or (D) in connection with which a majority of the persons serving on the board of directors of the surviving or resulting corporation or its parent shall be persons who were members of the Board of Directors of Maker immediately prior to such merger or consolidation;

(ii) the sale or other disposition of all or substantially all of the assets of Maker (in one transaction or a series of transactions); or

(iii) the liquidation or dissolution of Maker.

(c) For purposes hereof, "Bankruptcy Event" shall mean one or more of the following shall have occurred:

(i) Maker (A) shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or (B) shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or (C) shall make a general assignment for the benefit of creditors, or (D) shall fail generally, or shall admit in writing its inability, to pay its debts as they become due,

or (E) shall take any corporate action to authorize any of the foregoing;
or

(ii) an involuntary case or other proceeding shall be commenced against Maker seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days, or an order for relief shall be entered against Maker under the federal bankruptcy laws as now or hereafter in effect.

2. Manner of Payment.

(a) Each date upon which a payment hereunder must be made (whether stated, defined or accelerated) shall be referred to herein as a "Payment Date." Any payment hereunder which is due on a Payment Date which is not a Business Day (as hereinafter defined) shall be made on the next succeeding Business Day. As used herein "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banks in New York, New York are authorized or required by law to be closed.

(b) Each payment hereunder shall be by wire transfer of immediately available funds to an account designated by Lender prior to the applicable Payment Date.

(c) If any amount hereunder shall not be paid when due (whether prior to or on the date specified in this Note or by acceleration or otherwise), interest shall accrue on such overdue amounts to the extent permitted by law at the rate of five percent (5%) per annum from the date due to and including the date of actual payment (after as well as before judgment).

3. Subordination of Note. This Note is subject in all respects to that certain Subordination Agreement of even date herewith to which The CIT Group/Commercial Services, Inc. ("CIT") and Lender, among others, are parties.

4. Guaranty; Security Agreement and Mortgages. This Note is one of three Notes (collectively, the "Notes") issued to Wachovia Bank, National Association, Banc of America Strategic Solutions, Inc. and The Prudential Insurance Company of America (collectively, the "Lenders"). Churchill Weavers, Inc., Hamco, Inc. and Crown Crafts Infant Products, Inc. (collectively, the "Subsidiary Guarantors") are executing and delivering a Guaranty of even date herewith (the "Guaranty") pursuant to which they jointly and severally and unconditionally guaranty the prompt payment in full of all obligations under the Notes. In addition, as security for the prompt payment in full of all obligations under the Notes, (i) Maker and each of the Subsidiary Guarantors are executing and delivering a Security Agreement of even date herewith (the "Security Agreement") in favor of Wachovia Bank, National Association, in its capacity as collateral agent for the Lenders (in such capacity, the "Lender Agent"), pursuant to which they pledge and grant to the Lender Agent, for the ratable benefit of the Lenders, a continuing, general lien upon, and security interest and security title in and to, all of the Collateral (as defined in that certain Financing Agreement of even date herewith among CIT, Maker and the Subsidiary Guarantors (the "Senior Debt Agreement")) and (ii) Churchill Weavers, Inc. is executing and delivering a mortgage (the "Mortgage") on the Real Estate (as defined in the Senior Debt Agreement) in favor of the Lender Agent, for the ratable benefit of the Lenders, the liens and security titles under the Security Agreement and the Mortgage being junior to the liens and security titles granted by Maker and the Subsidiary Guarantors in connection with the Senior Debt Agreement.

5. Waivers of Maker. Maker hereby waives (a) all presentments, demands for performance, notice of nonperformance (except to the extent specifically required by the provisions hereof), (b) any requirement of diligence or promptness on the part of Lender in the enforcement of its rights under this Note, (c) except to the extent specifically required by other provisions of this Note, any and all notices of every kind and description which may be required to be given by any statute or rule of law, and (d) any defense of any kind which it may now or hereafter have with respect to its liability under this Note.

6. Prepayments. Subject to the subordination provisions hereof, Maker may prepay the principal amount of this Note in whole or in part without penalty.

7. Interest Limited by Law. If from any circumstances whatsoever, Maker is at any time required or obligated to pay interest at a rate in excess of the maximum rate prescribed by any applicable usury statute or any other applicable law, then, ipso facto, the obligation to be fulfilled shall be reduced to such maximum rate, so that in no event shall any payment be possible under this Note that is in excess of such maximum rate.

8. Severability. Each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

9. Waiver and Amendment. Any provision of this Note may be amended, waived or modified upon the written consent of Maker and Lender.

3

10. Assignment. The rights and obligations of Maker and Lender hereunder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties; provided, that Maker may not assign its obligation hereunder without the prior written consent of the Lender.

11. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

12. Effectiveness of Waiver by Lender. No waiver by Lender of any default shall be effective unless in writing, nor shall it operate as a waiver of any other default or of the same default on a future occasion. No delay or omission by Lender in exercising any of its rights, remedies, powers and privileges hereunder or at law and no course of dealing between Lender and Maker or any other person shall be deemed a waiver by Lender of any of such rights, remedies, powers and privileges even if such delay or omission is continuous or repeated, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise thereof by Lender or the exercise of any other right, remedy, power or privilege by Lender.

13. Attorneys' Fees. If this Note is placed in the hands of any attorney for collection, or if collected by suit or through any bankruptcy or other legal proceedings, Maker hereby agrees to pay all reasonable expenses actually incurred by Lender with respect thereto, including, without limitation, attorneys' fees, all of which shall become a part of the principal hereof.

14. Remedies Cumulative. The remedies of Lender as provided herein and in any other documents governing or securing repayment hereof shall be cumulative and concurrent and may be pursued singly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefore shall arise.

15. Applicable Law. This Note shall be construed in accordance with the laws of the State of New York without giving effect to the conflict of law principles thereof.

16. Notice. Any notice, request, instruction or other document to be given hereunder by any party hereto to any other party hereto must be in writing and delivered personally (including by overnight courier) or sent by certified mail (postage pre-paid and return receipt requested), or be transmitted by facsimile:

If to Maker: Crown Crafts, Inc.
916 S. Burnside Avenue
Gonzales, Louisiana 70737
Attention: Mr. E. Randall Chestnut
Facsimile No.: (225) 647-9112

If to Lender: Banc of America Strategic Solutions, Inc.

NY1-503-05-06
335 Madison Ave.
New York, New York 10017

4

Attention: Kevin M. Behan, SVP
Facsimile No.: (704) 602-3609

or to such other address as may be specified from time to time in a notice given by such party. All notices and other communications required or permitted hereunder shall be deemed given when delivered personally, mailed by certified mail (postage pre-paid and return receipt requested), sent by overnight courier or faxed (transmission confirmed), or otherwise actually received.

[signature on following page]

5

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

MAKER:

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and Chief Executive
Officer

ACKNOWLEDGEMENT OF LENDER

Lender hereby acknowledges and agrees that (a) as additional consideration for Maker's issuance of this Note to Lender, Lender has delivered to Maker for cancellation that certain Series B Common Stock Purchase Warrant of Maker dated July 23, 2001, as issued to Lender on April 29, 2003, and (b) upon cancellation of such Warrant by Maker, Lender shall have no options, warrants, scrip, rights to subscribe for, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of the capital stock of Maker.

BANC OF AMERICA STRATEGIC
SOLUTIONS, INC.

By: /s/ Jason Cipriani

Its: Principal

Exhibit 10.6

THIS NOTE AND THE INDEBTEDNESS EVIDENCED HEREBY HAS BEEN SUBORDINATED TO CERTAIN OBLIGATIONS OF THE MAKER PURSUANT TO A SUBORDINATION AGREEMENT AMONG, INTER ALIA, THE LENDERS AND THE CIT GROUP/COMMERCIAL SERVICES, INC., AS AMENDED FROM TIME TO TIME.

SECURED SUBORDINATED PROMISSORY NOTE

\$1,376,480.00

July 11, 2006

FOR VALUE RECEIVED, Crown Crafts, Inc., a Delaware corporation ("Maker"), promises to pay to the order of The Prudential Insurance Company of America, its successors and assigns ("Lender"), the original principal sum of ONE MILLION THREE HUNDRED SEVENTY SIX THOUSAND FOUR HUNDRED EIGHTY and No/100 Dollars (\$1,376,480.00), without interest thereon, in two equal installments of SIX HUNDRED EIGHTY EIGHT THOUSAND TWO HUNDRED FORTY and No/100 Dollars (\$688,240.00) each, with the first such installment to be paid on the fourth anniversary of the date hereof and the second such installment to be paid on the fifth anniversary of the date hereof.

1. Acceleration of Payment.

(a) The entire indebtedness evidenced by this Secured Subordinated Promissory Note (the "Note") shall, at the option of Lender and upon notice to Maker, at once become due and payable and may be collected forthwith, regardless of the stipulated date of maturity, in the event that (i) Maker fails to pay any principal hereunder on the date such payment is due, (ii) Maker fails to pay any other amount due hereunder within three (3) Business Days (as hereinafter defined) after the date such payment is due, (iii) there shall occur a Change in Control (as hereinafter defined), or (iv) there shall occur a Bankruptcy Event (as hereinafter defined).

(b) For purposes hereof, "Change in Control" shall mean one or more of the following shall have occurred:

(i) a merger or consolidation of Maker with or into another corporation other than a merger or consolidation (A) with a subsidiary of Maker; (B) in which (1) the holders of voting stock of Maker immediately prior to the merger as a class continue to hold immediately after the merger at least a majority of all outstanding voting power of the surviving or resulting corporation or its parent and (2) all holders of each outstanding class or series of voting stock of Maker immediately prior to the merger or consolidation have the right to receive substantially the same cash, securities or other property in exchange for their voting stock of Maker as all other holders of such class or series; (C) in connection with which E. Randall Chestnut shall serve as Chief Executive Officer of the surviving or resulting corporation or its parent; or (D) in connection with which a majority of the persons serving on the board of directors of the surviving or resulting corporation or its parent shall be persons who were members of the Board of Directors of Maker immediately prior to such merger or consolidation;

(ii) the sale or other disposition of all or substantially all of the assets of Maker (in one transaction or a series of transactions); or

(iii) the liquidation or dissolution of Maker.

(c) For purposes hereof, "Bankruptcy Event" shall mean one or more of the following shall have occurred:

(i) Maker (A) shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or (B) shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or (C) shall make a general assignment for the benefit of creditors, or (D) shall fail generally, or shall admit in writing its inability, to pay its debts as they become due,

or (E) shall take any corporate action to authorize any of the foregoing;
or

(ii) an involuntary case or other proceeding shall be commenced against Maker seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days, or an order for relief shall be entered against Maker under the federal bankruptcy laws as now or hereafter in effect.

2. Manner of Payment.

(a) Each date upon which a payment hereunder must be made (whether stated, defined or accelerated) shall be referred to herein as a "Payment Date." Any payment hereunder which is due on a Payment Date which is not a Business Day (as hereinafter defined) shall be made on the next succeeding Business Day. As used herein "Business Day" shall mean any day other than a Saturday or Sunday or a day on which banks in New York, New York are authorized or required by law to be closed.

(b) Each payment hereunder shall be by wire transfer of immediately available funds to an account designated by Lender prior to the applicable Payment Date.

(c) If any amount hereunder shall not be paid when due (whether prior to or on the date specified in this Note or by acceleration or otherwise), interest shall accrue on such overdue amounts to the extent permitted by law at the rate of five percent (5%) per annum from the date due to and including the date of actual payment (after as well as before judgment).

3. Subordination of Note. This Note is subject in all respects to that certain Subordination Agreement of even date herewith to which The CIT Group/Commercial Services, Inc. ("CIT") and Lender, among others, are parties.

2

4. Guaranty; Security Agreement and Mortgages. This Note is one of three Notes (collectively, the "Notes") issued to Wachovia Bank, National Association, Banc of America Strategic Solutions, Inc. and The Prudential Insurance Company of America (collectively, the "Lenders"). Churchill Weavers, Inc., Hamco, Inc. and Crown Crafts Infant Products, Inc. (collectively, the "Subsidiary Guarantors") are executing and delivering a Guaranty of even date herewith (the "Guaranty") pursuant to which they jointly and severally and unconditionally guaranty the prompt payment in full of all obligations under the Notes. In addition, as security for the prompt payment in full of all obligations under the Notes, (i) Maker and each of the Subsidiary Guarantors are executing and delivering a Security Agreement of even date herewith (the "Security Agreement") in favor of Wachovia Bank, National Association, in its capacity as collateral agent for the Lenders (in such capacity, the "Lender Agent"), pursuant to which they pledge and grant to the Lender Agent, for the ratable benefit of the Lenders, a continuing, general lien upon, and security interest and security title in and to, all of the Collateral (as defined in that certain Financing Agreement of even date herewith among CIT, Maker and the Subsidiary Guarantors (the "Senior Debt Agreement")) and (ii) Churchill Weavers, Inc. is executing and delivering a mortgage (the "Mortgage") on the Real Estate (as defined in the Senior Debt Agreement) in favor of the Lender Agent, for the ratable benefit of the Lenders, the liens and security titles under the Security Agreement and the Mortgage being junior to the liens and security titles granted by Maker and the Subsidiary Guarantors in connection with the Senior Debt Agreement.

5. Waivers of Maker. Maker hereby waives (a) all presentments, demands for performance, notice of nonperformance (except to the extent specifically required by the provisions hereof), (b) any requirement of diligence or promptness on the part of Lender in the enforcement of its rights under this Note, (c) except to the extent specifically required by other provisions of this Note, any and all notices of every kind and description which may be required to be given by any statute or rule of law, and (d) any defense of any kind which it may now or hereafter have with respect to its liability under this Note.

6. Prepayments. Subject to the subordination provisions hereof, Maker may prepay the principal amount of this Note in whole or in part without penalty.

7. Interest Limited by Law. If from any circumstances whatsoever, Maker is at any time required or obligated to pay interest at a rate in excess of the maximum rate prescribed by any applicable usury statute or any other applicable law, then, ipso facto, the obligation to be fulfilled shall be reduced to such maximum rate, so that in no event shall any payment be possible under this Note that is in excess of such maximum rate.

8. Severability. Each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note.

9. Waiver and Amendment. Any provision of this Note may be amended, waived or modified upon the written consent of Maker and Lender.

3

10. Assignment. The rights and obligations of Maker and Lender hereunder shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties; provided, that Maker may not assign its obligation hereunder without the prior written consent of the Lender.

11. Heading; References. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

12. Effectiveness of Waiver by Lender. No waiver by Lender of any default shall be effective unless in writing, nor shall it operate as a waiver of any other default or of the same default on a future occasion. No delay or omission by Lender in exercising any of its rights, remedies, powers and privileges hereunder or at law and no course of dealing between Lender and Maker or any other person shall be deemed a waiver by Lender of any of such rights, remedies, powers and privileges even if such delay or omission is continuous or repeated, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise thereof by Lender or the exercise of any other right, remedy, power or privilege by Lender.

13. Attorneys' Fees. If this Note is placed in the hands of any attorney for collection, or if collected by suit or through any bankruptcy or other legal proceedings, Maker hereby agrees to pay all reasonable expenses actually incurred by Lender with respect thereto, including, without limitation, attorneys' fees, all of which shall become a part of the principal hereof.

14. Remedies Cumulative. The remedies of Lender as provided herein and in any other documents governing or securing repayment hereof shall be cumulative and concurrent and may be pursued singly, successively or together, at the sole discretion of Lender, and may be exercised as often as occasion therefore shall arise.

15. Applicable Law. This Note shall be construed in accordance with the laws of the State of New York without giving effect to the conflict of law principles thereof.

16. Notice. Any notice, request, instruction or other document to be given hereunder by any party hereto to any other party hereto must be in writing and delivered personally (including by overnight courier) or sent by certified mail (postage pre-paid and return receipt requested), or be transmitted by facsimile:

If to Maker: Crown Crafts, Inc.
916 S. Burnside Avenue
Gonzales, Louisiana 70737
Attention: Mr. E. Randall Chestnut
Facsimile No.: (225) 647-9112

If to Lender: The Prudential Insurance Company of America

1170 Peachtree Street, Suite 500
Atlanta, Georgia 30309
Attention: Managing Director

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Facsimile No.: (404) 870-3741

or to such other address as may be specified from time to time in a notice given by such party. All notices and other communications required or permitted hereunder shall be deemed given when delivered personally, mailed by certified mail (postage pre-paid and return receipt requested), sent by overnight courier or faxed (transmission confirmed), or otherwise actually received.

[signature on following page]

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IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

MAKER:

CROWN CRAFTS, INC.

By: /s/ E. Randall Chestnut

E. Randall Chestnut
President and Chief Executive
Officer

ACKNOWLEDGEMENT OF LENDER

Lender hereby acknowledges and agrees that (a) as additional consideration for Maker's issuance of this Note to Lender, Lender has delivered to Maker for cancellation both of those certain Series C Common Stock Purchase Warrants of Maker each dated July 23, 2001, as issued to Lender on April 29, 2003, and (b) upon cancellation of such Warrant by Maker, Lender shall have no options, warrants, scrip, rights to subscribe for, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of the capital stock of Maker.

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

By: /s/ Billy Greer

Its: Sr. Vice President

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Security Agreement") is entered into as of July 11, 2006, by and among Crown Crafts, Inc. ("Maker"), Churchill Weavers, Inc., Hamco, Inc. and Crown Crafts Infant Products, Inc. (individually a "Guarantor" and collectively the "Guarantors"; the Guarantors, together with the Maker, individually an "Obligor" and collectively the "Obligors"), and Wachovia Bank, National Association, in its capacity as agent for the ratable benefit of the Lenders, as defined below (in such capacity, the "Agent").

RECITALS

WHEREAS, pursuant to the Payoff Letter, the Agent and the Lenders have agreed to terminate the Existing Documents and accept payment of amounts specified in the Payoff Letter in cash, together with the Subordinated Notes, subject to the conditions set forth therein and herein, and subject to the execution and delivery by the Obligors of this Security Agreement to the Agent for the benefit of the Agent and the Lenders.

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.

"Accounts" means all of each Obligor's present and future: (a) accounts (as defined in the UCC); (b) instruments, documents, chattel paper (including electronic chattel paper) (all as defined in the UCC); (c) unpaid seller's or lessor's rights (including rescission, replevin, reclamation, repossession and stoppage in transit) relating to the foregoing or arising therefrom; (d) rights to any goods represented by any of the foregoing, including rights to returned, reclaimed or repossessed goods; (e) guaranties, other supporting obligations, payment intangibles and letter of credit rights (all as defined in the UCC); (f) insurance policies or rights relating to any of the foregoing; (g) general intangibles pertaining to any of the foregoing (including rights to payment, including those arising in connection with bank and non-bank credit cards), and all books and records and any electronic media and software relating thereto; (h) notes, deposits or other property of each Obligor's account debtors securing the obligations owed by such account debtors to such Obligor; and (i) all Proceeds of any of the foregoing.

"Agent" has the meaning set forth in the preamble hereto.

"Casualty Proceeds" means (a) payments or other proceeds from an insurance carrier with respect to any loss, casualty or damage to Collateral, and (b) payments received on account of any condemnation or other governmental taking of any of the Collateral.

"Collateral" means, collectively, all present and future Accounts, Factored Accounts, Equipment, Inventory and other Goods, Documents of Title, General Intangibles, Investment Property, Real Estate and Other Collateral.

"Contribution Agreement" means the Contribution Agreement of even date herewith, executed and delivered by the Obligors.

"Copyrights" means all of each Obligor's present and hereafter acquired copyrights, copyright registrations, recordings, applications, designs, styles, licenses, marks, prints and labels bearing any of the foregoing, all reissues and renewals thereof, all licenses thereof, all other general intangible, intellectual property and other rights pertaining to any of the foregoing, together with the goodwill associated therewith, and all income, royalties and other Proceeds of any of the foregoing.

"Depository Account" means each "Depository Account" established pursuant to and as defined in the Senior Credit Agreement, over which control in favor of the Agent (subject to the prior control established in favor of the Senior Creditor) shall be established pursuant to one or more

Depository Account Control Agreements.

"Depository Account Control Agreement" shall mean a three-party agreement in form and substance satisfactory to the Agent among the Agent, the applicable Obligor and the bank which will maintain a Depository Account, (a) which provides the Agent with control of such Depository Account (subject to the prior control established in favor of the Senior Creditor), and (b) pursuant to which such bank agrees that (i) all cash, checks, wires and other items received or deposited into the Depository Account are the property of the Agent (subject to the interests of the Senior Creditor), and (ii) except for the prior lien of the Senior Creditor or as otherwise provided in the Depository Account Control Agreement, such bank has no lien upon, or right of set off against, the Depository Account and any cash, checks, wires and other items from time to time on deposit therein.

"Documents of Title" means all each Obligor's present and future documents (as defined in the UCC), and any and all warehouse receipts, bills of lading, shipping documents, chattel paper, instruments and similar documents, all whether negotiable or non-negotiable, together with all Inventory and other Goods relating thereto, and all Proceeds of any of the foregoing.

"Equipment" means all of each Obligor's present and hereafter acquired equipment (as defined in the UCC) including, without limitation, all machinery, equipment, rolling stock, furnishings and fixtures, and all additions, substitutions and replacements thereof, wherever located, together with all attachments, components, parts, equipment and accessories installed thereon or affixed thereto and all Proceeds of any of the foregoing.

"Existing Documents" means the "Existing Credit Agreement", the "Note Purchase Agreement", and the other "Transaction Documents", as those terms are defined in the Payoff Letter.

"Event of Default" has the meaning set forth in Article 4 hereof.

"Factored Accounts" has the meaning set forth in the Senior Credit Agreement.

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"Factoring Credit Balances" has the meaning set forth in the Senior Credit Agreement.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time and for the period as to which such accounting principles are to apply.

"General Intangibles" means all of each Obligor's present and hereafter acquired general intangibles (as defined in the UCC), and shall include, without limitation, all present and future right, title and interest in and to: (a) all Trademarks, (b) Patents, utility models, industrial models, and designs, (c) Copyrights, (d) trade secrets, (e) licenses, permits and franchises, (f) any other forms of intellectual property, (g) all customer lists, distribution agreements, supply agreements, blueprints, indemnification rights and tax refunds, (h) all monies and claims for monies now or hereafter due and payable in connection with the foregoing, including, without limitation, payments for infringement and royalties arising from any licensing agreement between any Obligor and any licensee of any of such Obligor's General Intangibles, (i) the Factoring Credit Balances and (j) all Proceeds of any of the foregoing.

"Goods" means all of each Obligor's present and hereafter acquired "Goods", as defined in the UCC, and all Proceeds thereof.

"Inventory" means all of the Obligors' present and hereafter acquired inventory (as defined in the UCC), including, without limitation, all merchandise and inventory in all stages of production (from raw materials through work in process to finished goods), and all additions, substitutions and replacements thereof, wherever located, together with all

goods and materials used or usable in manufacturing, processing, packaging or shipping of the foregoing, and all Proceeds of any of the foregoing.

"Investment Property" means all of each Obligor's present and hereafter acquired "Investment Property", as defined in the UCC, together with all stock and other equity interests in the Obligors' subsidiaries, and all Proceeds thereof.

"Lenders" means (i) Wachovia Bank, National Association, Banc of America Strategic Solutions, Inc., and The Prudential Insurance Company of America, as holders of the Subordinated Notes, and (ii) any successors or assigns of any of them.

"Obligations" means: (a) the principal of the Subordinated Notes; (b) any and all other indebtedness, obligations and liabilities which may be owed by the Obligors (or any of them) to the Agent or the Lenders and arising out of, or incurred in connection with any of the Subordinated Note Documents (including all Out-of-Pocket Expenses), whether (i) now in existence or incurred by the Obligors (or any of them) from time to time hereafter, (ii) secured by pledge, lien upon or security interest in any Obligor's assets or property or the assets or property of any other person, firm, entity or corporation, (iii) such indebtedness is absolute or contingent, joint or several, matured or unmatured, direct or indirect, or (iv) the Obligors are liable to the Agent or the Lenders for such indebtedness as principal, surety, endorser, guarantor or otherwise, including

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under the Subordinated Note Guaranty; (c) all indebtedness, obligations and liabilities owed by the Obligors (or any of them) to the Agent or the Lenders under any other agreement or arrangement now or hereafter entered into between the Obligors (or any of them), on the one hand, and the Agent or the Lenders, on the other hand, provided that such agreement or arrangement relates to the transactions contemplated by the Subordinated Note Documents; and (d) indebtedness, obligations and liabilities incurred by, or imposed on, the Agent or the Lenders as a result of environmental claims relating to any Obligor's operations, premises or waste disposal practices or disposal sites with respect to any Owned Real Estate on which an Obligor has granted the Agent a mortgage.

"Other Collateral" means all of each Obligor's: (a) present and hereafter established lockbox, blocked account and other deposit accounts maintained with any bank or financial institution into which the proceeds of Collateral are or may be deposited (including the Depository Accounts); (b) cash and other monies and property in the possession or control of the Agent or any of the Lenders or the Senior Creditor, as agent for the Lenders (including negative balances in the "Revolving Loan Account" under the Senior Credit Agreement and cash collateral held by the Senior Creditor pursuant to the Senior Credit Agreement); (c) books, records, ledger cards, disks and related data processing software at any time evidencing or containing information relating to any of the Collateral described herein or otherwise necessary or helpful in the collection thereof or realization thereon; and (d) all Proceeds of any of the foregoing.

"Out-of-Pocket Expenses" means all of the Agent's and the Lenders' present and future costs, fees and expenses actually incurred in connection with the Subordinated Note Documents, including, without limitation, (a) the cost of lien searches (including tax lien and judgment lien searches), pending litigation searches and similar items (unless copies of those obtained by or for the Senior Creditor are furnished to the Agent), (b) fees and taxes imposed in connection with the filing of any additional financing statements or other personal property security documents; (c) note taxes, intangible taxes and mortgage or recording taxes and fees; (d) all costs that the Agent or the Lender may incur to maintain the Required Insurance, and all reasonable costs, fees and expenses incurred by the Agent or the Lenders in connection with the collection of Casualty Proceeds and the monitoring of any repair or restoration of any Real Estate; (e) all reasonable costs, fees, expenses and disbursements of outside counsel hired by the Agent and the Lenders to consummate the transactions contemplated by this Financing Agreement (including the documentation and negotiation of

the Subordinated Note Documents and all amendments, supplements and restatements thereto or thereof), and to advise the Agent and the Lenders as to matters relating to the transactions contemplated hereby; (f) all costs, fees and expenses incurred by the Agent or the Lenders in connection with any action taken under Section 5 hereof; and (g) without duplication, all costs, fees and expenses incurred by the Agent or the Lenders in connection with the collection, liquidation, enforcement, protection and defense of the Obligations, the Collateral and the Agent's and the Lenders' rights under the Subordinated Note Documents, including, without limitation, all reasonable fees and disbursements of in-house and outside counsel to the Agent and the Lenders incurred as a result of a workout, restructuring, reorganization, liquidation, insolvency proceeding and in any appeals arising therefrom, whether incurred before, during or after the termination of the Subordinated Note Documents or the commencement of any case with respect to the Obligors (or any of

them) or any subsidiary of an Obligor (as the case may be) under the United States Bankruptcy Code or any similar statute.

"Owned Real Estate" has the meaning set forth in the definition of "Real Estate".

"Patents" means all of the Obligors' present and hereafter acquired patents, patent applications, registrations, all reissues and renewals thereof, all licenses thereof, all inventions and improvements claimed thereunder, all general intangible, intellectual property and other rights of any Obligor with respect thereto, and all income, royalties and other Proceeds of the foregoing.

"Payoff Letter" means the letter dated as of July 11, 2006, from the Agent (in its capacity as "Agent" and "Collateral Agent") under the Existing Documents) to the Obligors and the Senior Creditor.

"Permitted Encumbrances" means: (a) all liens existing on the date hereof on specific items of Equipment; (b) Purchase Money Liens; (c) statutory liens of landlords and liens of carriers, warehousemen, bailees, mechanics, materialmen and other like liens imposed by law, created in the ordinary course of business and securing amounts not yet due (or which are being contested in good faith, by appropriate proceedings or other appropriate actions which are sufficient to prevent imminent foreclosure of such liens), and with respect to which adequate reserves or other appropriate provisions are being maintained by the Obligors in accordance with GAAP; (d) deposits made (and the liens thereon) in the ordinary course of business of any Obligor (including, without limitation, security deposits for leases, indemnity bonds, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, contracts (other than for the repayment or guarantee of borrowed money or purchase money obligations), statutory obligations and other similar obligations arising as a result of progress payments under government contracts; (e) liens granted to the Senior Creditor pursuant to the Senior Credit Agreement; (f) liens of judgment creditors, provided that such liens do not exceed \$50,000 in the aggregate at any time (other than liens bonded or insured to the reasonable satisfaction of the Senior Creditor); (g) Permitted Tax Liens; (h) liens granted to the Agent hereunder; and (i) easements (including, without limitation, reciprocal easement agreements and utility agreements), encroachments, minor defects or irregularities in title, variation and other restrictions, charges or encumbrances (whether or not recorded) affecting the Real Estate, if applicable, and which in the aggregate (i) do not materially interfere with the occupation, use or enjoyment by any Obligor of its business or property so encumbered and (ii) do not materially and adversely affect the value of such Real Estate.

"Permitted Tax Liens" means liens for Taxes not due and payable and liens for Taxes that any Obligor is contesting in good faith, by appropriate proceedings which are sufficient to prevent imminent foreclosure of such liens, and with respect to which adequate reserves are being maintained by such Obligor in accordance with GAAP; provided that in

either case, such liens (a) are not filed of record in any public office, (b) other than with respect to Real Estate, are not senior in priority to the liens granted by any of such Obligor to the Agent, or (c) do not secure taxes owed to the United States of

America (or any department or agency thereof) or any State or State authority, if applicable State law provides for the priority of tax liens in a manner similar to the laws of the United States of America.

"Proceeds" has the meaning given to such term in the UCC, including, without limitation, all Casualty Proceeds.

"Purchase Money Liens" means liens on any item of Equipment acquired by an Obligor after the date hereof, provided that (a) each such lien shall attach only to the Equipment acquired, (b) a description of the Equipment so acquired is furnished by the Obligor to the Agent, and (c) the indebtedness incurred by the Obligor in connection with such acquisitions shall not exceed \$50,000 in the aggregate in any fiscal year of the Obligor.

"Real Estate" means all of the Obligor's present and future fee and leasehold interests in real property, including the real property owned by Weavers as of the date hereof and described on Schedule A attached hereto that will be subjected to a mortgage or deed of trust in favor of the Agent, subject to the prior mortgage in favor of the Senior Creditor (the "Owned Real Estate").

"Replacement Facility" means any secured credit facility that the Maker may obtain in the future in replacement of the facility provided by The CIT Group/Commercial Services, Inc. pursuant to the initial Senior Credit Agreement, whether or not such facility is obtained on the date of termination of the initial Senior Credit Agreement with The CIT Group/Commercial Services, Inc. and payment in full of the obligations thereunder or at a later date, which shall enjoy the benefits of a Replacement Subordination Agreement.

"Replacement Subordination Agreement" means a subordination agreement relating to a Replacement Facility to be executed and delivered by the Lenders on substantially similar terms and conditions as the initial Subordination Agreement.

"Required Insurance" has the meaning provided for in Section 3.10 hereof.

"Senior Credit Agreement" means the Financing Agreement dated as of even date herewith among the Obligor, as Borrowers and the Senior Creditor, as it may from time to time after the date hereof be amended, restated, supplemented, extended, renewed, replaced or otherwise modified in compliance with the terms of this Agreement, including any credit agreement for a Replacement Facility.

"Senior Creditor" means (i) The CIT Group/Commercial Services, Inc., as the Senior Creditor under the Subordination Agreement, and its successors and assigns in such capacity, and (ii) any senior creditor (or agent for senior creditors) under any Replacement Facility.

"Subordinated Notes" means the Subordinated Secured Promissory Notes of even date herewith in the aggregate amount of \$4,000,000 issued by the Maker to the Lenders and all notes issued in substitution or replacement thereof, as any of the foregoing may

from time to time be amended, restated, supplemented or otherwise modified in compliance with the terms of the Subordination Agreement.

"Subordinated Note Documents" means the Subordinated Notes, the

Subordinated Note Guaranty, the Contribution Agreement, this Security Agreement and the mortgage referred to in Section 2.1(j) hereof.

"Subordinated Note Guaranty" means the Guaranty Agreement of even date herewith, executed and delivered by the Guarantors in favor of the Agent, for the ratable benefit of the Lenders, unconditionally and jointly and severally guaranteeing payment of the Subordinated Notes and the other Obligations.

"Subordination Agreement" means (i) the Subordination Agreement of even date herewith by and among the Lenders, as "Subordinated Creditors", and The CIT Group/Commercial Services, Inc., as the Senior Creditor under the Subordination Agreement, and (ii) any Replacement Subordination Agreement.

"Taxes" means all federal, state, municipal and other governmental taxes, levies, charges, claims and assessments which are or may be owed or collected by the Obligors with respect to their business, operations, Collateral or otherwise.

"Trade Accounts Receivable" means that portion of each Obligor's Accounts which arises from the sale of Inventory or the rendition of services in the ordinary course of such Obligor's business. For the avoidance of doubt, after a Trade Account Receivable has become a Factored Account, it is no longer a Trade Account Receivable.

"Trademarks" means all of the Obligors' present and hereafter acquired trademarks, trademark registrations, recordings, applications, tradenames, trade styles, corporate names, business names, service marks, logos and any other designs or sources of business identities, prints and labels (on which any of the foregoing may appear), all reissues and renewals thereof, all licenses thereof, all other general intangible, intellectual property and other rights pertaining to any of the foregoing, together with the goodwill associated therewith, and all income, royalties and other Proceeds of any of the foregoing.

"UCC" means the Uniform Commercial Code as the same may be amended and in effect from time to time in the State of New York.

"Weavers" means Churchill Weavers, Inc.

2. Conditions Precedent to Termination of Existing Documents. The obligation of the Lenders to terminate the Existing Documents and accept payment of amounts specified in the Payoff Letter in cash, together with the Subordinated Notes, is subject to the satisfaction or waiver in writing by the Agent of the following conditions precedent:

(a) Lien Searches. The Agent shall have received tax lien, judgment lien and Uniform Commercial Code searches from all jurisdictions reasonably required by the Agent, and such searches shall verify that the Agent has a second (by virtue of the

Subordination Agreement) priority security interest in the Collateral, subject to Permitted Encumbrances. Copies of those obtained by or for the Senior Creditor will be acceptable.

(b) Casualty Insurance. Each Obligor shall have delivered to the Agent evidence satisfactory to the Agent that all Required Insurance is in full force and effect, and the Agent shall have confirmed that the Agent and the Lenders, as appropriate, have been named as loss payee or additional insured with respect to the Required Insurance in a manner satisfactory to the Agent.

(c) UCC Filings. The Obligors acknowledge and agree that the Agent and the Lenders shall rely on existing UCC filings made in connection with the Existing Documents to perfect the security interest granted pursuant hereto.

(d) Resolutions. The Agent shall have received a copy of the

resolutions of the Board of Directors of each Obligor authorizing the execution, delivery and performance of the Subordinated Note Documents to be executed by each Obligor, certified by the Secretary or Assistant Secretary of each Obligor as of the date hereof, together with a certificate of such Secretary or Assistant Secretary as to the incumbency and signature of the officer(s) executing the Subordinated Note Documents on behalf of each Obligor.

(e) Organizational Documents. The Agent shall have received a copy of the Certificate or Articles of Incorporation of each Obligor, certified by the applicable authority in each Obligor's State of incorporation, and copies of the by-laws (as amended through the date hereof) of each Obligor, certified by the respective Secretary or an Assistant Secretary thereof.

(f) Officer's Certificate. The Agent shall have received an executed Officer's Certificate of each Obligor, satisfactory in form and substance to the Agent, certifying that as of the date hereof, (i) the representations and warranties contained herein are true and correct in all material respects, (ii) each Obligor is in compliance with all of the terms and provisions set forth herein and (iii) no Event of Default has occurred.

(g) Subordinated Note Documents. Receipt by the Agent, for the ratable benefit of the Lenders, of the Subordinated Note Documents, duly executed and delivered by the Obligors party thereto.

(h) Depository Accounts. (i) The Obligors or the Senior Creditor shall have established one or more Depository Accounts with respect to the collection of Trade Accounts Receivable and the deposit of proceeds of Collateral, and (ii), unless any such Depository Account is established with the Agent, except with respect to the Kentucky Depository Account (as defined in Section 3.6 below), the Agent, the Senior Creditor (as applicable), the applicable Obligor and each depository bank shall have entered into a Depository Account Control Agreement with respect to such Depository Account.

(i) Legal Restraints/Litigation. As of the date hereof, there shall be no (x) injunction, writ or restraining order restraining or prohibiting the execution, delivery and performance of the Subordinated Note Documents, or (y) suit, action, investigation or

proceeding (judicial or administrative) pending against any Obligor, any subsidiary of any Obligor or any of their assets, which, in the good faith opinion of the Agent, if adversely determined, could reasonably be expected to have a material adverse effect on either (i) the business, condition (financial or otherwise), operations, performance, properties or prospects of any Obligor, (ii) the ability of any Obligor to perform its obligations under the Subordinated Note Documents, (iii) the value of the Collateral or (iv) the ability of the Agent or the Lenders to enforce the Obligations or the rights and remedies of the Agent or the Lenders under the Subordinated Note Documents.

(j) Mortgages. Weavers shall have executed and delivered to the Agent executed mortgages and deeds of trust in form and substance satisfactory to the Agent covering the Owned Real Estate.

3. Collateral.

3.1 Grant of Security Interest. (a) As security for the prompt payment in full of all Obligations, each Obligor hereby pledges and grants to the Agent, for the ratable account of the Lenders, a continuing general lien upon, and security interest in, all of the Collateral in which such Obligor has rights.

(b) Extent of Security Interests. The security interests granted hereunder shall extend and attach to:

(i) all Collateral which is presently in existence or hereafter acquired and which is owned by any Obligor or in which any Obligor has any interest, whether held by such Obligor or by others for such Obligor's account, and wherever located, and, if any Collateral is Equipment, whether such Obligor's

interest in such Equipment is as owner, lessee or conditional vendee;

(ii) all Equipment whether the same constitutes personal property or fixtures, including, but without limiting the generality of the foregoing, all dies, jigs, tools, benches, molds, tables, accretions, component parts thereof and additions thereto, as well as all accessories, motors, engines and auxiliary parts used in connection with, or attached to, the Equipment; and

(iii) all Inventory and any portion thereof which may be returned, rejected, reclaimed or repossessed by either the Agent or the Obligors from the Obligors' customers, as well as to all supplies, goods, incidentals, packaging materials, labels and any other items which contribute to the finished goods or products manufactured or processed by the Obligors, or to the sale, promotion or shipment thereof.

3.2 Limited License. Regardless of whether the Agent's security interests in any of the General Intangibles has attached or is perfected, each Obligor hereby irrevocably grants to the Agent a royalty-free, non-exclusive license to use such Obligor's Trademarks, Copyrights, Patents and other proprietary and intellectual property rights, in connection with the (i) advertisement for sale, and the sale or other disposition of, any finished goods Inventory by the Agent in accordance with the provisions of this Financing Agreement, and (ii) the manufacture, assembly, completion and preparation for sale of any unfinished Inventory by the Agent in accordance with the provisions of this Financing Agreement.

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3.3 Representations and Warranties Regarding Collateral Generally. The Obligors represent and warrant to the Agent that except for the Permitted Encumbrances, (i) the UCC financing statements filed in connection with the Existing Documents, together with this Security Agreement, create a valid, perfected, second priority (subject to the security interests of the Senior Creditor) security interest in all personal property of the Obligors as to which perfection may be achieved by filing, (ii) the Agent's security interests in the Collateral constitute, and will at all times constitute second priority (subject to the security interests of the Senior Creditor) liens on the Collateral, and (iii) each Obligor is, or will be at the time additional Collateral is acquired by such Obligor, the absolute owner of such additional Collateral with full right to pledge, sell, transfer and create a security interest therein, free and clear of any and all claims or liens other than Permitted Encumbrances.

3.4 Covenants and Agreements Regarding Trade Accounts Receivable and Inventory. Each Obligor agrees to maintain such books and records regarding Trade Accounts Receivable and Inventory as the Agent reasonably may require and agrees that the books and records of such Obligor will reflect the Agent's interest in the Trade Accounts Receivable and Inventory. In support of the continuing assignment and security interest of the Agent in the Trade Accounts Receivable and Inventory, the Obligors agree to deliver to the Agent, upon request, all of the schedules, reports and other information described in Section 7.2(g) of the Senior Credit Agreement (or any similar provision in any Replacement Facility). The Obligors' failure to maintain their books in the manner provided herein or to deliver to the Agent any of the foregoing information shall in no way affect, diminish, modify or otherwise limit the security interests granted to the Agent in the Trade Accounts Receivable and Inventory.

3.5 General Intangibles. Each Obligor represents and warrants to the Agent that as of the date hereof, such Obligor possesses all General Intangibles necessary to conduct its business as presently conducted. Each Obligor agrees to maintain such Obligor's rights in, and the value of, all such General Intangibles, and to pay when due all payments required to maintain in effect any licensed rights. The Obligors shall provide the Agent with adequate notice of the acquisition of rights with respect to any additional Patents, Trademarks and Copyrights so that the Agent may, to the extent permitted under the documentation granting such rights or applicable law, perfect its security interest in such rights in a timely manner.

3.6 Depository Accounts. If at any time a Depository Account is established with a bank or other depository institution other than the Agent, the Obligors will promptly execute and deliver to the Agent a Depository Account Control

Agreement with respect to such Depository Account; provided, however, with respect to the Depository Account held at the People's Bank of Kentucky ("Kentucky Depository Account"), the Obligors shall within ninety (90) days of the date hereof either (i) deliver to the Agent a Depository Account Control Agreement or (ii) close such Depository Account.

3.7 Reference to Other Subordinated Debt Documents. Reference is hereby made to the other Subordinated Debt Documents for additional representations, covenants and other agreements of the Obligors regarding the Collateral covered by such Subordinated Debt Documents.

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3.8 Credit Balances; Additional Collateral.

(a) The rights and security interests granted to the Agent hereunder shall continue in full force and effect until the termination of this Security Agreement and the full and final payment and satisfaction of the Obligations. Any other property or assets of the Obligors (or any of them) in the possession of the Agent may be held by the Agent as Other Collateral, and applied in whole or partial satisfaction of such Obligations when due, subject to the terms of this Security Agreement and the Subordination Agreement. The liens and security interests granted to the Agent herein and any other lien or security interest which the Agent may have in any other assets of the Obligors secure payment and performance of all present and future Obligations.

(b) Notwithstanding the Agent's security interests in the Collateral, to the extent that the Obligations are now or hereafter secured by any assets or property other than the Collateral, or by the guaranty, endorsement, assets or property of any other person, subject to the Subordination Agreement, the Agent shall have the right in its sole discretion to determine which rights, security, liens, security interests or remedies the Agent shall at any time pursue, foreclose upon, relinquish, subordinate, modify or take any other action with respect to, without in any way modifying or affecting any of such rights, security, liens, security interests or remedies, or any of the Agent's rights under this Security Agreement.

3.9 Further Assurances. Each Obligor agrees to comply with the requirements of all state and federal laws in order to grant to the Agent valid and perfected first priority security interests in the Collateral, subject only to the Permitted Encumbrances. The Agent is hereby authorized by the Obligors to file any financing statements, continuations and amendments covering the Collateral without the Obligors' signatures in accordance with the provisions of the UCC. The Obligors agree to do whatever the Agent reasonably may request from time to time, by way of (i) filing notices of liens, financing statements, amendments, renewals and continuations thereof, (ii) cooperating with the Agent's agents and employees, (iii) keeping Collateral records, (iv) subject to the Subordination Agreement, transferring proceeds of Collateral to the Agent's possession in accordance with the terms hereof and (v) performing such further acts as the Agent reasonably may require in order to effect the purposes of this Security Agreement, including the execution of control agreements with respect to Depository Accounts and Investment Property.

3.10 Insurance. The Obligors agree to maintain insurance on all Real Estate, Equipment and Inventory under such policies of insurance, with such insurance companies, in such reasonable amounts and covering such insurable risks as are at all times reasonably satisfactory to the Agent (the "Required Insurance"). All policies covering the Real Estate, Equipment and Inventory are, subject to the rights of any holder of a Permitted Encumbrance having priority over the security interests of the Agent (including the Senior Creditor, and subject to the Subordination Agreement), to be made payable solely to the Agent, in case of loss, under a standard non-contributory "mortgagee", "secured party" or "lender's loss payable" clause or endorsement, and are to contain such other provisions as the Agent reasonably may require to fully protect the Agent's interest in the Real Estate, Inventory and Equipment and to any payments to be made under such policies. Each loss payable endorsement in favor of the Agent shall provide (x) for not less than thirty (30) days prior written notice to the Agent of the exercise of any right of cancellation and (y) that the Agent's right to payment under any property insurance policy will not be invalidated by any act or neglect of, or any breach of warranty or

condition by, the Obligors (or any of them) or any other party. If an Event of Default shall have occurred and remain outstanding, the Agent, subject to the rights of any holder of a Permitted Encumbrance having priority over the security interests of the Agent (including the Senior Creditor, and subject to the Subordination Agreement), shall have the sole right, in the name of the Agent or the Obligors (or any of them), to file claims under any insurance policies, to receive, receipt and give acquittances for any payments that may be payable thereunder, and to execute any and all endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies.

4. Events of Default.

The term "Event of Default" means (i) the occurrence of any "Change in Control" or "Bankruptcy Event", as those terms are defined in the Subordinated Notes (but the term "Bankruptcy Event" shall be deemed to refer to each Obligor for purposes hereof), or (ii) any representation and warranty contained in any of the Subordinated Debt Documents is untrue or misleading in any material respect, or (iii) any material breach occurs under any of the Subordinated Note Documents and is not cured within 30 days after receipt of notice from the Agent of the existence thereof).

5. Remedies.

(a) General Remedies. Upon the occurrence of an Event of Default and during continuation thereof, but subject to the Subordination Agreement, the Agent and the Lenders shall have, in addition to the rights and remedies provided herein, in the Subordinated Note Documents or by law (including, but not limited to, levy of attachment, garnishment and the rights and remedies set forth in the Uniform Commercial Code of the jurisdiction applicable to the affected Collateral), the rights and remedies of a secured party under the UCC (regardless of whether the UCC is the law of the jurisdiction where the rights and remedies are asserted and regardless of whether the UCC applies to the affected Collateral), and further, the Agent 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 Obligors, take possession of the Collateral, (ii) dispose of any Collateral on any such premises, (iii) require the Obligors to assemble and make available to the Agent at the expense of the Obligors any Collateral at any place and time designated by the Agent 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 each of the Obligors 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 Agent deems advisable, in its sole discretion. Neither the Agent's compliance with any applicable state or federal law in the conduct of such sale, nor its disclaimer of any warranties relating to the Collateral shall be considered to affect the commercial reasonableness of such sale. In addition to all other sums due the Agent and the Lenders with respect to the Obligations, the Obligors shall pay the Agent and each of the Lenders all Out-of-Pocket Expenses incurred by the Agent

or any such Lender. To the extent the rights of notice cannot be legally waived hereunder, each Obligor agrees that any requirement of reasonable notice shall be met if such notice is personally served on or mailed, postage prepaid, to the Obligors in accordance with the notice provisions of the Subordinated Notes at least ten (10) days before the time of sale or other event giving rise to the requirement of such notice. The Agent and the Lenders 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 Agent and any Lender may be a purchaser at any such sale. To the extent permitted by applicable law, each of the Obligor hereby waives all of its rights of redemption with respect to any such sale. Subject to the provisions of applicable law, the Agent and the Lenders 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 Agent and the Lenders 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 Agent has exercised any or all of its rights and remedies hereunder, subject to the Subordination Agreement, the Agent shall have the right to (i) enforce any Obligor's rights against any account debtors and obligors on such Obligor's Accounts (ii) notify (or cause its designee to notify) any Obligor's customers and account debtors that the Accounts of such Obligor have been assigned to the Agent or of the Agent's security interest therein, (iii) (either in its own name or in the name of an Obligor or both) demand, collect, 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 (iv) in the Agent's discretion, file any claim or take any other action or proceeding to protect and realize upon the security interest of the Agent in the Accounts. Each Obligor acknowledges and agrees that the Proceeds of its Accounts remitted to or on behalf of the Agent in accordance with the provisions hereof shall be solely for the Agent's own convenience and that such Obligor shall not have any right, title or interest in such Proceeds or in any such other amounts except as expressly provided herein. The Agent and the Lenders shall have no liability or responsibility to any Obligor 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 any other restrictive legend or endorsement or be responsible for determining the correctness of any remittance. Each Obligor hereby agrees to indemnify the Agent and the Lenders from and against all liabilities, damages, losses, actions, claims, judgments, costs, expenses, charges and reasonable attorneys' fees suffered or incurred by the Agent or the Lenders (each, an "Indemnified Party") because of the maintenance of the foregoing arrangements except as relating to or arising out of the gross negligence or willful misconduct of an Indemnified Party or its officers, employees or agents. 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 an Obligor, its directors, shareholders or creditors or an Indemnified Party or any other Person or any other Indemnified Party is otherwise a party thereto.

(c) Access. In addition to the rights and remedies hereunder, upon the occurrence of an Event of Default and during the continuation thereof, the Agent shall

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have the right to enter and remain upon the various premises of the Obligor without cost or charge to the Agent, and use the same, together with materials, supplies, books and records of the Obligor 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 Agent may remove Collateral, or any part thereof, from such premises and/or any records with respect thereto, in order to effectively collect or liquidate such Collateral. If the Agent exercises its right to take possession of the Collateral, each Obligor shall also at its expense perform any and all other steps reasonably requested by the Agent to preserve and protect the security interest hereby granted in the Collateral, such as placing and maintaining signs indicating the security interest of the Agent, appointing overseers for the Collateral and maintaining inventory records.

(d) Nonexclusive Nature of Remedies. Failure by the Agent or the Lenders to exercise any right, remedy or option under this Security Agreement, any other Subordinated Note Document or as provided by law, or

any delay by the Agent or the Lenders 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 Agent or the Lenders shall only be granted as provided herein. To the extent permitted by law, neither the Agent, the Lenders, nor any party acting as attorney for the Agent or the Lenders, 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 Agent and the Lenders under this Security Agreement shall be cumulative and not exclusive of any other right or remedy which the Agent or the Lenders may have.

(e) Retention of Collateral. The Agent may, subject to the Subordination Agreement and after providing the notices required by Section 9-620 of the UCC or otherwise complying with the requirements of applicable law of the relevant jurisdiction, accept or retain the Collateral in full or partial satisfaction of the Obligations. Unless and until the Agent shall have provided such notices, however, the Agent shall not be deemed to have retained any Collateral in satisfaction of any 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 Agent or the Lenders are legally entitled, the Obligors shall be jointly and severally liable for the deficiency, together with the related Out-of-Pocket Expenses. Any surplus remaining after the full payment and satisfaction of the Obligations shall be returned to the Obligors or to whomsoever a court of competent jurisdiction shall determine to be entitled thereto.

(g) Other Security. To the extent that any of the Obligations are now or hereafter secured by property other than the Collateral (including, without limitation, real and personal property owned by an Obligor), or by a guarantee, endorsement or property of any other Person, then the Agent and the Lenders shall have the right, subject to the Subordination Agreement, to proceed against such other property, guarantee or endorsement upon the occurrence of any Event of Default, and the Agent and the Lenders have the right, in their sole discretion, to determine which rights, security, liens, security

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interests or remedies the Agent and the Lenders shall at any time pursue, relinquish, subordinate, modify or take with respect thereto, without in any way modifying or affecting any of them or any of the Agent's and the Lenders' rights or the Obligations under this Security Agreement or under any other of the Subordinated Note Documents.

6. Rights of the Agent.

(a) Power of Attorney. Each Obligor hereby designates and appoints the Agent, on behalf of the Lenders, and each of its designees or agents as attorney-in-fact of such Obligor, 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, subject to the Subordination Agreement,:

(i) to demand, collect, settle, compromise, adjust, give discharges and releases, all as the Agent 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, adjust or compromise any action, suit or proceeding brought and, in connection therewith, give such discharge or release as the Agent may deem reasonably appropriate;

(iv) to receive, open and dispose of mail addressed to an Obligor

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 of such Obligor, or securing or relating to such Collateral, on behalf of and in the name of such Obligor;

(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 Agent 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 Agent 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 herein;

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

(ix) to do and perform all such other acts and things as the Agent 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 all Obligations have been satisfied. The Agent 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 Agent in this Security Agreement, and shall not be liable for any failure to do so or any delay in doing so. The Agent 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 Agent solely to protect, preserve and realize upon its security interest in the Collateral.

(b) Assignment by the Agent. Subject to the terms of the Subordination Agreement and the consent of the Lenders, the Agent 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 Agent under this Security Agreement in relation thereto.

(c) The Agent's Duty of Care. Other than the exercise of reasonable care to assure the safe custody of the Collateral while being held by the Agent hereunder, the Agent shall have no duty or liability to preserve rights pertaining thereto, it being understood and agreed that the Obligors shall be responsible for preservation of all rights in the Collateral, and the Agent shall be relieved of all responsibility for the Collateral upon surrendering it or tendering the surrender of it to the Obligors. The Agent 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 Agent 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 Agent shall not have responsibility for taking any necessary steps to preserve rights against any parties with respect to any of the Collateral. In the event of a public or private sale of Collateral pursuant to Section 5 hereof, the Agent shall have no obligation to clean-up, repair or otherwise prepare the Collateral for sale.

7. Costs of Counsel. If at any time hereafter, whether upon the occurrence of an Event of Default or not, the Agent 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 Obligors agree to promptly pay upon demand any and all Out-of-Pocket Expenses incurred in connection therewith, all of which costs and expenses shall constitute Obligations hereunder.

8. Continuing Agreement.

(a) This Security Agreement shall be a continuing agreement in every respect and shall remain in full force and effect until terminated in writing by the Agent. 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 Agent or any Lender 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 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 Agent or any Lender in defending and enforcing such reinstatement shall be deemed to be included as a part of the Obligations.

9. Amendments; Waivers; Modifications. This Security Agreement and the provisions hereof may not be amended, waived, modified, changed, discharged or terminated except in a writing executed by the Agent and the Obligors; provided, however, that, notwithstanding any provision hereof to the contrary, this Security Agreement shall terminate as to Weavers, which shall thereupon no longer be bound hereby, immediately upon the occurrence of any of the following transactions that is consented to by the Senior Creditor: (i) a sale of all or substantially all of the stock of Weavers; (ii) a merger or other business combination involving Weavers; or (iii) the liquidation of Weavers. The Agent agrees to take such further actions and to execute such documents as the Maker or Churchill may reasonably request in order to acknowledge and confirm the termination of this Security Agreement with respect to Weavers pursuant to this Section 9.

10. Successors in Interest. This Security Agreement shall create a continuing security interest in the Collateral and shall be binding upon each of the parties hereto, and their respective successors and assigns, and shall inure, together with all rights and remedies of each of the parties hereto and their respective permitted successors and assigns; provided, however, that none of the Obligors may assign its rights or delegate its duties hereunder without the prior written consent of each Lender. To the fullest extent permitted by law, each Obligor hereby releases the Agent and each Lender, each of their respective officers, employees and agents and each of their respective 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 Agent or such Lender or their respective officers, employees and agents.

11. Notices. All notices required or permitted to be given under this Security Agreement shall be in conformance with Section 16 of the Subordinated Notes (and the address set forth therein for the Maker shall constitute the notice address for each of the other Obligors).

12. 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.

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

14. Governing Law; Waiver of Jury Trial, Submission to Jurisdiction and Service of Process. 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 NEW YORK, WITHOUT GIVING EFFECT TO THE CHOICE OF LAW PROVISIONS THEREOF (OTHER THAN SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW). EACH OBLIGOR AND THE AGENT EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THE SUBORDINATED NOTE DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED THEREUNDER. EACH OBLIGOR HEREBY IRREVOCABLY WAIVES PERSONAL SERVICE OF PROCESS AND CONSENTS TO SERVICE OF PROCESS BY CERTIFIED OR REGISTERED MAIL, RETURN RECEIPT REQUESTED. IN NO EVENT WILL THE AGENT OR THE LENDERS BE LIABLE FOR LOST PROFITS OR OTHER SPECIAL OR CONSEQUENTIAL DAMAGES.

15. 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.

16. Entirety. This Security Agreement and the other Subordinated Note 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 correspondence relating to the Subordinated Note Documents or the transactions contemplated herein and therein.

17. Survival. All representations and warranties of the Obligors hereunder shall survive the execution and delivery of this Security Agreement, the other Subordinated Note Documents and the delivery of the Subordinated Notes.

18. Marshalling. Neither the Agent nor any Lender shall be under any obligation to marshal any assets in favor of any Obligor or any other Person or against or in payment of any or all of the Obligations.

[remainder of page intentionally left blank]

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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.

OBLIGORS: CROWN CRAFTS, INC.,
a Delaware corporation

By: /s/ E. Randall Chestunt

Name: E. Randall Chestunt
Title: President & CEO

CHURCHILL WEAVERS, INC.
a Kentucky corporation

By: /s/ E. Randall Chestunt

Name: E. Randall Chestunt
Title: Vice President

HAMCO, INC.

a Louisiana corporation

By: /s/ E. Randall Chestunt

Name: E. Randall Chestunt
Title: President & CEO

CROWN CRAFTS INFANT PRODUCTS, INC.
a Delaware corporation

By: /s/ E. Randall Chestunt

Name: E. Randall Chestunt
Title: Vice President

Accepted and agreed to as of the date first above written.

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Agent

By: /s/ J. Patrick Moody

Name: J. Patrick Moody
Title: Vice President

APPOINTMENT OF AGENT

Each of the undersigned Lenders hereby appoints Wachovia Bank, National Association, as the Agent for it under each of the Subordinated Note Documents, and hereby agrees to indemnify the Agent from and against all liabilities, damages, losses, actions, claims, judgments, costs, expenses, charges and reasonable attorneys' fees suffered or incurred by the Agent because of the maintenance of the foregoing arrangements except as relating to or arising out of its gross negligence or willful misconduct or its officers, employees or agents.

LENDERS: WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ J. Patrick Moody

Name: J. Patrick Moody
Title: Vice President

BANC OF AMERICA STRATEGIC SOLUTIONS,
INC.

By: /s/ Kevin M. Behan

Name: Kevin M. Behan
Title: Senior Vice President

THE PRUDENTIAL INSURANCE COMPANY OF
AMERICA

By: /s/ Billy Greer

Name: Billy Greer
Title: Sr. Vice President

STATE OF KENTUCKY
COUNTY OF MADISON

MORTGAGE, ASSIGNMENT OF LEASES AND RENTS,
FIXTURE FILING AND SECURITY AGREEMENT

THIS MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, FIXTURE FILING AND SECURITY AGREEMENT ("Mortgage"), made and executed this 11th day of July, 2006, by and among CHURCHILL WEAVERS, INC., a Kentucky corporation, whose address is 916 South Burnside Avenue, Gonzalez, Louisiana 70707, as Party of the First Part, being hereinafter called "Mortgagor"; and WACHOVIA BANK, NATIONAL ASSOCIATION, in its capacity as agent for the ratable benefit of the "Lenders" described in that certain Security Agreement, as defined below (in such capacity, the "Agent"), whose address is 171 17th Street, NW, Atlanta, Georgia, 30363, as Party of the Second Part;

WITNESSETH:

WHEREAS, the Obligors (as defined in the Security Agreement) and Agent have executed and delivered that certain Security Agreement dated as of the date hereof (together with all modifications, renewals, extensions, supplements and replacements from time to time, the "Security Agreement"; capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Security Agreement); and

WHEREAS, it is a condition precedent to the effectiveness of the termination of the Existing Documents that the Mortgagor shall have executed and delivered this Mortgage;

NOW, THEREFORE, for and in consideration of the sum of Ten Dollars (\$10.00) and other valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, and in order to secure the indebtedness and other obligations of Mortgagor and the other Obligors, Mortgagor does hereby grant, bargain, mortgage, sell and convey unto Agent and its successors and assigns the following:

(A) THE LAND. The land (the "Land") situated in Madison County, Kentucky, which is described in detail in Schedule A attached hereto and incorporated herein and made a part of this document for all purposes.

(B) THE IMPROVEMENTS: TOGETHER WITH (1) all the buildings, structures and improvements of every nature whatsoever now or hereafter situated on the Land, and (2) all fixtures, machinery, appliances, equipment, furniture and personal property of every nature whatsoever now or hereafter owned by Mortgagor and located in or on, attached to, and used or intended to be used in connection with or with the operation of, the Land, buildings, structures or other improvements, or in connection with any construction being conducted or which may be

conducted thereon, and all extensions, additions, improvements, betterments, renewals, substitutions and replacements to any of the foregoing, and all of the right, title and interest of Mortgagor in and to any such personal property or fixtures, which, to the fullest extent permitted by law, shall be conclusively deemed fixtures and a part of the real property encumbered hereby (hereinafter called the "Improvements").

(C) EASEMENTS AND OTHER PROPERTY INTERESTS: TOGETHER WITH all easements, rights-of-way, gores of land, streets, ways, alleys, passages, sewer rights, water courses, water rights and powers, other real property and interests therein, and all appurtenances whatsoever, in any way belonging, relating or appertaining to any of the property described in paragraphs (A) and (B) hereof, or which hereafter shall in any way belong, relate or be appurtenant thereto, whether now owned or hereafter acquired by Mortgagor by adverse possession or in any other manner.

(D) TOGETHER WITH (i) all of the estate, right, title and interest of Mortgagor of, in and to all judgments, insurance proceeds, awards of damages and settlements hereafter made resulting from condemnation proceedings or the taking of the property described in paragraphs (A), (B) and (C) hereof or any part

thereof under the power of eminent domain, or for any damage (whether caused by such taking or otherwise) to the property described in paragraphs (A), (B) and (C) hereof or any part thereof, or to any rights appurtenant thereto, and all proceeds of any sales or other disposition of the property described in paragraphs (A), (B) and (C) hereof or any part thereof; and, subject to Section 5.07 below, Agent is hereby authorized to collect and receive said awards and proceeds in accordance with this Mortgage and to give proper receipts and acquittances therefor, and (if it so elects) to apply the same in accordance with this Mortgage toward the payment of the indebtedness and other sums secured hereby, notwithstanding the fact that the amount owing thereon may not then be due and payable; and (ii) all contract rights, general intangibles, actions and rights in action, including without limitation all rights to insurance proceeds and unearned premiums arising from or relating to the property described in paragraphs (A), (B) and (C) above; and (iii) all proceeds, products, replacements, additions, substitutions, renewals and accessions of and to the property described in paragraphs (A), (B) and (C).

(E) TOGETHER WITH all rents, income, accounts receivable and other benefits to which Mortgagor may now or hereafter be entitled from the property described in paragraphs (A), (B) and (C) hereof to be applied against the indebtedness and other sums secured hereby, subject to Section 5.07 below; provided, however, that permission is hereby given to Mortgagor, so long as no Event of Default (as defined in Section 2.01) has occurred hereunder, to collect and use such rents, income and other benefits as they become due and payable, but not in advance thereof. Upon the occurrence of any such Event of Default, the permission hereby given to Mortgagor to collect such rents, accounts receivable, income and other benefits from the property described in paragraphs (A), (B) and (C) hereof shall terminate and such permission shall not be reinstated upon a cure of such Event of Default without Agent's specific written consent.

The foregoing provisions hereof shall constitute an absolute and present assignment of the rents, income and other benefits from the property described in (A), (B) and (C) above, subject, however, to the conditional permission given to Mortgagor to collect and use such rents,

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income and other benefits as hereinabove provided; and the existence or exercise of such right of Mortgagor shall not operate to subordinate this assignment to any subsequent assignment, in whole or in part, by Mortgagor, and any such subsequent assignment by Mortgagor shall be subject to the rights of Agent hereunder.

(F) TOGETHER WITH all right, title and interest of Mortgagor in and to any and all leases now or hereafter on or affecting the property described in paragraphs (A), (B) and (C) hereof, and all books and records which contain payments made under the leases and all security therefor.

(G) TOGETHER WITH (i) the Mortgagor's rights further to encumber the property described in paragraphs (A), (B), (C) and (F) above for debt; and (ii) all of the Mortgagor's rights to enter into any lease or lease agreement.

All of the property described in paragraphs (A), (B), (C), (D), (E), (F) and (G) above, and each item of property therein described, is hereinafter referred to as the "Property".

TO HAVE AND TO HOLD the Property and all parts thereof unto Agent and its successors and assigns, forever upon the trust, terms and conditions contained herein.

This Mortgage is executed and delivered by Mortgagor to secure the following described obligations, liabilities and indebtedness of Mortgagor and the other Obligors to Agent and Lenders (hereinafter collectively referred as the "Obligations"):

(a) All loans, advances, indebtedness, obligations and liabilities now or from time to time hereafter owing by Mortgagor or any other Obligor, to Agent and Lenders under the Security Agreement, or under any agreement, instrument or document executed or delivered to Agent and/or Lenders in respect of the Security Agreement or the transactions contemplated thereby, pursuant to which the Obligors granted a security interest in, and liens on, all of the Obligors'

assets to secure, among other things, those certain Subordinated Notes in the maximum aggregate principal amount of \$4,000,000, which Subordinated Notes each have a maturity date of July 11, 2011;

(b) All indebtedness, obligations and liabilities of Mortgagor arising under this Mortgage;

(c) All advances made by Agent to protect or preserve the Property or the lien hereof on the Property, or for taxes, assessments, insurance premiums, or other advances authorized under the terms of this Mortgage (whether or not Mortgagor remains the owner of the Property at the time of such advance);

(d) Any and all renewals, extensions, modifications, substitutions, replacements or consolidations of the Subordinated Notes or any other indebtedness, liabilities and obligations described in paragraphs (a), (b) or (c) above; and

(e) All other obligations, liabilities and indebtedness of every kind and character now or hereafter owing by Mortgagor or any other Obligor to Agent and Lenders, however created, incurred or evidenced, direct or indirect, absolute or contingent, and whether

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owing under the Security Agreement, this Mortgage or the other Subordinated Note Documents, including without limitation, all "Obligations" of Mortgagor and each other Obligor to Agent and Lenders, as such term is defined in the Security Agreement.

PROVIDED, HOWEVER, that if Mortgagor shall promptly pay or cause to be paid the Obligations secured hereby in accordance with the terms thereof when the same shall become due and payable and shall keep, perform and observe, or cause to be kept, performed and observed, all the terms, conditions and requirements of the Subordinated Note Documents, including, but not limited to, this Mortgage, then, upon complete payment and satisfaction thereof, this Mortgage shall be null and void and of no further force and effect and shall be released by Agent upon the written request and at the expense of Mortgagor.

ARTICLE ONE

COVENANTS OF MORTGAGOR

Mortgagor covenants and agrees with Agent, or any successor in title as holder of the Obligations secured hereby, as follows:

1.01 Performance of Subordinated Note Documents. Mortgagor shall perform, observe and comply with, or cause to be performed, observed and complied with, all provisions of the Subordinated Note Documents and will promptly pay or cause to be paid to Agent and Lenders the principal with interest thereon of all Obligations when payment shall become due.

1.02 General Representations, Covenants and Warranties. Mortgagor represents, warrants and covenants that (a) subject only to the rights of others provided in the instruments described in Schedule B attached hereto and incorporated herein, Mortgagor is seized of an indefeasible estate in fee simple in, and has good and absolute title to, the Property, and has good right, full power and lawful authority to encumber the same as provided herein and Agent may at all times peaceably and quietly enter upon, hold, occupy and enjoy the Property in accordance with applicable law and with the terms hereof; (b) the Property is free and clear of all liens, security interests, charges and encumbrances whatsoever except those described in Schedule B and that certain Mortgage, Assignment of Leases and Rents, Fixture Filing and Security Agreement from Mortgagor to The CIT Group/Commercial Services, Inc. ("Senior Creditor"), of even date herewith and recorded in the real estate records of the County and State in which the Property is located (the "Senior Mortgage"); (c) Mortgagor will maintain and preserve the lien of this Mortgage until the Obligations secured hereby have been paid in full; (d) the Property is improved with those improvements described in Schedule C attached hereto and incorporated herein and made a part hereof and has frontage on, and direct access of ingress, egress, and regress to, the street(s) described therein; (e) electric, gas, sewer, water facilities and any other necessary utilities are, and at all times hereafter

shall be, available in sufficient capacity to service the Property satisfactorily, and any easements necessary to the furnishing of such utility service to Mortgagor have been obtained; and (f) the representations, warranties and covenants made by Mortgagor in the Subordinated Note Documents are incorporated herein by reference and made a part hereof.

1.03 Compliance with Laws. Mortgagor covenants and warrants that the Property presently complies with and will continue to comply with all applicable restrictive covenants, applicable zoning and subdivision ordinances and building codes, all applicable health and environmental laws and regulations and other applicable laws, rules and regulations which affect the Property and the operations of Mortgagor on the Property. If Mortgagor receives notice from any federal, state or other governmental body that it is not in compliance with any such covenant, ordinance, code, law or regulation, Mortgagor will provide Agent with a copy of such notice and comply with the provisions of such notice promptly.

1.04 Taxes Affecting Agent's/Lenders' Interest. If any state, federal, municipal or other governmental law, order, rule or regulation, passed subsequent to the date hereof, in any manner changes or modifies existing laws governing the taxation of deeds of trust, mortgages or debts secured by deeds of trust, mortgages, or the manner of collecting taxes so as to materially, adversely affect Agent's or Lenders' security in the Property, subject to Section 5.07 below, the entire balance of the Obligations secured by this Mortgage and all interest accrued thereon shall upon commercially reasonable notice to Mortgagor become due and payable forthwith at the option of Agent.

1.05 Insurance. Subject to Section 5.08 below, Mortgagor shall, at its sole expense, keep the Property insured in such amounts and against such risks and damages to the extent required by the Security Agreement. All policies of insurance shall contain an endorsement, in form and substance acceptable to Agent, showing loss payable to Agent as its interests appear. Such endorsement, or an independent instrument delivered to Agent, shall provide that the insurance companies will give Agent at least thirty (30) days prior written notice before any such policy or policies of insurance shall be altered or cancelled and that no act or default of Mortgagor or any other person shall affect the right of Agent to recover under such policy or policies of insurance in case of loss or damage.

1.06 Condemnation. Subject to Section 5.07 below, Agent shall be entitled to all compensation awards, damages, claims, rights of action and proceeds of, or on account of, any damage or taking through condemnation and is hereby authorized, at its option, to commence, appear in and prosecute in its own or Mortgagor's name any action or proceeding relating to any condemnation and to settle or compromise any claim in connection therewith. All such compensation awards, damages, claims, rights of action and proceeds, and any other payments or relief, and the right thereto, are included in the Property.

1.07 Care of Property.

(a) Mortgagor shall preserve and maintain the Property in good condition and repair, ordinary wear and tear excepted. Mortgagor shall not permit, commit or suffer any waste, impairment or deterioration of the Property or of any part thereof, and will not take any action which will increase the risk of fire or other hazard to the Property or to any part thereof.

(b) No part of the Property shall be removed, demolished or altered without the prior written consent of Agent, except in the ordinary course of business.

(c) Agent may enter upon and inspect the Property at any reasonable time during the life of this Mortgage.

1.08 Further Assurances. At any time and from time to time, upon Agent's request, Mortgagor shall make, execute and deliver, or cause to be made,

executed and delivered, to Agent and where appropriate shall cause to be recorded or filed, and from time to time thereafter to be re-recorded and refiled at such time and in such offices and places as shall be deemed desirable by Agent, any and all such further deeds of trust, instruments or further assurance, certificates and other documents as Agent may consider necessary or desirable in order to effectuate, complete, or perfect, or to continue and preserve the obligations of Mortgagor under the Subordinated Note Documents and this Mortgage, and the lien of this Mortgage as a lien upon all of the Property, whether now owned or hereafter acquired by Mortgagor. Upon any failure by Mortgagor to do so, Agent may make, execute, record, file, re-record or refile any and all such deeds of trust, instruments, certificates and documents for and in the name of Mortgagor, and Mortgagor hereby irrevocably appoints Agent the agent and attorney-in-fact of Mortgagor to do so.

1.09 Security Agreements and Financing Statements. Mortgagor (as Debtor) hereby grants to Agent (as Creditor and Secured Party) a security interest in all fixtures, machinery, appliances, equipment, furniture and personal property of every nature whatsoever constituting part of the Property.

Mortgagor shall execute any and all such documents, including, without limitation, financing statements pursuant to the applicable Uniform Commercial Code, as Agent may reasonably request, to preserve and maintain the priority of the lien created hereby on property which may be deemed personal property or fixtures, and shall pay to Agent on demand any expenses incurred by Agent in connection with the preparation, execution and filing of any such documents. Mortgagor hereby authorizes and empowers Agent to execute and file, on Mortgagor's behalf, all financing statements and refilings and continuations thereof as Agent reasonably deems necessary or advisable to create, preserve and protect said lien. When and if Mortgagor and Agent shall respectively become the Debtor and Secured Party in any Uniform Commercial Code financing statement affecting the Property, this Mortgage shall be deemed a security agreement as defined in said Uniform Commercial Code and the remedies for any violation of the covenants, terms and conditions of the agreements herein contained shall be (i) as prescribed herein, (ii) by general law, or (iii) as to such part of the security which is also reflected in said financing statement by the specific statutory consequences now or hereafter enacted and specified in the Uniform Commercial Code, all at Agent's sole election.

Mortgagor and Agent agree that the filing of a financing statement in the records normally having to do with personal property shall never be construed as in any way derogating from or impairing the express declaration and intention of the parties hereto, hereinabove stated, that everything used in connection with the production of income from the Property and/or adapted for use therein and/or which is described or reflected in this Mortgage is, and at all times and for all purposes and in all proceedings both legal or equitable, shall be regarded as part of the real estate encumbered by this Mortgage irrespective of whether (i) any such item is physically attached to the Improvements, (ii) serial numbers are used for the better identification of certain equipment items capable of being thus identified in a recital contained herein or in any list filed

with Agent, or (iii) any such item is referred to or reflected in any such financing statement so filed at any time. Similarly, the mention in any such financing statement of (1) rights in or to the proceeds of any fire and/or hazard insurance policy, or (2) any award in eminent domain proceedings for a taking or for loss of value, or (3) Mortgagor's interest as lessor in any present or future lease or rights to income growing out of the use and/or occupancy of the Property, whether pursuant to lease or otherwise, shall never be construed as in any way altering any of the rights of Agent as determined by this instrument or impugning the priority of Agent's lien granted hereby or by any other recorded document, but such mention in the financing statement is declared to be for the protection of Agent in the event any court or judge shall at any time hold with respect to (1), (2) and (3) that notice of Agent's priority of interest to be effective against a particular class of persons, including but not limited to the federal government and any subdivisions or entity of the federal government, must be filed in the Uniform Commercial Code records.

1.10 Assignment of Rents. The assignment contained in paragraph (E) of this

Mortgage shall be fully operative without any further action on the part of either party and specifically Agent shall be entitled, at its option, subject to Section 5.07 below, upon the occurrence of an Event of Default hereunder, to all rents, income and other benefits from the property described in paragraphs (A), (B), (C) and (D) hereof whether or not Agent takes possession of such property. To the extent permitted under applicable law and the Subordination Agreement (as defined in Section 5.07 below), Mortgagor hereby further grants to Agent the right (i) to enter upon and take possession of the Property for the purpose of collecting the said rents, income and other benefits, (ii) to dispossess by the usual summary ejectment proceedings any tenant defaulting in the payment thereof to Agent, (iii) to let the Property or any part thereof, and (iv) to apply said rents, income and other benefits, after payment of all necessary charges and expenses, on account of the Obligations secured hereby. Such assignment and grant shall continue in effect until the Obligations secured hereby are paid, the execution of this Mortgage constituting and evidencing the irrevocable consent of Mortgagor to the entry upon and taking possession of the Property by Agent pursuant to such grant to the extent permitted under applicable law, whether or not enforcement of this Mortgage has been instituted. Neither the exercise of any rights under this paragraph by Agent nor the application of any such rents, income or other benefits to the Obligations secured hereby, shall cure or waive any default or notice of default hereunder or invalidate any act done pursuant hereto or to any such notice, but shall be cumulative of all other rights and remedies.

1.11 After-Acquired Property. To the extent permitted by and subject to applicable law, the lien of this Mortgage will automatically attach, without further act, to all after-acquired property located in or on, or attached to the Property or any part thereof.

1.12 Agent's Performance of Defaults. Subject to Section 5.07 below, if Mortgagor defaults in the payment of any tax, assessment, encumbrance or other imposition, in its obligation to furnish insurance hereunder, or in the performance or observance of any other covenant, condition or term in this Mortgage or the Subordinated Note Documents, Agent may, to preserve its interest in the Property, perform or observe the same, and all payments made (whether such payments are regular or accelerated payments) and costs and expenses incurred or paid by Agent in connection therewith shall become due and payable immediately. The amounts so incurred or paid by Agent together with interest thereon at the rate described in Section 2(a) of

the Subordinated Notes from the date incurred until paid by Mortgagor, shall be added to the Obligations and secured by the lien of this Mortgage. Agent is hereby empowered to enter and authorize others to enter upon the Property or any part thereof for the purpose of performing or observing any such defaulted covenant, condition or term, without thereby becoming liable to Mortgagor or any person in possession holding under Mortgage.

1.13 Use of Property. Mortgagor covenants that the Property will be used, if at all, for the purposes set forth in Schedule C.

1.14 Required Notices. Mortgagor shall notify Agent promptly of the occurrence of any of the following: (i) receipt of notice from any governmental authority relating to the Property; (ii) receipt of a notice from any tenant leasing all or any portion of the Property; (iii) any change in the occupancy of the Property; (iv) receipt of any notice from the holder of any other lien or security interest in the Property; or (v) commencement of any judicial or administrative proceedings by or against or otherwise affecting Mortgagor, the Property or any Borrower or entity controlled by or under common control with Mortgagor, or any other action by any creditor thereof as a result of any default under the terms of any loan.

ARTICLE TWO

DEFAULTS

2.01 Event of Default. The term "Event of Default", wherever used in this Mortgage, shall have the meaning ascribed to such term in the Security Agreement.

ARTICLE THREE

REMEDIES

3.01 Acceleration of Maturity. If an Event of Default shall have occurred, then all of the Obligations secured hereby shall, at Agent's option, immediately become due and payable without notice or demand, time being of the essence hereof; and no omission on the part of Agent to exercise such option when entitled to do so shall be construed as a waiver of such right.

3.02 Agent's Power of Enforcement. If an Event of Default shall have occurred, subject to Section 5.07 below, Agent may, either with or without entry or taking possession as hereinabove provided or otherwise, and without regard to whether or not the Obligations shall be due and without prejudice to the right of Agent thereafter to bring any action for any default existing at the time such earlier action was commenced, proceed by any appropriate action or proceeding: (a) to enforce payment of the Obligations or the performance of any term hereof or any other right; (b) to enforce this Mortgage and to sell, as an entirety or in separate lots or parcels, the Property under the judgment or decree of a court or courts of competent jurisdiction; and (c) to pursue any other remedy available to it. Agent shall take action either by such proceedings or by the exercise of its powers with respect to entry or taking possession, or both, as Agent may determine.

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3.03 Agent's Right to Enter and Take Possession, Operate and Apply Income.

(a) If an Event of Default shall have occurred, subject to Section 5.07 below, (i) Mortgagor upon demand of Agent shall forthwith surrender to Agent the actual possession and if and to the extent permitted by law, Agent itself, or by such officers or agents as it may appoint, may enter upon and take possession of the Property and may exclude Mortgagor and its agents and employees wholly therefrom and may have joint access with Mortgagor to the books, papers and accounts of Mortgagor; and (ii) Mortgagor will pay monthly in advance to Agent on Agent's entry into possession, or to any receiver appointed to collect the rents, income and other benefits of the Property, the fair and reasonable rental value for the use and occupation of such part of the Property as may be in possession of Mortgagor, and upon default in any such payment will vacate and surrender possession of such part of the Property to Agent or to such receiver and, in default thereof, Mortgagor may be evicted by summary proceedings or otherwise.

(b) If Mortgagor shall for any reason fail to surrender or deliver the Property or any part thereof after Agent's demand, subject to Section 5.07 below, Agent may obtain a judgment or decree conferring on Agent the right to immediate possession or requiring Mortgagor to deliver immediate possession of all or part of the Property to Agent, to the entry of which judgment or decree Mortgagor hereby specifically consents. Mortgagor shall pay to Agent, upon demand, all reasonable costs and expenses of obtaining such judgment or decree and compensation to Agent, its attorneys and agents, and all such costs, expenses and compensation shall, until paid, be secured by the lien of this Mortgage.

(c) Upon every such entering upon or taking of possession, subject to Section 5.07 below, Agent may hold, store, use, operate, manage and control the Property and conduct the business thereof, and, from time to time:

(i) Make all necessary and proper maintenance, repairs, renewals, replacements, additions, betterments and improvements thereto and thereon and purchase or otherwise acquire additional fixtures, personalty and other property;

(ii) Insure or keep the Property insured;

(iii) Manage and operate the Property and exercise all the rights and powers of Mortgagor in its name or otherwise with respect to the same;

(iv) Enter into agreements with others to exercise the powers herein granted Agent, all as Agent from time to time may determine; and Agent may collect and receive all the rents, income and other benefits

thereof, including those past due as well as those accruing thereafter; and shall apply the monies so received by Agent in such priority as Agent may determine to (1) the payment of the Obligations; (2) the deposits for taxes and assessments and insurance premiums due; (3) the cost of insurance, taxes, assessments and proper charges upon the Property or any part thereof; (4) the expenses of operating, maintaining, repairing and improving the Property, including without limitation renting commissions and rental collection commissions paid to an agent of Agent or of the receiver; and (5) the compensation, expenses and disbursements of the agents, attorneys and other representatives of Agent. All costs, expenses and liabilities of

every character incurred by Agent in managing, operating and maintaining the Property, not paid out of rent as hereinabove provided, shall constitute additional Obligations secured hereby. While in possession of the Property, Agent or the receiver shall be liable to account only for the rents, issues and profits actually received.

Agent shall surrender possession of the Property to Mortgagor only when all Obligations secured hereby and all amounts under any of the terms of this Mortgage shall have been paid and all defaults cured or waived. The same right of taking possession, however, shall exist if any subsequent Event of Default shall occur and be continuing.

3.04 Reserved.

3.05 Leases. Agent is authorized to enforce this Mortgage subject to the rights of any tenants of the Property, and the failure to make any such tenants parties defendant to any such enforcement proceedings and to foreclose their rights will not be, nor be asserted by Mortgagor to be, a defense to any proceedings instituted by Agent to collect the sums secured hereby or to collect any deficiency remaining unpaid after the sale of the Property.

3.06 Waiver of Appraisalment, Valuation, Stay, Extension and Redemption Laws. Mortgagor agrees to the full extent permitted by law that in case of a default in its part hereunder, neither Mortgagor nor anyone claiming through or under it shall or will set up, claim or seek to take advantage of any appraisalment, valuation, extension or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of this Mortgage or the absolute sale of the Property or the final and absolute putting into possession thereof, immediately after such sale, of the purchasers thereat, and Mortgagor, for itself and all who may at any time claim through or under it, hereby waives, to the full extent that it may lawfully so do, the benefit of all such laws, and any and all right to have the assets comprising the Property marshalled upon any enforcement of the lien hereof and agrees that any court having jurisdiction to enforce such lien may sell the Property in part or as an entirety.

3.07 Receiver. If an Event of Default shall have occurred, Agent, to the extent permitted by law and without regard to the value or adequacy of the security for the Obligations secured hereby, shall be entitled as a matter of right if it so elects to the appointment of a receiver to enter upon and take possession of the Property and to collect all rents, income and other benefits thereof and apply the same as the court may direct, and any such receiver shall be entitled to hold, store, use, operate, manage and control the Property and conduct the business thereof as would Agent pursuant to Paragraph 3.03(c) above. The expenses, including receiver's fees, attorney's fees, costs and agent's compensation, incurred pursuant to the powers herein contained shall be secured by this Mortgage. The right to enter and take possession of and to manage and operate the Property and to collect all rents, income and other benefits thereof, whether by a receiver or otherwise, shall be cumulative to any other right or remedy hereunder or afforded by law and may be exercised concurrently therewith or independently thereof. Agent shall be liable to account only for such rents, income and other benefits actually received by Agent, whether received pursuant to this paragraph or paragraph 3.03. Notwithstanding the appointment of any receiver or other custodian, Agent shall be entitled as pledgee to the possession and control of any cash, deposits, or instruments at the time held by, or payable or deliverable under the terms of this Mortgage to, Agent.

3.08 Suits to Protect the Property. Subject to Section 5.07 below, Agent shall have the power and authority to institute and maintain any suits and proceedings as Agent may deem advisable (a) to prevent any impairment of the Property by any acts which may be unlawful or any violation of this Mortgage, (b) to preserve or protect its interest in the Property, and (c) to restrain the enforcement of or compliance with any legislation or other government enactment, rule or order that may be unconstitutional or otherwise invalid, if the enforcement or compliance with such enactment, rule or order might impair the security hereunder or be prejudicial to Agent's interest.

3.09 Proofs of Claim. In the case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings affecting Mortgagor or any guarantor, co-maker or endorser of any of Mortgagor's obligations, its creditors or its property, Agent, to the extent permitted by law, shall be entitled to file such proofs of claim and other documents as may be necessary or advisable in order to have its claims allowed in such proceedings for the entire amount due and payable by Mortgagor under this Mortgage, the other Subordinated Note Documents and any other instrument securing the Obligations, at the date of the institution of such proceedings, and for any additional amounts which may become due and payable by Mortgagor after such date.

3.10 Application of Monies by Agent.

(a) Upon the occurrence of an Event of Default, subject to Section 5.07 below, Agent shall be entitled to sue for and to recover judgment against Mortgagor for the whole amount of the Obligations due and unpaid together with costs and expenses, including without limitation, the reasonable compensation, expenses and disbursements of Agent's agents, attorneys and other representatives, either before, after or during the pendency of any proceedings for the enforcement of this Mortgage, and the right of Agent to recover such judgment shall not be affected by any taking possession hereunder, or by the exercise of any other right, power or remedy for the enforcement of the terms of this Mortgage.

(b) In case of a sale of all or any part of the Property and the application of the proceeds of sale to the payment of the Obligations secured hereby, subject to Section 5.07 below, Agent shall be entitled to enforce payment from Mortgagor of all Obligations then remaining due and unpaid and to recover judgment against Mortgagor for any portion thereof remaining unpaid, with interest.

(c) Mortgagor hereby agrees, to the extent permitted by law, that no recovery of any such judgment by Agent and no attachment or levy of any execution upon any of the Property or any other property shall in any way affect the lien of this Mortgage upon the Property or any part thereof or any lien, rights, powers or remedies of Agent hereunder, but such lien, rights, powers and remedies shall continue unimpaired as before.

(d) Any monies collected or received by Agent under this paragraph 3.10 shall be applied to the payment of reasonable compensation, expenses and disbursements of the agents, attorneys and other representatives of Agent, and the balance remaining shall be applied to the payment of the Obligations secured hereby.

(e) The provisions of this paragraph shall not be deemed to limit or otherwise modify the provisions of any guaranty of the Obligations of Mortgagor to Agent.

3.11 Delay or Omission; No Waiver. No delay or omission of Agent to exercise any right, power or remedy accruing upon any Event of Default shall exhaust or impair any such right, power or remedy or shall be construed to waive any such Event of Default or to constitute acquiescence therein. Subject to Section 5.07 below, every right, power and remedy given to Agent may be exercised from time to time and as often as may be deemed expedient by Agent.

3.12 No Waiver of One Default to Affect Another. No waiver of any Event of Default hereunder shall extend to or affect any subsequent or any other Event of Default then existing, or impair any rights, powers or remedies consequent thereon. If Agent (a) grants forbearance or an extension of time for the payment of any Obligations secured hereby; (b) takes other or additional security for the payment thereof; (c) waives or does not exercise any right granted in this Mortgage or any other Subordinated Note Document; (d) releases any part of the Property from the lien of this Mortgage; (e) consents to the filing of any map, plat or replat of the Land; (f) consents to the granting of any easement on the Land; or (g) makes or consents to any agreement changing the terms of this Mortgage or subordinating the lien or any charge hereof, no such act or omission shall release, discharge, modify, change or affect the Obligations of Mortgagor. No such act or omission shall preclude Agent from exercising any right, power or privilege herein granted or intended to be granted in case of any Event of Default then existing or of any subsequent Event of Default nor shall the lien of this Mortgage be altered hereby, except to the extent of releases as described in subparagraph (d) above of this paragraph 3.12.

3.13 Discontinuance of Proceedings; Position of Parties Restored. If Agent shall have proceeded to enforce any right or remedy under this Mortgage and such proceedings shall have been discontinued or abandoned for any reason, or such proceedings shall have resulted in a final determination adverse to Agent, then and in every such case Mortgagor and Agent shall be restored to their former positions and rights hereunder, and all rights, powers and remedies of Agent shall continue as if no such proceedings had occurred or had been taken.

3.14 Remedies Cumulative. No right, power or remedy conferred upon or reserved to Agent by this Mortgage or the other Subordinated Note Documents is exclusive of any other right, power or remedy, but each and every such right, power and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy given under the Subordinated Note Documents, or now or hereafter existing at law, in equity or by statute.

ARTICLE FOUR

TRANSFER OR FURTHER ENCUMBRANCE OF THE PROPERTY

4.01 Transfer or Further Encumbrance of the Property. Except as provided in Section 5.08 below, in the event of any sale, conveyance, transfer, lease, pledge or further encumbrance of the Property or any interest in or any part of the Property, or any further assignment of rents from the Property without the prior written consent of Agent then, at Agent's option, subject to Section 5.07 below, Agent may declare all Obligations to be due and payable immediately without demand or notice. Agent's consent shall be within its sole and absolute discretion, and

Agent specifically reserves the right to condition its consent upon (by way of illustration but not of limitation) its approval of the financial management ability of the purchaser, transferee, lessee, pledgee or assignee, upon an agreement to escalate the interest rate on the Obligations to Agent's then current interest rate for similarly situated properties, upon the assumption of the Obligations and this Mortgage by the purchaser, transferee, lessee, pledgee or assignee, upon the receipt of guaranties of the indebtedness satisfactory to Agent or upon payment to Agent of a reasonable assumption fee. Except as provided in Section 5.08 below, any purchaser, transferee, lessee, pledgee or assignee shall be deemed to have assumed and agreed to pay the Obligations secured by this Mortgage and to have assumed and agreed to be bound by the terms and conditions of this Mortgage, including the terms of this paragraph, unless Agent specifically agrees in writing to the contrary. Except as provided in Section 5.08 below, Mortgagor agrees that in the event the ownership of the Property or any part thereof becomes vested in a person other than Mortgagor, Agent may, without notice to Mortgagor (except as required by applicable law), deal in any way with such successor or successors in interest with reference to this Mortgage and the Obligations hereby secured without in any way vitiating or discharging Mortgagor's liability hereunder or under the Subordinated Note Documents. Except as provided in Section 5.08 below, no transfer or encumbrance of the Property or any interest therein and no forbearance or assumption by any person with respect to this Mortgage and no extension to any person of the time

for payment of the Obligations hereby secured given by Agent shall operate to release, discharge, modify, change or affect the liability of Mortgagor either in whole or in part, unless Agent specifically agrees in writing to the contrary.

ARTICLE FIVE

MISCELLANEOUS PROVISIONS

5.01 Successors and Assigns Included in Parties. Whenever one of the parties hereto is named or referred to herein, the heirs, personal representatives, successors and assigns of such party shall be included and all covenants and agreements contained in this Mortgage, by or on behalf of Mortgagor or Agent or Lenders shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

5.02 Addresses for Notices, Etc.

(a) Except as may be otherwise provided herein, any notice, report, demand or other instrument authorized or required to be given or furnished under this Mortgage to Mortgagor or Agent shall be in writing, shall be sent by certified or registered mail, return receipt requested, personal delivery against receipt, or by telegraph or facsimile and, unless otherwise expressly permitted herein, shall be deemed to have been validly served, given or delivered when delivered against receipt or one (1) business day after deposit in the United States mail, postage prepaid, or, in the case of telegraphic notice, when delivered to the telegraph company, or, in the case of facsimile notice, when sent, answer back, addressed as follows:

If to Agent, at: Wachovia Bank, National Association
171 17th Street, NW
Atlanta, Georgia 30363

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Attention: Monica Coles
Facsimile No.: 404-214-3962

with a copy to: Jones Day
1420 Peachtree Street, NE
Suite 800
Atlanta, Georgia 30309
Attention: Christopher Carson
Facsimile No.: 404-581-8330

If to Mortgagor: Churchill Weavers, Inc.
c/o Crown Crafts, Inc.
916 South Burnside Avenue
Gonzalez, Louisiana 70707
Attention: Randall Chestnut
Facsimile No.: 225-647-9112

With a copy to: Rogers & Hardin
229 Peachtree Street NE
2700 International Tower
Atlanta, Georgia 30303
Attention: Steven E. Fox
Facsimile No.: 404-525-2224

(b) Either party may change the address to which any such notice, report, demand or other instrument is to be delivered or mailed, by furnishing written notice of such change to the other party, but no such notice of change shall be effective unless and until received by such other party.

5.03 Headings. The headings of the articles, sections, paragraphs and subdivisions of this Mortgage are for convenience of reference only, are not to be considered a part hereof, and shall not limit or expand or otherwise affect any of the terms hereof.

5.04 Invalid Provisions to Affect No Others. In the event that any of the covenants, agreements, terms or provisions contained in the Subordinated Note

Documents shall be deemed invalid, illegal or unenforceable in any respect, the validity of the remaining covenants, agreements, terms or provisions contained in the Subordinated Note Documents shall be in no way affected, prejudiced or disturbed thereby; and if any application of any term, restriction or covenant to any person or circumstances is deemed illegal or unenforceable, the application of such term, restriction or covenant to other persons and circumstances shall remain unaffected to the extent permitted by law.

5.05 Changes, Etc. Neither this Mortgage nor any term hereof may be changed, waived, discharged or terminated orally, or by any action or inaction, but only by an instrument in writing signed by Agent or Mortgagor, as the case may be, against which enforcement of the change, waiver, discharge or termination is sought. The modification hereof or of any of the

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Subordinated Note Documents or the release of any part of the Property from the lien hereof shall not impair the priority of the lien of this Mortgage.

5.06 Governing Law. This Mortgage shall be construed, interpreted, enforced and governed by and in accordance with the laws of the State of Kentucky.

5.07 Subordination. This Mortgage and the liens and security interests granted hereby are subordinate to the Senior Mortgage and are otherwise subject to the terms and conditions of that certain Subordination Agreement dated of even date herewith by and among the Agent, the Lenders and Senior Creditor (the "Subordination Agreement").

5.08 Certain Transactions. Anything in this Mortgage to the contrary notwithstanding, this Mortgage shall terminate immediately upon the occurrence of any of the following transactions that is consented to by the Senior Creditor: (i) a sale of all or substantially all of the stock of Mortgagor; (ii) a merger or other business combination involving Mortgagor; or (iii) the liquidation of Mortgagor.

[signatures on following pages]

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IN WITNESS WHEREOF, Mortgagor has caused this Mortgage to be duly executed under seal in its corporate name by its duly authorized corporate officers on the day and year first above written.

CHURCHILL WEAVERS, INC.

By: /s/ E. Randall Chestnut

Name: E. Randall Chestnut

Title: Vice President

STATE OF Louisiana
Parish OF Ascension

I, the undersigned authority, a Notary Public in and for said County, in said state, hereby certify that E. Randall Chestnut, the Vice President of Churchill Weavers, Inc., who is personally known to me to be the same person whose name is signed to the foregoing instrument, acknowledged before me on this day that, being informed of the contents of the instrument, he, in his capacity as such Vice President and with full authority, executed the same voluntarily for and as the act of said corporation on the day the same bears date.

Given under my hand this the 7th day of July, 2006.

/s/ Doretta Trichel

Notary Public Doretta Trichel ID #50325

My Commission Expires: is for life

Resident of Ascension Parish

This document was prepared by:

Christopher S. Dillon, Esq.
Jones Day
1420 Peachtree Street, NE
Suite 800
Atlanta, Georgia 30309

/s/ Christopher S. Dillon

Christopher S. Dillon, Esq.