

06-17-1998

Form PTO-1



100740794

Form Cover Sheet  
MARKS ONLY

U.S. Department of Commerce  
Patent and Trademark Office

*Handwritten signature and date: M.D. 5/22/98*

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

1. Name of conveying party(ies): Pacific Bag, Inc.

- Individual(s)
- Association
- General Partnership
- Ltd Partnership
- Corporation - State Washington
- Other: \_\_\_\_\_

Additional name(s) of conveying party(ies) attached?

- Yes
- No

3. Nature of conveyance:

- Assignment
- Merger
- Security Agreement
- Change of Name
- Other: \_\_\_\_\_

Execution Date: May 13, 1998

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

Name: Sirrom Capital Corporation

Internal Address: \_\_\_\_\_

Street Address: 500 Church Street, Suite 200

City: Nashville State: TN Zip: 37219

- Individual(s) citizenship \_\_\_\_\_
- Association \_\_\_\_\_
- General Partnership \_\_\_\_\_
- Ltd Partnership \_\_\_\_\_
- Corporation - State Tennessee
- Other \_\_\_\_\_

If assignee is not domiciled in the United States, a domestic representative designation is attached: N/A

- Yes
- No

(Designations must be separate document from assignment)

Additional name(s) and addresses attached?

- Yes
- No

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

A. Trademark Application No.(s) 75-404003 and 75-299425

B. Trademark Registration No.(s) \_\_\_\_\_

Additional numbers attached?  Yes  No

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

Name: Mark A. Finkelstein

Internal Address: \_\_\_\_\_

Street Address: 1420 Fifth Avenue, Suite 3300

City: Seattle State: WA Zip: 98101-2390

6. Total number of applications and registrations involved: 2

7. Total fee (37 CFR 3.41).....\$ 65

- Enclosed
- Authorized to be charged to deposit account

8. Deposit Acct No. 07-1847 (Order # 00007-1847)

(Attach duplicate copy of this page if paying by deposit account)

DO NOT USE THIS SPACE

9. Statement and signature.

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.

Joni Berger

Name of Person Signing

Signature

*Handwritten signature of Joni Berger*

May 14, 1998

Date

Total number of pages comprising cover sheet: 1

06/15/1998  
01 FC:481  
02 FC:482

40.00 OP  
25.00 OP

**SECURITY AGREEMENT**

*[Handwritten signature]*  
*[Handwritten initials]* *[Handwritten date]*

THIS SECURITY AGREEMENT ("Agreement") is made as of the 13th day of April, 1998, by and between PACIFIC PLUS, INC., a Washington corporation which upon merger with PBI Holdings, Inc. will be known as Pacific Bag, Inc. (the "Borrower"), and SIRROM CAPITAL CORPORATION, a Tennessee corporation ("Lender").

**RECITALS:**

WHEREAS, Lender is making a loan (the "Loan") in the amount of \$2,500,000.00 to Borrower, pursuant to that certain Loan Agreement of even date herewith by and between Borrower and Lender, as it may be amended, modified or extended from time to time (the "Loan Agreement"); and

WHEREAS, in connection with the making of the Loan, Lender desires to obtain from Borrower and Borrower desires to grant to Lender a security interest in certain collateral more particularly described below.

**AGREEMENT:**

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

1. Grant of Security Interest. Borrower hereby grants to Lender a security interest in the following described property (collectively, the "Collateral"):

(a) presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods or the rendition of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing (collectively, "Accounts");

(b) present and future general intangibles and other personal property (including choses or things in action, goodwill, patents, trade names, trademarks, servicemarks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, monies due under any royalty or licensing agreements, infringement claims, computer programs, computer discs, computer tapes, literature, reports, catalogs deposit accounts, insurance premium rebates, tax refunds, and tax refund claims)

other than goods and Accounts, and Borrower's Books relating to any of the foregoing (collectively, "General Intangibles");

(c) present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities, documents, leases, and chattel paper, and Borrower's Books relating to any of the foregoing (collectively, "Negotiable Collateral");

(d) present and future inventory in which Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of Borrower's present and future raw materials, work in process, finished goods, and packing and shipping materials, wherever located, and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing (collectively, "Inventory");

(e) present and hereafter acquired machinery, machine tools, motors, equipment, furniture, furnishings, fixtures, vehicles (including motor vehicles and trailers), tools, parts, dies, jigs, goods (other than consumer goods or farm products), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located (collectively, "Equipment");

(f) all trademarks, service marks, patents, patent licenses, inventions and other proprietary property or technology now held or hereafter acquired by Borrower, both registered and unregistered, and trade dress, including logos and designs, in connection with which any such marks are used, together with all registrations regarding such marks and the rights to renewals thereof, and the goodwill of the business of Borrower symbolized by such marks (collectively "Marks");

(g) all copyrights now held or hereafter acquired by Borrower and any applications for U.S. copyrights hereafter made by Borrower (collectively, "Copyrights");

(h) all proprietary information and trade secrets of Borrower now held or hereafter acquired by Borrower with respect to Borrower's business and all of Borrower's computer programs and the information contained therein and all intellectual property rights with respect thereto now held or hereafter acquired by Borrower (collectively "Trade Secrets" and together with the Marks and Copyrights, the "Intellectual Property").

(i) books and records including: ledgers; records indicating, summarizing, or evidencing Borrower's assets or liabilities, or the collateral; all information relating to Borrower's business operations or financial condition; and all computer programs, disc or tape files, printouts, funds or other computer prepared information, and the equipment containing such information (collectively, "Borrower's Books");

(j) substitutions, replacements, additions, accessions, proceeds, products to or of any of the foregoing, including, but not limited to, proceeds of insurance covering any of

the foregoing, or any portion thereof, and any and all Accounts, General Intangibles, Negotiables, Collateral, Inventory, Equipment, Marks, Copyrights, Trade Secrets, money, deposits, accounts, or other tangible or intangible property resulting from the sale or other disposition of the accounts, general Intangibles, Negotiable Collateral, Inventory, Equipment, Marks, Copyrights, Trade Secrets or any portion thereof or interest therein and the proceeds thereof.

2. Secured Indebtedness. The security interest granted hereby shall secure the prompt payment of the Obligations (as defined in the Loan Agreement) and the prompt performance of each of the covenants and duties under the Loan Documents (as defined in the Loan Agreement).

3. Representations and Warranties of Borrower. Borrower represents, warrants and agrees as follows:

(a) Except as set forth on Schedule 3(a) hereto (the "Permitted Encumbrances"), Borrower is the owner of the Collateral free and clear of any liens and security interests. Borrower will defend the Collateral against the claims and demands of all persons other than the holders of the Permitted Encumbrances.

(b) The address set forth on Schedule 3(b) hereto is Borrower's principal place(s) of business and the location of all tangible Collateral and the place where the records concerning all intangible Collateral are kept and/or maintained.

(c) Borrower will pay all costs of filing of financing, continuation and termination statements with respect to the security interests created hereby, and Lender is authorized to do all things that it deems necessary to perfect and continue perfection of the security interests created hereby and to protect the Collateral.

(d) Schedule 3(d) hereto includes all Intellectual Property owned (or to be owned following the Transactions, as defined in the Loan Agreement) by Borrower in its own name or as to which Borrower has any colorable claim of ownership that are material to the business of Borrower as of the date hereof.

(e) Borrower is the sole legal and beneficial owner of the entire right, title and interest in and to the Intellectual Property, and/or has the unrestricted right to use all such Intellectual Property pursuant to a valid license or other agreement.

(f) Borrower's rights in and to the Intellectual Property are valid, subsisting, unexpired, enforceable and have not been abandoned.

(g) All licenses, franchise agreements and other agreements conveying rights in and to the Intellectual Property are identified on Schedule 3(d) hereto and are in full force and effect. To the best knowledge of Borrower, Borrower is not in default under any such agreement, and no event has occurred which might constitute a default by Borrower under any such agreement.

(h) Except as set forth in Schedule 3(h), all of the Intellectual Property is free and clear of any and all liens, security interests, options, licenses, pledges, assignments, encumbrances and/or agreements of any kind, and Borrower has not granted any release, covenant not to sue, or non-assertion assurance to any third party with respect to any of the Intellectual Property.

(i) All prior transfers and assignments of the interests of any and all predecessors in the Intellectual Property of Borrower were duly and validly authorized, executed, delivered, recorded and filed as required to vest Borrower with complete, unrestricted ownership rights therein.

(j) Except in connection with the Transactions Borrower has not, within the three (3) months prior to the date of execution of this Agreement, executed and/or delivered any assignment, transfer or conveyance of any of the Intellectual Property, recorded or unrecorded.

(k) No proceedings have been instituted or are pending or, to Borrower's knowledge, threatened that challenge Borrower's rights to use the Intellectual Property or Other Proprietary Property, or to register or maintain the registration of the Intellectual Property. No holding, decision or judgment has been rendered by any governmental authority which would limit, cancel or question the validity of any of the Intellectual Property. No action or proceeding is pending (i) seeking to limit, cancel or question the validity of any of the Intellectual Property or Borrower's ownership thereof or (ii) which, if adversely determined, would reasonably be likely to have a material adverse effect on the value of any of the Intellectual Property.

(l) To the best of Borrower's knowledge, the current conduct of Borrower's or Pacific Bag, Inc.'s ("Bag") business and Borrower's rights in and to all of the Intellectual Property and Other Proprietary Property do not conflict with or infringe any proprietary right of any third party in any way which adversely affects the business, financial condition or business prospects of Borrower. Further, except as set forth in Schedule 3(l), Borrower is not aware of any claim by any third party that such conduct or such rights conflict with or infringe any valid proprietary right of any third party in any way which affects the business, financial condition or business prospects of Borrower or Bag. Neither Borrower nor Bag is making and has not made use of any confidential information of any third party except pursuant to express agreement of such third party.

(m) Borrower is unaware of any infringement by any other party upon the Intellectual Property. Borrower has heretofore exerted, continues and affirmatively covenants that it will hereafter continue to exert commercially reasonable efforts to prevent any infringement by third parties of Borrower's Intellectual Property rights at Borrower's sole cost.

(n) All past and present employees of Borrower and/or parties with whom Borrower (including any predecessor-in-interest of Borrower) had any contractual relationship ("contractors"), whose employment (or contractual) functions included or affected research and development or other material aspects of Intellectual Property have executed agreements requiring them to disclose to Borrower any and all inventions created or developed during and within the scope of their employment by or contractual relationship with Borrower and obligating them to assign all of their respective right, title and interest in and to all such inventions to Borrower.

4. Agreements With Respect to the Collateral. Borrower covenants and agrees with Lender as follows:

(a) Borrower will not permit any of the Collateral to be removed from the location specified herein, except for sales of inventory in the ordinary course of business temporary periods in the normal and customary use thereof, without the prior written consent of Lender.

(b) Borrower shall notify Lender in writing of any change in the location of Borrower's principal place of business (or residence) or the location of any tangible Collateral (other than inventory sold in the normal course of business) or the place(s) where the records concerning all intangible Collateral are kept or maintained.

(c) Borrower will keep the Collateral in good condition and repair and will pay and discharge all taxes, levies and other impositions levied thereon as well as the cost of repairs to or maintenance of same, and will not permit anything to be done that may impair the value of any of the Collateral. If Borrower fails to pay such sums, Lender may do so for Borrower's account and add the amount thereof to the Obligations.

(d) Until the occurrence of an Event of Default, Borrower shall be entitled to possession of the Collateral and to use the same in any lawful manner, provided that such use does not cause excessive wear and tear to the Collateral, cause it to decline in value at an excessive rate, or violate the terms of any policy of insurance thereon.

(e) Borrower will not sell, exchange, lease or otherwise dispose of any of the Collateral or any interest therein without the prior written consent of Lender. Notwithstanding the foregoing, so long as an Event of Default has not occurred, Borrower shall have the right to process and sell Borrower's inventory and collect its Accounts in the regular course of business. Lender's security interest hereunder shall attach to all proceeds of all sales or other dispositions of the Collateral. If at any time any such proceeds shall be represented by any instruments, chattel paper or documents of title, then such instruments, chattel paper or documents of title shall be promptly delivered to Lender and subject to the security interest granted hereby. If at any time any of Borrower's inventory is represented by any document of title, such document of title will be delivered promptly to Lender and subject to the security interest granted hereby.

(f) Borrower will not sell, transfer, license or sub-license or otherwise dispose of any of the Collateral, or attempt, offer or contract to so do.

(g) Borrower will advise Lender promptly, in reasonable detail, at its address set forth in the Loan Agreement, (i) of any lien (other than liens created hereby or permitted under the Loan Agreement) on, or claim asserted against, Collateral and (ii) of the occurrence of any other event which could reasonably be expected to have a material adverse effect on the aggregate value of the Collateral or on the liens created hereunder.

(h) (i) Borrower (either itself or through licensees) will, except with respect to any Trademark that Borrower shall reasonably determine is of immaterial economic value to it or otherwise reasonably determines not to so do, (A) continue to use each Trademark on each and every trademark class of goods applicable to its current line as reflected in its current catalogs, brochures and price lists in order to maintain such Trademark in full force free from any claim of abandonment for non-use, (B) maintain as in the past the quality of products and services offered under such Trademark, (C) use reasonable efforts to employ such Trademark with the appropriate notice of registration, (D) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless within thirty (30) days after such use or adoption Lender, for its benefit, shall obtain a perfected security interest in such mark pursuant to this Security Agreement, and (E) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any Trademark may become invalidated.

(ii) Borrower will not, except with respect to any Patent that Borrower shall reasonably determine is of immaterial economic value to it or otherwise reasonably determine so to do, do any act, or omit to do any act, whereby any Patent may become abandoned or dedicated. Without the prior written consent of Lender, Borrower shall not abandon any right to file a patent application, or abandon any pending patent application or patent if such abandonment would have a material adverse effect on the business of Borrower.

(iii) Borrower will promptly notify Lender if it knows, or has reason to know, that any application relating to any Patent, Trademark or Copyright may become abandoned or dedicated, or of any adverse determination or material development (including, without limitation, the institution of, or any such determination or development in, any proceeding in the United States Patent and Trademark office or any court or tribunal in any country) regarding Borrower's ownership of any Patent, Trademark or Copyright, or its right to register the same or to keep and maintain the same.

(iv) Whenever Borrower, either by itself or through any agent, employee, licensee or designee, shall file an application for any Patent or for the registration of any Trademark or Copyright with the United States Patent and Trademark Office, the United States Copyright Office, or any similar office or agency in any other country

or any political subdivision thereof, Borrower shall report such filing to Lender within five (5) business days after the last day of the fiscal quarter in which such filing occurs. Upon request of Lender, Borrower shall execute and deliver any and all reasonably necessary agreements, instruments, documents, and papers as Lender may request to evidence Lender's security interest in any newly filed Patent, Copyright or Trademark and the goodwill and general intangibles of Borrower relating thereto or represented thereby, and Borrower hereby constitutes Lender its attorney-in-fact to execute and file all such writings for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; such power being coupled with an interest is irrevocable until the Obligations are paid in full.

(v) Borrower, except with respect to any Patent, Trademark or Copyright Borrower shall reasonably determine is of immaterial economic value to it or it otherwise reasonably determines not to so do, will take all reasonable and necessary steps, including, without limitation, in any proceedings before any tribunal, office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration or Patent) and to maintain each Patent and each registration of Trademarks and Copyrights, including, without limitation, filing of applications, applications for reissue, renewal or extensions, the payment of maintenance fees, participation in reexamination, opposition and infringement proceedings, and the filing of renewal applications, affidavits of use and affidavits of incontestability, when appropriate. Any expenses incurred in connection with such activities shall be paid by Borrower.

(vi) In the event Borrower knows or has reason to know that any Patent, Trademark or Copyright included in the Collateral is infringed, misappropriated or diluted by a third party, Borrower shall promptly notify Lender after it learns thereof and shall, unless Borrower shall reasonably determine that such Patent, Trademark or Copyright is of immaterial economic value to Borrower which determination Borrower shall promptly report to Lender, promptly sue for infringement, misappropriation or dilution, or take such other actions as Borrower shall reasonably deem appropriate under the circumstances to protect such Patent, Trademark or Copyright.

(vii) Borrower will furnish to Lender each year, on the anniversary date of the execution of this Agreement, statements, schedules and an inventory identifying and describing the Collateral, including without limitation, all Intellectual Property acquired subsequent to the date of this agreement and not identified on Schedule A and Schedule B, all transfers, assignments, licenses or sub-licenses of the Collateral by Borrower, and such other information in connection with the Collateral as Lender may reasonably request, all in reasonable detail. Any such Intellectual Property shall automatically become part of the Collateral.

(viii) If the collateral includes any interest in computer programs or copyrights therein, on the date hereof, Borrower agrees to deposit a copy of the



information and materials described in an escrow agreement acceptable to Lender with an escrow agent acceptable to Lender as identified in said escrow agreement and to execute, and thereafter comply with the terms of, said escrow agreement as set forth therein.

(i) Borrower will not allow the Collateral to be attached to real estate in such manner as to become a fixture or a part of any real estate.

(j) Borrower will at all times keep the Collateral insured against all insurable hazards in amounts equal to the full cash value of the Collateral. Such insurance shall be with such companies as may be acceptable to Lender, with provisions satisfactory to Lender for payment of all losses thereunder to Lender as its interests may appear. If required by Lender, Borrower shall deposit the policies with Lender. Any money received by Lender under said policies may be applied to the payment of the Obligations, whether or not due and payable, or at Lender's option may be delivered by Lender to Borrower for the purpose of repairing or restoring the Collateral. Borrower assigns to Lender all right to receive proceeds of insurance not exceeding the amounts secured hereby, directs any insurer to pay all proceeds directly to Lender, and appoints Lender Borrower's attorney-in-fact to endorse any draft or check made payable to Borrower in order to collect the benefits of such insurance. If Borrower fails to keep the Collateral insured as required by Lender, Lender shall have the right to obtain such insurance at Borrower's expense and add the cost thereof to the Obligations.

(k) Borrower will not permit any liens or security interests other than those created by this Agreement and the Permitted Encumbrances to attach to any of the Collateral, nor permit any of the Collateral to be levied upon under any legal process, nor permit anything to be done that may impair the security intended to be afforded by this Agreement, nor permit any tangible Collateral to become attached to or commingled with other goods without the prior written consent of Lender.

5. Remedies Upon Default. Upon an Event of Default under and as defined in the Loan Agreement, Lender may pursue any or all of the following remedies, without any notice to Borrower except as required below:

(a) Lender may give written notice of default to Borrower, following which Borrower shall not dispose of, conceal, transfer, sell or encumber any of the Collateral (including, but not limited to, cash proceeds) without Lender's prior written consent, even if such disposition is otherwise permitted hereunder in the ordinary course of business. Any such disposition, concealment, transfer or sale after the giving of such notice shall constitute a wrongful conversion of the Collateral. Lender may obtain a temporary restraining order or other equitable relief to enforce Borrower's obligation to refrain from so impairing Lender's Collateral.

(b) Lender may take possession of any or all of the Collateral. Borrower hereby consents to Lender's entry into any of Borrower's premises to repossess Collateral, and

specifically consents to Lender's forcible entry thereto as long as Lender causes no significant damage to the premises in the process of entry (frilling of locks, cutting of chains and the like do not in themselves cause "significant" damage for the purposes hereof) and provided that Lender accomplishes such entry without a breach of the peace.

(c) Lender may dispose of the Collateral at private or public sale. Any required notice of sale shall be deemed commercially reasonable if given at least five (5) days prior to sale. Lender may adjourn any public or private sale to a different time or place without notice or publication of such adjournment, and may adjourn any sale either before or after offers are received. Provided, however, Lender shall make a good faith effort to notify Borrower of such adjournment. The Collateral may be sold in such lots as Lender may elect, in its sole discretion. Lender may take such action as it may deem necessary to repair, protect, or maintain the Collateral pending its disposition.

(d) Lender may recover any or all proceeds of accounts from any bank or other custodian who may have possession thereof. Borrower hereby authorizes and directs all custodians of Borrower's assets to comply with any demand for payment made by Lender pursuant to this Agreement, without the need of confirmation from Borrower and without making any inquiry as to the existence of an Event of Default or any other matter. Lender may engage a collection agent to collect accounts for a reasonable percentage commission or for any other reasonable compensation arrangement.

(e) Lender may notify any or all account debtors that subsequent payments must be made directly to Lender or its designated agent. Such notice may be made over Lender's signature or over Borrower's name with no signature or both, in Lender's discretion. Borrower hereby authorizes and directs all existing or future account debtors to comply with any such notice given by Lender, without the need of confirmation from Borrower and without making any inquiry as to the existence of an Event of Default or as to any other matter.

(f) Lender may, but shall not be obligated to, take such measures as Lender may reasonably deem necessary in order to collect any or all of the accounts. Without limiting the foregoing, Lender may institute any administrative or judicial action that it may reasonably deem necessary in the course of collecting and enforcing any or all of the accounts. Any administrative or judicial action or other action taken by Lender in the course of collecting the accounts may be taken by Lender in its own name or in Borrower's name. Lender may compromise any disputed claims and may otherwise enter into settlements with account debtors or obligors under the accounts, which compromises or settlements shall be binding upon Borrower. Lender shall have no duty to pursue collection of any account, and may abandon efforts to collect any account after such efforts are initiated.

(g) Lender may, with respect to any account involving uncompleted performance by Borrower, and with respect to any general intangible or other Collateral whose value may be preserved by additional performance on Borrower's part, take such action as Lender may deem appropriate including, but not limited, to performing or causing the performance of any

obligation of Borrower thereunder, the making of payments to prevent defaults thereunder, and the granting of adequate assurances to other parties thereto with respect to future performance. Lender's action with respect to any such accounts or general intangibles shall not render Lender liable for further performance thereunder unless Lender so agrees in writing.

(h) Lender may exercise its lien upon and right of setoff against any monies, items, credits, deposits or instruments that Lender may have in its possession and which belong to Borrower or to any other person or entity liable for the payment of any or all of the Obligations.

(i) Lender may exercise any right that it may have under any other document evidencing or securing the Obligations or otherwise available to Lender at law or equity.

6. Audits and Examinations. Lender shall have the right, at any time during normal business hours, by its own auditors, accountants or other agents, to examine or audit any of the books and records of Borrower, or the Collateral, all of which will be made available upon request. Such accountants or other representatives of Lender will be permitted to make any verification of the existence of the Collateral or accuracy of the records that Lender deems necessary or proper. Any reasonable expenses incurred by Lender in making such examination, inspection, verification or audit shall be paid by Borrower promptly on demand and shall constitute part of the Obligations.

7. Termination Statement. Upon receipt of proper written demand following the payment in full of the Obligations and termination of any commitment of Lender to make any future advances to Borrower, Lender shall send a termination statement with respect to any financing statement filed to perfect Lender's security interests in any of the Collateral to such Borrower or cause such termination statement to be filed with the appropriate filing officer(s).

8. Power of Attorney. Each Borrower hereby constitutes Lender or its designee, as such Borrower's attorney-in-fact with power, upon the occurrence and during the continuance of an Event of Default, to endorse Borrower's name upon any notes, acceptances, checks, drafts, money orders, or other evidences of payment or Collateral that may come into either its or Lender's possession; to sign the name of Borrower on any invoice or bill of lading relating to any of the accounts receivable, drafts against customers, assignments and verifications of accounts receivable and notices to customers; to send verifications of accounts receivable; to notify the Post Office authorities to change the address for delivery of mail addressed to Borrower to such address as Lender may designate; to execute any of the documents referred to in Section 3(c) hereof in order to perfect and/or maintain the security interests and liens granted herein by Borrower to Lender; to do all other acts and things reasonably necessary to carry out the purposes of and remedies provided under this Agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of commission or omission (other than acts of gross negligence or willful misconduct), nor for any error of judgment or mistake of fact or law. This power being coupled with an interest is irrevocable until all of the Obligations are paid in full and any and all promissory notes executed in connection therewith are terminated and satisfied.

9. Severability. If any provision of this Agreement is held invalid, such invalidity shall not affect the validity or enforceability of the remaining provisions of this Agreement.

10. Binding Effect. This Agreement shall inure to the benefit of Lender's successors and assigns and shall bind each Borrower's heirs, representatives, successors and assigns. The obligations of Borrower hereunder shall be joint and several.

11. Governing Law and Amendments. This Agreement shall be construed and enforced under the laws of the State of Tennessee applicable to contracts to be wholly performed in such State. No amendment or modification hereof shall be effective except in a writing executed by each of the parties hereto.

12. Survival of Representations and Warranties. All representations and warranties contained herein or made by or furnished on behalf of Borrower in connection herewith shall survive the execution and delivery of this Agreement.

13. Counterparts. This Agreement may be executed in any number of counterparts and by different parties to this Agreement in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same Agreement.

14. Construction and Interpretation. Should any provision of this Agreement require judicial interpretation, the parties hereto agree that the court interpreting or construing the same shall not apply a presumption that the terms hereof shall be more strictly construed against one party by reason of the rule of construction that a document is to be more strictly construed against the party that itself or through its agent prepared the same, it being agreed that Borrower, Lender and their respective agents have participated in the preparation hereof.

15. Consent to Jurisdiction; Exclusive Venue. Borrower hereby irrevocably consent to the Jurisdiction of the United States District Court for the Middle District of Tennessee and of all Tennessee state courts sitting in Davidson County, Tennessee, for the purpose of any litigation to which Lender may be a party and which concerns this Agreement or the Obligations. It is further agreed that venue for any such action shall lie exclusively with courts sitting in Davidson County, Tennessee, unless Lender agrees to the contrary in writing.

16. Waiver of Trial by Jury. LENDER AND BORROWER HEREBY KNOWINGLY AND VOLUNTARILY WITH THE BENEFIT OF COUNSEL WAIVE TRIAL BY JURY IN ANY ACTIONS, PROCEEDINGS, CLAIMS OR COUNTER-CLAIMS, WHETHER IN CONTRACT OR TORT OR OTHERWISE, AT LAW OR IN EQUITY, ARISING OUT OF OR IN ANY WAY RELATING TO THIS AGREEMENT OR THE LOAN DOCUMENTS.

17. Merger. This Security Agreement shall remain in full force and effect after the merger of PBI Holdings, Inc. and Borrower. After such merger, Pacific Bag, Inc. (the post-merger name of such entity) will be deemed the Borrower hereunder as fully as if it had signed this Agreement.

IN WITNESS WHEREOF, Borrower and Lender have executed this Agreement, or have caused this Agreement to be executed as of the date first above written.

**BORROWER:**

PACIFIC PLUS, INC.,  
a Washington corporation

By: Edward F. Urquhart  
Title: President

**LENDER:**

SIRROM CAPITAL CORPORATION,  
a Tennessee corporation

By: Kim Humphreys  
Title: Manager

The security interest granted to Sirrom Capital Corporation is subject to an Intercreditor Agreement dated as of May 13, 1998, among KeyBank National Association, Pacific Plus, Inc., PBI Holdings, Inc., Package Holdings, L.L.C., Edward F. Urquhart and Sirrom Capital Corporation.

**Schedules to Security Agreements  
between  
Pacific Plus, Inc. and Sirrom Capital Corporation  
and  
PBI Holdings, Inc. and Sirrom Capital Corporation**

- |                |  |
|----------------|--|
| Schedule 3(a)  | Liens and security interests on Collateral   |
| Schedule 3(b)  | Principal place of business, location of all tangible Collateral and place where records of tangible Collateral kept     |
| Schedule 3 (d) | Intellectual Property owned  |
| Schedule 3(g)  | Licenses, franchise agreements and other agreements conveying rights to the Intellectual Property                        |
| Schedule 3(h)  | Liens or encumbrances on Intellectual Property   |
| Schedule 3(l)  | Claims by third parties that Intellectual Property or other proprietary property infringe on the rights of third parties |

**Schedule 3(a)**  
**Permitted Encumbrances**

PBI Holdings, Inc. and Pacific Plus, Inc. (collectively, the "Borrowers") are parties to a Credit Agreement with KeyBank, National Association ("KeyBank") dated May 13, 1998, pursuant to which the Borrowers may borrow up to \$5.15 million from KeyBank.

**Schedule 3(b)**  
**Principle Place of Business/Tangible Collateral**

2045 - 120<sup>th</sup> Avenue N.E.  
Bellevue, Washington



**Schedule 3(d)**  
**Intellectual Property Owned**

1. Patent pending with the U.S. Patent Office, filed 5/29/97, by Pacific Plus, Inc. ("Pacific Plus") for a Relief Valve for use with Hermetically Sealed Flexible Containers.
2. Pending trademark application serial no. 75-299425, filed with the U.S. Trademark Office on 5/29/97 by Pacific Bag, Inc. ("Pacific Bag").
3. Pending trademark application serial no. 75-404003, filed with the U.S. Trademark Office on 2/18/98 by Pacific Bag.

**Schedule 3(g)**

**Licenses or Other Agreements Conveying Rights to the Intellectual Property**

1. Wedlock Paper Converters Limited currently pays Pacific Bag \$1.00 for 1,000 bags shipped by Wedlock to Millstone Coffee Suppliers for use of Pacific Bag's name, pursuant to an informal arrangement with Wedlock.
2. Exclusive Design Rights Agreement dated 5/16/97, between Mark Allen Honnell of Alpine Precision and Edward F. Urquhart Holding Company, Inc. ("EFUH"). Honnell has designed a canister with valve ("CWV") for coffee bags. EFUH has contracted with Honnell for the improved construction of injection molds to produce CWV. EFUH has the exclusive right to market, sell, assemble and distribute CWVs produced by Honnell to the coffee packaging industry and to other industries. Term of agreement 20 years from the date of execution. Agreement was assigned to Pacific Plus by EFUH by Assignment dated 3/18/98.
3. Pursuant to a Settlement Agreement dated February 23, 1998, Pacific Bag is licensed to use United States Letters Patent 5,059,036 directed to a bottom-gusseted, valved, reclosable pouch construction.

**Schedule 3(h)**  
**Liens or Encumbrances on Intellectual Property**

None

**Schedule 3(I)**  
**Claims by Third Parties to Intellectual Property**

1. Delta Bag Ltd. claims the right to use the domain name "pacificbag.com" and registered that domain name with InterNIC on 6/6/97. Pacific Bag disputes Delta Bag Ltd.'s right to utilize this name.
  
2. On September 5, 1997, an action was filed in the U.S. District Court, District of Minnesota, on behalf of Kapak Corporation against Pacific Bag and Lamcor Incorporated (together, "Defendants"). The complaint alleges willful patent infringement by the Defendants, as well as breach of contract by Lamcor. The action sought judgment against Defendants for willful patent infringement; and injunction enjoining and restraining Defendants for infringing on plaintiff's patent rights; unspecified compensatory and treble damages for willful infringement, with interest; attorney fees, costs, and expenses incurred in connection with the action, with interest; judgment against Lamcor for breach of contract; unspecified compensatory damages against Lamcor for breach of contract; and such other and further relief as the court might deem just and equitable. This matter has been settled by execution of a Settlement Agreement dated February 23, 1998, settling the matter without prejudice and providing a license agreement to Pacific Bag.