

Handwritten: MIA 5/24/98

06-17-1998

Stamp: MAY 22 1998  
U.S. Department of Commerce  
Patent and Trademark Office

Form PTO-1984



100740793

Sheet 1 of 1

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: Key Bank, National Association

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

Street Address: 700 Fifth Avenue, Suite 4800

City: Seattle State: WA Zip: 98111

- Individual(s) citizenship \_\_\_\_\_
- Association \_\_\_\_\_
- General Partnership \_\_\_\_\_
- Ltd Partnership \_\_\_\_\_
- Corporation - National Banking Association
- 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

Joni Berger  
Signature

May 14, 1998  
Date

Total number of pages comprising cover sheet: 1

06/15/1998 SMITH 00000130 75404003

01 FC:481  
02 FC:482

40.00 OP  
25.00 OP

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## STOCK PLEDGE AND SECURITY AGREEMENT

This STOCK PLEDGE AND SECURITY AGREEMENT ("Agreement") is made and entered into as of May 13, 1998, by and between KEYBANK NATIONAL ASSOCIATION, a national banking association ("Lender"); EDWARD F. URQUHART, a resident of the State of Washington; and PACKAGE HOLDINGS, L.L.C., a Washington limited liability company ("Holdings").

### RECITALS

A. Lender, as lender, and Pacific Plus, Inc. ("Pacific Plus, Inc.") and PBI Holdings, Inc. ("PBI Holdings, Inc."), both Washington corporations, as borrower, are parties to that certain Credit Agreement of even date herewith (together with any and all supplements, exhibits and amendments thereto, the "Credit Agreement"), pursuant to which Lender has agreed to make available to Borrower (as defined below) (i) a \$750,000 revolving credit facility (the "Revolving Credit Facility"); (ii) a \$4,000,000 term loan (the "Term Loan"); and (iii) a \$400,000 lease line (the "Lease Line"), the proceeds of which shall be used to redeem certain shares of Pacific Plus, Inc.'s stock, to refinance certain existing term debt, and to fund Pacific Plus, Inc.'s working capital and capital expenditure requirements.

B. Immediately after the disbursement of the Term Loan to Borrower, Pacific Plus, Inc. will merge with and into PBI Holdings, Inc., with PBI Holdings, Inc. being the surviving corporation, and PBI Holdings, Inc. will be renamed "Pacific Bag, Inc." (the "Merger").

C. After the Merger, Holdings and Urquhart will own eighty percent (80%) and twenty percent (20%), respectively, of the issued and outstanding shares of capital stock of Pacific Bag, Inc. As the shareholders of Pacific Bag, Inc., Holdings and Urquhart will benefit directly and indirectly from the Term Loan, the Revolving Credit Facility and the Lease Line.

D. Holdings' and Urquhart's execution and delivery of this Agreement is a condition precedent to Lender's obligation to (i) advance the Term Loan, and (ii) make the Revolving Credit Facility and the Lease Line available to Borrower, pursuant to the Credit Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Holdings hereby agrees as follows:

1. Purpose. In order to induce Lender to advance the Term Loan and to make the Revolving Credit Facility and the Lease Line available to Borrower, Holdings desires to assign and pledge to Lender and to grant to Lender a security interest in and to the Pledged Assets (hereinafter defined) to secure the Secured Obligations (hereinafter defined).

2. Definitions. Unless otherwise defined herein, capitalized words and phrases used in this Agreement shall have the meanings given to such words and phrases in the Credit Agreement. In addition, for the purposes of this Agreement, the following terms shall have the following meanings:

"Borrower" means Pacific Plus, Inc., PBI Holdings, Inc. and Pacific Bag, Inc. (as the surviving corporation resulting from the merger of Pacific Plus, Inc. with and into PBI Holdings, Inc., and PBI Holdings, Inc.'s name change to "Pacific Bag, Inc.") and their successors and assigns.

"Event of Default" means the occurrence of any of the following events: (a) the occurrence of an event of default under the terms of the Credit Agreement or any of the Loan Documents; or (b) the occurrence of a default in the due performance or observance of any term, covenant or agreement required to be performed or observed pursuant hereto; or (c) any representation or warranty made or deemed to be made by Holdings or Urquhart in this Agreement or in any document, certificate or statement furnished pursuant to this Agreement or in connection herewith, shall prove to be false or misleading in any material respect.

"Merger" shall have the meaning given in Recital B.

"Pledged Assets" means the Pledged Stock and the Pledged Collateral.

"Pledged Collateral" means Holdings' property and proceeds thereof, all as described in Schedule A attached hereto.

"Pledged Stock" means the shares of the issued and outstanding stock of PBI Holdings, Inc. issued to Holdings and the shares of issued and outstanding stock of Pacific Plus, Inc. issued to Urquhart, together with all certificates, options, rights, or other distributions issued as an addition to, in substitution or in exchange for, or on account of, any such shares, including without limitation, shares of stock of Pacific Bag, Inc. to be issued to Holdings and Urquhart incident to the Merger in exchange for their shares of stock of PBI Holdings, Inc. and Pacific Plus, Inc., respectively, representing eighty percent (80%) and twenty percent (20%),

respectively, of the issued and outstanding shares of stock of Pacific Bag, Inc. and as set forth on attached Schedule B, and all property at any time pledged with Lender hereunder (whether described herein or not) and all income therefrom and proceeds thereof.

"Secured Obligations" means the payment and performance of all indebtedness and obligations of Borrower and its successors to Lender, presently existing and hereafter arising, direct or indirect, including interest thereon, with respect to (i) the Revolving Credit Facility, the Term Loan, the Lease Line, the Interest Rate Swap Transactions and all other obligations of Borrower to Lender to be made concurrently or in connection with the Credit Agreement, however evidenced or denominated, and any renewals and extensions thereof, (ii) any and all other indebtedness and other obligations of Borrower and its successors to Lender, direct or contingent (including, without limitation, obligations incurred as indorser, guarantor or surety), however evidenced or denominated, and however and whenever incurred, including without limitation, indebtedness incurred pursuant to any present or future commitment of Lender to Borrower and its successors, (iii) all future advances made by Lender for taxes, levies, insurance and preservation of the Collateral (as defined in the Credit Agreement) and all attorney's fees, court costs and expenses of whatever kind incident to the collection of any of said indebtedness or other obligations and the enforcement and protection of any and all security interests created by any and all instruments and documents executed by Borrower and its successors in connection with any of said indebtedness, and (iv) all present and future obligations of Holdings and Urquhart to Lender under this Agreement, including but not limited to all future advances made by Lender for taxes, levies, insurance and preservation of the Pledged Collateral and all attorney's fees, court costs and expenses of whatever kind incident to the collection of any of said obligations and the enforcement and protection of any and all security interests created hereby any and all instruments and documents executed by Holdings or Urquhart in connection herewith.

3. Pledge and Creation of Security Interest. As security for the full, prompt and complete payment when due and performance by Borrower, Urquhart and Holdings of each of the Secured Obligations, Holdings hereby pledges, assigns, hypothecates, transfers and delivers to Lender and grants to Lender a security interest under the Uniform Commercial Code of the state of Washington, as amended, in and to the Pledged Assets; and Urquhart hereby pledges, assigns, hypothecates, transfers and delivers to Lender and grants to Lender a security interest under the Uniform Commercial Code of the state of Washington, as amended, in and to the Pledged Stock.

4. Representations and Warranties. Each of Holdings and Urquhart hereby represents and warrants that:

4.1 No consent, license, permit, approval or authorization of, or filing with, or notice or report to, or registration, filing or declaration with, any person (including, without limitation, any Governmental Body or creditors of Holdings), is required in connection with the execution, delivery, performance, validity, or enforceability by or against Holdings or Urquhart of this Agreement.

4.2 This Agreement has been duly executed and delivered by each of Holdings and Urquhart and constitutes a legal, valid, and binding obligation of Holdings and Urquhart enforceable against Holdings and Urquhart in accordance with its terms.

4.3 The execution, delivery and performance of this Agreement does not and will not violate any requirement of law or any contractual obligation applicable to or binding upon Holdings or Urquhart.

4.4 No litigation, arbitration, investigation or proceeding of or before any Governmental Body is pending or to the best knowledge of Holdings or Urquhart, threatened (a) with respect to this Agreement or any of the transactions contemplated hereby or (b) against or affecting Holdings or Urquhart, or any of their property or assets.

4.5 Holdings is the record, legal and beneficial owner of the Pledged Assets; Holdings and Urquhart are the record, legal and beneficial owners of the shares of the Pledged Stock described on Schedule B attached hereto, which, as of the date of this Agreement, constitutes one hundred percent (100%) of the issued and outstanding shares of Pacific Bag, Inc.

4.6 All of the shares of the Pledged Stock have been validly issued, are fully paid and nonassessable, and that all of the Pledged Assets are owned by Holdings or Urquhart, as the case may be, free of any pledge, mortgage, hypothecation, lien, charge, encumbrance or security interest, except for the liens created hereunder or permitted under the Credit Agreement, including without limitation, the liens granted to Sirrom Capital Corporation pursuant to the Sirrom Loan Documents (as described and defined in the Credit Agreement).

4.7 Each of Holdings and Urquhart, as the case may be, will not create or permit the existence of any lien or security interest other than that hereby created on the Pledged Assets without the written consent of Lender.

4.8 Holdings has good and marketable title to the Pledged Collateral and the Pledged Stock (as reflected on attached Schedule B) and will, at its own expense, defend Lender's right, title and security interest in and to the Pledged Assets against the claims of any person; and Urquhart has good and marketable title to the Pledged Stock (as reflected on attached Schedule B).

4.9 Upon delivery to Lender of the stock certificates evidencing the Pledged Stock, filing of a form UCC-1 financing statement identifying Holdings as debtor and the Pledged Assets as collateral and filing of a form UCC-1 financing statement identifying Urquhart as debtor and the Pledged Stock as collateral, and the funding of the Loan under the Credit Agreement, the liens granted pursuant to this Agreement will constitute valid, perfected first priority liens on the Pledged Assets, enforceable as such against all creditors of Holdings and Urquhart, as the case may be, and any persons purporting to purchase any Pledged Assets from Holdings or Urquhart, as the case may be.

4.10 Holdings is not an "investment company" or a company "controlled" by an "investment company" (as each of the quoted terms is defined or used in the Investment Company Act of 1940, as amended).

4.11 The principal place of business and the chief executive office of Holdings set forth in Schedule C attached hereto are the true and correct location of Holdings' principal place of business and chief executive office.

4.12 Except as noted in Schedule C, Holdings conducts no business, whether directly or indirectly, or through any subsidiary or division, under name or trade name other than Package Holdings, L.L.C.

4.13 The locations of the Pledged Collateral set forth in Schedule C hereto are the true and correct locations of all of the Pledged Collateral.

4.14 Each of Holdings and Urquhart agrees that the foregoing representations and warranties shall be deemed to have been made by Holdings and Urquhart on the date of each borrowing by Borrower and its successors under the Credit Agreement on and as of such date as though made hereunder on and as of such date.

5. **Covenants.** Each of Holdings and Urquhart covenants and agrees with Lender that, from and after the date of this Agreement until the Secured Obligations are paid in full:

5.1 If Holdings or Urquhart shall, as a result of Holdings' or Urquhart's, as the case may be, ownership of the Pledged Assets, become entitled to receive or shall receive any stock certificate or other instrument evidencing Holdings' or Urquhart's ownership interests in Borrower (including, without limitation, any certificate representing a stock dividend or a distribution in connection with any reclassification, increase or reduction of capital or any certificate issued in connection with any reorganization), option or rights, whether in addition to, in substitution of, as a conversion of, or in exchange for any shares of the Pledged Stock, including without limitation, shares of stock of Pacific Bag, Inc. to be issued to Holdings and Urquhart incident to the Merger in exchange for their shares of stock of PBI Holdings, Inc. and Pacific Plus, Inc., respectively, representing eighty percent (80%) and twenty percent (20%), respectively, of the issued and outstanding shares of stock of Pacific Bag, Inc., or otherwise in respect thereof, Holdings and Urquhart, as the case may be, shall accept the same as Lender's agent, hold the same in trust for Lender and deliver the same forthwith to Lender in the exact form received, duly endorsed by Holdings or Urquhart to Lender, if required, together with an undated power covering such certificate duly executed in blank and with, if Lender so requests, signature guaranteed, to be held by Lender hereunder as additional collateral security for the Secured Obligations. Any sums paid upon or in respect of the Pledged Stock upon the liquidation or dissolution of either Borrower shall be paid over to Lender to be held by it hereunder as additional collateral security for the Secured Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Stock or any property shall be distributed upon or with respect to the Pledged Stock pursuant to the recapitalization or reclassification of the capital of Borrower or pursuant to the reorganization thereof, the property so distributed shall be delivered to Lender to be held by it, subject to the terms hereof, as additional collateral security for the Secured Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Assets shall be received by Holdings or Urquhart, Holdings or Urquhart, as the case may be, shall, until such money or property is paid or delivered to Lender, hold such money or property in trust for Lender, segregated from other funds of Holdings or Urquhart, as additional collateral security for the Secured Obligations.

5.2 Without the prior written consent of Lender, Holdings and Urquhart will not (a) vote to enable, or take any other action to permit, Borrower to issue any stock or other equity securities of any nature or to issue any other securities convertible into or granting the right to purchase or exchange for any stock or other equity securities of Borrower unless such stock, membership interests, or securities are issued to Holdings or Urquhart and delivered to Lender as

Pledged Assets, or (b) sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Pledged Stock, or (c) create, incur or permit to exist any lien or option in favor of, or any claim of any person with respect to, any of the Pledged Assets, or any interest therein, except for the liens created hereunder or permitted under the Credit Agreement, including without limitation, the liens granted to Sirrom Capital Corporation pursuant to the Sirrom Loan Documents (as described and defined in the Credit Agreement). Each of Holdings and Urquhart, as the case may be, will defend the right, title and interest of Lender in and to the Pledged Assets against the claims and demands of all persons whomsoever.

5.3 At any time and from time to time, upon the written request of Lender, and at the sole expense of Holdings or Urquhart, as the case may be, Holdings and Urquhart will promptly and duly execute and deliver such further instruments and documents and take such further actions as Lender may reasonably request for the purposes of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted. If any amount payable under or in connection with the Pledged Assets shall be or become evidenced by any promissory note, other instrument or chattel paper, such note, instrument or chattel paper shall, be immediately delivered to Lender duly endorsed in a manner satisfactory to Lender to be held as collateral pursuant to this Agreement.

5.4 Holdings agrees to comply with any governmental regulation affecting the use of the Pledged Collateral and will not waste, injure or destroy the Pledged Collateral, or use or permit the use of the Pledged Collateral in any unlawful manner. Holdings represents and agrees that the primary use of the Pledged Collateral is and will be business and commercial use. Holdings shall not engage in any unlawful trade or violate any law or otherwise do, suffer or permit to be done, anything which will in any way impair the security interest of Secured Party hereunder.

5.5 Each of Holdings and Urquhart, as the case may be, agrees to pay, and to save Lender harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes (except for the tax imposed on the overall net income of Lender) which may be payable or determined to be payable with respect to any of the Pledged Assets or in connection with any of the transactions contemplated by this Agreement.

5.6 Each of Holdings and Urquhart, as the case may be, agrees to immediately provide written notice to Lender of any changes or additions to the disclosures set forth in Schedule C.



5.7 Holdings agrees to deliver copies of earned estimates, certificates, billings and any other records concerning applicable Pledged Collateral in the form and at the times required by Lender. Without limiting the foregoing, Holdings agrees to deliver to Lender all original documents evidencing title to any of the Collateral. At the request of Lender, Holdings will give or join in any notice desired by Lender to the other parties to any contracts which constitute Pledged hereunder.

5.8 Holdings will keep all tangible Pledged Collateral in good repair. Lender may inspect the Pledged Collateral at reasonable times and intervals and may for this purpose enter the premises upon which the Pledged Collateral is located.

5.9 Without the prior written consent of Lender, Holdings shall not remove the Pledged Collateral from the State of Washington and Holdings shall not sell, lease, or assign the Pledged Collateral or any interest therein.

6. Registration Rights; Private Sale.

6.1 If Lender shall determine to exercise its rights and remedies with respect to the Pledged Stock pursuant to Section 18.2, and if in the opinion of Lender it is necessary or advisable to have the Pledged Stock, or that portion thereof to be sold, registered under the provisions of the Securities Act of 1933, as amended (the "Securities Act"), Holdings and Urquhart will cause Borrower to (a) execute and deliver, and cause the directors and officers of Borrower to execute and deliver, all such instruments and documents, and do or cause to be done all such other acts, as may be, in the opinion of Lender, necessary or advisable to register the Pledged Stock, or that portion thereof to be sold, under the provisions of the Securities Act, (b) use its best efforts to cause the registration statement relating thereto to become effective and to remain effective for a period of six months from the effective date of such registration statement, and (c) make all amendments thereto and/or to the related prospectus which, in the opinion of the Lender, are necessary or advisable, all in conformity with the requirements of the Securities Act and the rules and regulations of the Securities and Exchange Commission applicable thereto. Each of Holdings and Urquhart agrees to cause Borrower to comply with the provisions of the securities or "Blue Sky" laws of any and all jurisdictions which Lender shall designate and to make available to its security holders, as soon as practicable, an earnings statement (which need not be audited) which will satisfy the provisions of section 11(a) of the Securities Act.

6.2 Each of Holdings and Urquhart recognizes that Lender may be unable to effect a public sale of any or all of the Pledged Stock, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Each of Holdings and Urquhart acknowledges and agrees that any such private sale may result in prices and other terms less favorable to Lender than if such sale were a public sale and, notwithstanding such circumstances, agree that any such private sale shall not be deemed to have been made in a commercially unreasonable manner merely because it was a private sale. Lender shall be under no obligation to delay a sale of any of the Pledged Stock for the period of time necessary to permit Borrower to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if Borrower would agree to do so.

6.3 Each of Holdings and Urquhart further agrees to use its best efforts to do or cause to be done all such other acts as may be necessary to make any sale or sales of all or any portion of the Pledged Stock pursuant to this Section 6 valid and binding and in compliance with any and all applicable requirements of law. Each of Holdings and Urquhart further agrees that a breach of any of the covenants contained in this Section 6 will cause irreparable injury to Lender, that Lender has no adequate remedy at law in respect of such breach and, as a consequence, agree that each and every covenant contained in this Section 6 shall be specifically enforceable against Holdings and Urquhart, as the case may be, and each of Holdings and Urquhart hereby waives and agrees not to assert any defense against an action for specific performance of such covenants, except for a defense that no default of the covenants, terms or conditions of the Credit Agreement has occurred.

7. Limitation on Duties Regarding Pledged Assets. Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Pledged Assets in its possession, under RCW 62A.9-207 or otherwise, shall be to deal with it in the same manner as the Lender deals with similar securities and property for its own account. Neither Lender nor any of its respective directors, officers, or agents shall be liable for failure to demand, collect or realize upon any of the Pledged Stock or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Pledged Stock upon the request of Holdings or otherwise.

8. Powers Coupled with an Interest. All authorizations and agencies herein contained with respect to the Pledged Assets are irrevocable and powers coupled with an interest.

9. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10. Waivers by Holdings and Urquhart. Except as otherwise expressly set forth in the Credit Agreement, each of Holdings and Urquhart hereby:

10.1 Waives notice of any advances made by Lender pursuant to the Credit Agreement or pursuant to any extension, renewal or modification thereof;

10.2 Waives, with respect to the Secured Obligations, grace, demand, presentment, notice of dishonor and protest;

10.3 Agrees that Lender, before proceeding against Holdings under this Agreement, shall not be bound to exhaust its recourse or take any action against Borrower or against any other person or entity, or to proceed against any collateral or against any particular collateral, but Lender may make such demands and take such actions as it deems advisable;

10.4 Agrees that Lender, without affecting the liability of Holdings or Urquhart under this Agreement, may with or without notice or consideration release Borrower or any other person or entity liable for the Secured Obligations or any collateral for the Secured Obligations; and

10.5 Waives, with respect to the Secured Obligations, any defense based upon any change in the name, location, composition or structure of Borrower, or any change in the type of business conducted by Borrower, or any other change in the identity of legal status of Borrower.

11. Waiver of Subrogation; Subordination. Each of Holdings and Urquhart (a) agrees not to exercise any right it may acquire against Borrower or any security for the Secured Obligations by reason of payments to Lender hereunder (whether by subrogation, reimbursement, or otherwise), (b) agrees to assign to Lender all rights against any Borrower that Holdings or Urquhart, as the case may be, may have (whether or not relating the Secured Obligations) in any proceeding under the United States Bankruptcy Code or in any receivership or

insolvency proceeding, and (c) agrees to appoint Lender attorney-in-fact to appear in any such proceeding, file claims, receive payments, and do any other act which Holdings or Urquhart could do personally. If any amount shall be paid to Holdings or Urquhart on account of such subrogation rights, such amount shall be held by Holdings and Urquhart, as the case may be, in trust for Lender, segregated from other funds of Holdings or Urquhart, and shall, forthwith upon receipt by Holdings or Urquhart, be turned over to Lender in the exact form received by Holdings or Urquhart (duly endorsed by Holdings or Urquhart to Lender, if required), to be applied against the Secured Obligations, whether matured or unmatured, in such order as Lender may determine.

12. Continuing Agreement. This Agreement shall be a continuing agreement and shall irrevocably apply to all the dealings and transactions heretofore or hereafter had between Lender, Urquhart and/or Holdings unless Holdings, Urquhart and Lender shall otherwise expressly agree in writing signed by Holdings, Urquhart and Lender.

13. Sale and Assignment by Lender. To the extent permitted by the Credit Agreement, Lender may assign or transfer the whole or any part of the Secured Obligations, and may transfer therewith as collateral security the whole or any part of the Pledged Assets; and all obligations, rights, powers and privileges herein provided shall inure to the benefit of the assignee and shall bind the heirs, executors, administrators, successors or assigns of the parties hereto.

14. Expenses Incurred by Lender. Lender is not required to, but may at its option, pay any tax or other charge or expense payable by Holdings or Urquhart and any filing or recording fees, and any amounts so paid shall be repayable by Holdings or Urquhart, as the case may be, upon demand. Holdings and Urquhart, as the case may be, will also repay upon demand all of Lender's reasonable expenses incurred in collecting, conserving, or protecting the Pledged Assets. All such sums shall bear interest at the default rate as provided in the Credit Agreement from the date of Lender's payment until Holdings' repayment. All such sums and interest thereon shall be secured by the security interest granted herein. The rights granted by this paragraph are not a waiver of any other rights of Lender arising from breach of any of Holdings' or Urquhart's covenants.

15. Waivers. This Agreement shall not be qualified or supplemented by course of dealing. No waiver or modification by Lender of any of the terms or conditions hereof shall be effective unless in writing signed by Lender. No waiver or indulgence by Lender as to any required performance by Holdings or Urquhart shall constitute a waiver as to any subsequent

required performance or other obligations of Holdings or Urquhart hereunder.

16. Voting Rights. Unless and until an Event of Default shall have occurred and be continuing and Lender shall have given notice to Holdings or Urquhart of Lender's intent to exercise the corresponding rights of Lender pursuant to Section 17.1 below, Holdings and Urquhart shall be permitted to exercise all voting, corporate, member consensual and other rights with respect to the Pledged Stock, provided, however, that no vote shall be cast or corporate right exercised or other action taken which, in Lender's reasonable judgment, would impair the collateral or which would be inconsistent with or result in any violation of any provision of this Agreement, the Credit Agreement or the other Loan Documents.

17. Rights of Lender; Limitations on Lender's Obligations.

17.1 If an Event of Default shall occur, Lender shall give prior notice to Holdings, Urquhart and Borrower of its intent to exercise the following rights: (a) Lender shall have the right to receive any and all cash dividends or distributions paid in respect of the Pledged Stock and make application thereof to the Secured Obligations in such order as it may determine, and (b) all shares of the Pledged Stock shall be registered in the name of Lender or its nominee, and Lender or its nominee may thereafter exercise (i) all voting, corporate, member, consensual and other rights pertaining to such shares of the Pledged Stock at any meeting of either Borrower or otherwise and (ii) any and all rights of conversion, exchange, subscription and any other rights, privileges or options pertaining to such shares of the Pledged Stock as if it were the absolute owner thereof (including, without limitation, the right to exchange at its discretion any and all of the Pledged Stock upon the merger, consolidation, reorganization, recapitalization or other fundamental change in the corporate or company structure of either Borrower, or upon the exercise by Holdings or Lender of any right, privilege or option pertaining to such shares of the Pledged Stock, and in connection therewith, the right to deposit and deliver any and all of the Pledged Stock with any committee, depository, transfer agent, registrar or other designated agency upon such terms and conditions as it may determine), all without liability except to account for property actually received by it, but Lender shall have no duty to exercise any such right, privilege or option and shall not be responsible for any failure to do so or delay in so doing.

17.2 The rights of Lender hereunder shall not be conditioned or contingent upon the pursuit by Lender of any right or remedy against Borrower or against any other person

which may be or become liable in respect of all or any part of the Secured Obligations or against any other collateral therefor, guarantee thereof or right of offset with respect thereto. Lender shall not be liable for any failure to demand, collect or realize upon all or any part of the Pledged Stock or for any delay in doing so, nor shall it be under any obligation to sell or otherwise dispose of any Pledged Stock upon the request of Holdings, Urquhart or any other person or to take any other action whatsoever with regard to the Pledged Stock, or any part thereof except that Lender shall be required to exercise reasonable care with respect to the safe keeping of collateral in its possession.

18. Remedies.

18.1 In the event that any portion of the Secured Obligations has been declared or has become due and payable in accordance with the terms of the Credit Agreement and remains unpaid, Lender may exercise, in addition to all other rights and remedies granted in this Agreement and in any other instrument or agreement securing, evidencing or relating the Secured Obligations, all rights and remedies of a secured party under the Uniform Commercial Code of the state of Washington.

18.2 Without limiting the generality of the foregoing, Lender, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law) to or upon Holdings or Urquhart, Borrower or any other person (all and each of which demands, defenses, advertisements and notices are hereby waived to the extent not prohibited by law), may in such circumstances forthwith collect, receive, appropriate and realize upon the Pledged Assets, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase or otherwise dispose of and deliver the Pledged Assets or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, in the over-the-counter market, at any exchange broker's board or at Lender's offices or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. Lender shall have the right upon any such public sale or sales and, to the extent permitted by law, upon any such private sale or sales to purchase the whole or any part of the Pledged Assets so sold, free and clear of any right or equity of redemption in Holdings or Urquhart, which right or equity is hereby waived or released to the extent not prohibited by law. Lender shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care or safekeeping of any of the Pledged Assets or in any way relating

to the Pledged Assets or the rights of Lender hereunder, including, without limitation, reasonable attorney fees and disbursements to the payment in whole or in part of the Secured Obligations in such order as Lender may elect, and only after such application and after the payment by Lender of any other amount required by any provision of law, including, without limitation, RCW 62A.9-504(1)(c), need Lender account for the surplus, if any, to Holdings.

18.3 To the extent permitted by applicable law, each of Holdings and Urquhart waives all claims, damages and demands it may acquire against Lender arising out of the exercise by Lender of any of its rights hereunder. If any notice of a proposed sale or other disposition of Pledged Assets shall be required by law, such notice shall be deemed reasonable and proper if given at least ten days before such sale or other disposition. To the extent not prohibited by applicable law, each of Holdings and Urquhart further waives and agree not to assert any rights or privileges which it may acquire under RCW 62A.9-112.

19. **Notification.** Notwithstanding any waiver of notice provided for in this Agreement, each of Holdings and Urquhart agrees that a period of twenty (20) days from the time notice is sent, by first-class mail, certified, return receipt requested, is a reasonable period of notification of a sale or other disposition of the Pledged Assets. Any notice or other communication from Lender to Holdings or Urquhart under or pursuant to this Agreement or required by any statute shall be addressed to the mailing address of Holdings or Urquhart as herein stated or such other address as Holdings may designate in writing to Lender.

20. **Attorney Fees Costs.** Each of Holdings and Urquhart agrees to pay to Lender any and all costs and expenses, including attorney fees, incurred by Lender in protecting or enforcing its rights under the terms of this Agreement, including challenges or claims by Holdings or any other person, whether or not a lawsuit is commenced. Attorney fees shall include services rendered at both the trial and appellate levels, as well as services rendered subsequent to judgment and obtaining execution thereon. The fees, costs, and expenses shall bear interest at the then applicable rate as provided in the Credit Agreement until paid in full. Payment of costs and expenses, including attorney shall be secured by the security interest herein granted.

21. **Governing Law.** This Agreement and the Secured Obligations are subject to the laws of the state of Washington and are to be construed in accordance therewith, without regard to its conflicts of law principles.

22. Endorsement and Delivery. Holdings and Urquhart shall deliver physical possession of the Pledged Stock to Lender so that Lender's security interest may be properly perfected by possession, and shall deliver with each share certificate of the Pledged Stock an executed Assignment Separate from Certificate with respect to each certificate so delivered.

23. Irrevocable Authorization and Instruction to Borrower. Each of Holdings and Urquhart hereby authorizes and instructs Borrower to comply with any instruction received by it from Lender in writing that (a) states that all or any portion of the Secured Obligations has been declared or has become due and payable in accordance with the terms of the Credit Agreement and remains unpaid and (b) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from Holdings or Urquhart, and each of Holdings and Urquhart agrees that Borrower shall be fully protected in so complying.

24. Notices. For the purposes of all notices, consents, demands, approvals, and communications to made or given hereunder the addresses of the parties are as follows: below

**HOLDINGS:** Package Holdings, L.L.C.  
Attn: Michael F.O. Harris  
3140 Bank of California Center  
Seattle, WA 98164

Telecopier: 206-622-3319

with copy to: Graham & Dunn PC  
Attn: Mark A. Finkelstein, Esq.  
1420 Fifth Avenue, 33rd Floor  
Seattle, WA 98101

Telecopier: 206-340-9599

**URQUHART:** Edward F. Urquhart  
19213 S.E. 43rd Place  
Issaquah, WA 98027

Telecopier: 425-644-5562

with a copy to: Foster, Pepper & Shefelman  
Attn: Robert J. Diercks  
1111 Third Avenue, Suite 3400  
Seattle, WA 98101

Telecopier: 206-447-9700



**SECURED PARTY:**

KeyBank National Association  
Attn: Jim Scroggs  
Mailcode: WA-31-10-4871  
700 Fifth Avenue, 48th Floor  
Post Office Box 90  
Seattle, WA 98111-0090

Telecopier: 206-684-6247

with copy to:

Carney Badley Smith & Spellman, P.S.  
Attn: Thomas G. Morton, Esq.  
701 Fifth Avenue, Suite 2200  
Seattle, Washington 98104-7091

Telecopier: 206-467-8215

25. Mutual Negotiation. Each of Holdings and Urquhart acknowledges and confirms that this Security Agreement has been mutually negotiated by and among Holdings, Urquhart and Lender, and that none of the terms or provisions hereof shall be construed strictly for or against Holdings, Urquhart or Lender.

26. Time of Essence. Time is of the essence in this Agreement.

27. Incorporation. All Schedules hereto and the terms of the Credit Agreement are incorporated into this Agreement by this reference.

28. Counterparts. This Agreement may be executed in one or more counterparts each of which shall constitute an original Agreement, but all of which together shall constitute one and the same instrument.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO  
LOAN MONEY, TO EXTEND CREDIT, OR TO FOR-  
BEAR FROM ENFORCING REPAYMENT OF A DEBT  
ARE NOT ENFORCEABLE UNDER WASHINGTON  
LAW.

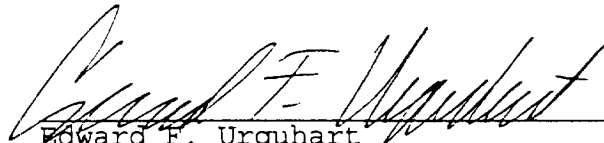
EXECUTED as of the day and year first written above.

PACKAGE HOLDINGS, L.L.C.

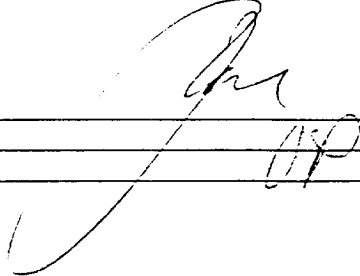
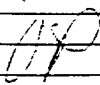
By: The Northern Group, its manager

By: \_\_\_\_\_

*MFO Harris*  
Michael F.O. Harris  
Vice President and  
Managing Director

  
Edward F. Urquhart

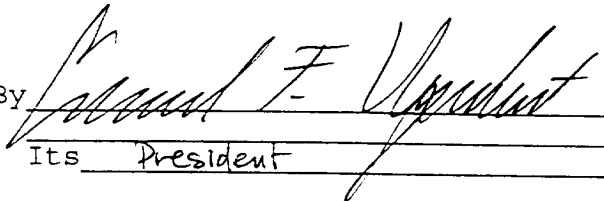
KEYBANK NATIONAL ASSOCIATION

By   
Its 

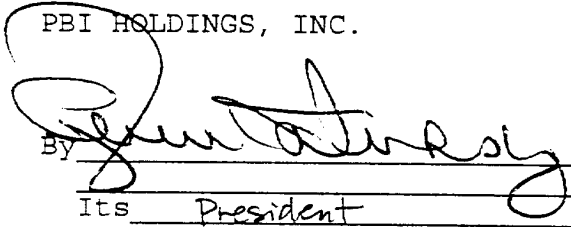
ACKNOWLEDGMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the attached Stock Pledge and Security Agreement and agrees to be bound thereby and to comply with the terms of Section 6 and 17 thereof. Each of the undersigned agrees to notify Lender promptly in writing of the occurrence of any of the events described in Section 5 of the Stock Pledge and Security Agreement. Each of the undersigned further agrees that the terms of Section 6.3 of the Stock Pledge and Security Agreement shall apply to it, mutatis mutandis, with respect to all actions that may be required of it under or pursuant to or arising out of Section 6 of the Stock Pledge and Security Agreement.

PACIFIC PLUS, INC.

By   
Its President

PBI HOLDINGS, INC.

By   
Its President

SCHEDULE A

TO  
STOCK PLEDGE AND SECURITY AGREEMENT  
AND UCC-1 FINANCING STATEMENT

COLLATERAL DESCRIPTION

DEBTOR: Package Holdings, L.L.C., a Washington limited liability company (referred to herein as "Holdings").

SECURED PARTY: KeyBank National Association, a national banking association (referred to herein as "Lender").

The Collateral includes all of Holdings' right, title and interest, whether now owned or hereafter acquired, in and to the following and the proceeds thereof:

(a) presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Holdings arising out of the sale or lease of goods or the rendition of services by Holdings, 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 Holdings and Holdings' Books relating to any of the foregoing (collectively, the "Accounts");

(b) present and future general intangibles and other personal property of Holdings (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 claims) other than goods and Accounts and Holdings' Books relating to any of the foregoing (collectively, "General Intangibles");

(c) present and future letters of credit, notes, drafts, instruments, certificated and uncertificated securities (including, without limitation, shares of common stock of Holdings held by any party from time to time), documents, leases, and chattel paper of Holdings, and Holdings' Books relating to any of the foregoing (collectively, "Negotiable Collateral");

(d) present and future inventory in which Holdings has any interest, including goods held for sale or lease or to be furnished under a contract of service and all of Holdings's present and future and 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 Holdings' 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) of Holdings, 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 Holdings, 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 Holdings symbolized by such marks (collectively, "Marks");

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

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

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

(g) 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, any an and all Accounts, General Intangibles, Negotiable 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.

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SCHEDULE B

TO  
STOCK PLEDGE AND SECURITY AGREEMENT

DESCRIPTION OF PLEDGED STOCK

Common Stock of PBI Holdings, Inc., no par value; 700,000 of which are authorized and 27,530 shares of which are issued and outstanding represented by stock certificates as follows:

<u>Shareholder</u>	<u>Certificate No.</u>	<u>No. of Shares</u>
Holdings	2	22,024
Urquhart	3	5,506

SCHEDULE C

TO  
STOCK PLEDGE AND SECURITY AGREEMENT

Information Regarding Package Holdings, L.L.C. and the  
Pledged Collateral

Holdings' exact legal names:

Package Holdings, L.L.C., a Washington limited  
liability company

All names, if any, other than the name set forth above, under  
which Holdings conducts or will conduct business (if none,  
insert "None"):

None

All locations of Equipment of Holdings and names of record  
owners of each location:

1. Locations: None
2. Owner at each location: \_\_\_\_\_

All locations of Inventory of Holdings:

None

Principal place of business and chief executive office of  
Holdings:

c/o The Northern Group  
3140 Bank of California Center  
Seattle, WA 98164

All other places of business, if any of Holdings:

None

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NUMBER

SHARES 5,506



FOR THE STATE OF NORTH CAROLINA

TOTAL AUTHORIZED SHARES 1,000,000 OF WHICH 700,000 SHARES OF COMMON STOCK WITH NO PAR VALUE, AND 300,000 SHARES OF PREFERRED STOCK

**This Certificate**

*is the*

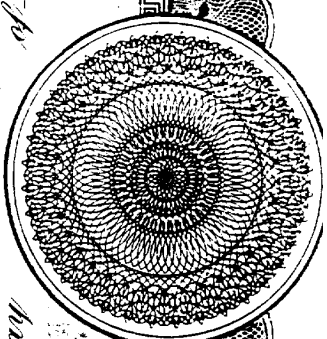
*registered holder of* Five Thousand Five Hundred Six (5,506)\* *Shares*

Of the Common Stock of PBI Holdings, Inc.

*transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.*

*In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be hereunto affixed this \_\_\_\_\_ day of \_\_\_\_\_ A.D. 1998*

*Edmund Ka Inasy*  
Edmund Ka Inasy, President



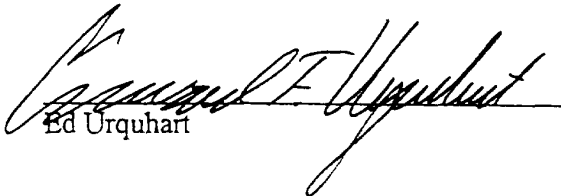
*M. F. Harris*

Michael F. O. Harris, Secretary

STOCK POWER

FOR VALUE RECEIVED, the undersigned does hereby assign and transfer unto \_\_\_\_\_ the capital stock owned by the undersigned in PBI HOLDINGS, INC., a Washington corporation (the "Company") standing in the name of the undersigned on the books of the Company, now or hereafter owned by the undersigned and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorney-in-fact for the undersigned to transfer said stock on the books of the Company with full power of substitution in the premises.

Dated this 13 day of May, 1998.

  
Ed Urquhart

NUMBER

SHARES 22,024

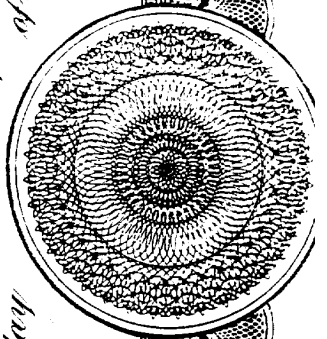


PBI HOLDINGS, L.L.C. A LIMITED LIABILITY COMPANY OF THE STATE OF WASHINGTON  
TOTAL AUTHORIZED ISSUES: 1,000,000 SHARES OF COMMON STOCK AND 300,000 SHARES OF PREFERRED STOCK WITH NO PAR VALUE, AND 200,000 SHARES OF COMMON STOCK

**This Certificate** is the registered holder of Twenty-Two Thousand Twenty Four (22,024)\* Shares of the Common Stock of PBI Holdings, Inc. transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be hereunto affixed this \_\_\_\_\_ day of \_\_\_\_\_ A.D. 1998

*[Signature]*  
Glen Kainasy, President



*[Signature]*  
Michael F.O. Harris, Secretary

Signature of Reverse

**STOCK POWER**

FOR VALUE RECEIVED, the undersigned does hereby assign and transfer unto \_\_\_\_\_ the capital stock owned by the undersigned in PBI HOLDINGS, INC., a Washington corporation (the "Company") standing in the name of the undersigned on the books of the Company, now or hereafter owned by the undersigned and does hereby irrevocably constitute and appoint \_\_\_\_\_ as attorney-in-fact for the undersigned to transfer said stock on the books of the Company with full power of substitution in the premises.

Dated this 13 day of May, 1998.

PACKAGE HOLDINGS, L.L.C.

By: The Northern Group, Its Manager

By: M.F.O. Harris  
Michael F.O. Harris, Vice President  
and Managing Director