

11-20-1998



100904524

MRD  
11-17-98

RECORDATION FORM COVER SHEET  
TRADEMARKS ONLY

TO: The Commissioner of Patents and Trademarks: Please record the attached original document(s) or copy(ies).

Submission Type

- New
- Resubmission (Non-Recordation)  
Document ID #
- Correction of PTO Error  
Reel #  Frame #
- Corrective Document  
Reel #  Frame #

Conveyance Type

- Assignment
- License
- Security Agreement
- Nunc Pro Tunc Assignment  
Effective Date  
Month Day Year
- Merger
- Change of Name
- Other

Conveying Party

Mark if additional names of conveying parties attached  
Execution Date  
Month Day Year

Name

Formerly

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other

Citizenship/State of Incorporation/Organization

Receiving Party

Mark if additional names of receiving parties attached

Name

DBA/AKA/TA

Composed of

Address (line 1)

Address (line 2)

Address (line 3)     
City State/Country Zip Code

- Individual
- General Partnership
- Limited Partnership
- Corporation
- Association
- Other

If document to be recorded is an assignment and the receiving party is not domiciled in the United States, an appointment of a domestic representative should be attached. (Designation must be a separate document from Assignment.)

Citizenship/State of Incorporation/Organization

FOR OFFICE USE ONLY

11/13/1998 JENBAZZ 00000154 2092832

01 FC:481 40.00 DP

**Domestic Representative Name and Address**

Enter for the first Receiving Party only.

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**Correspondent Name and Address**

Area Code and Telephone Number

Name

Address (line 1)

Address (line 2)

Address (line 3)

Address (line 4)

**Pages**

Enter the total number of pages of the attached conveyance document including any attachments.

#

**Trademark Application Number(s) or Registration Number(s)**

Mark if additional numbers attached

Enter either the Trademark Application Number or the Registration Number (DO NOT ENTER BOTH numbers for the same property).

**Trademark Application Number(s)**

**Registration Number(s)**

<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>

<input type="text" value="2,092,832"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>	<input type="text"/>

**Number of Properties**

Enter the total number of properties involved.

#

**Fee Amount**

Fee Amount for Properties Listed (37 CFR 3.41):

\$

Method of Payment:

Enclosed

Deposit Account

Deposit Account

(Enter for payment by deposit account or if additional fees can be charged to the account.)

Deposit Account Number:

#

Authorization to charge additional fees:

Yes

No

**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. Charges to deposit account are authorized, as indicated herein.

Cathleen M. Cahkins

*Cathleen M. Cahkins*

11/13/97

Name of Person Signing

Signature

Date Signed

## SECURITY AGREEMENT

This **SECURITY AGREEMENT** (as it may be amended, supplemented or otherwise modified from time to time, the "Agreement") is dated as of November 13, 1998 and made by **SMART & FINAL INC.**, a Delaware corporation with an office at 600 Citadel Drive, Commerce, California 90040 (the "Company"), **AMERICAN FOODSERVICE DISTRIBUTORS**, a California corporation with an office at 600 Citadel Drive, Commerce, California 90040, **SMART & FINAL STORES CORPORATION**, a California corporation with an office at 600 Citadel Drive, Commerce, California 90040, **SMART & FINAL OREGON, INC.**, an Oregon corporation with an office at 600 Citadel Drive, Commerce, California 90040, **PORT STOCKTON FOOD DISTRIBUTORS, INC.**, a California corporation with an office at 600 Citadel Drive, Commerce, California 90040, **HENRY LEE COMPANY**, a Florida corporation with an office at 3301 NW 125th Street, Miami, Florida 33167, **CASINO FROZEN FOODS, INC.**, a California corporation with an office at 600 Citadel Drive, Commerce, California 90040, and **AMERIFOODS TRADING COMPANY**, a Florida corporation with an office at 600 Citadel Drive, Commerce, California 90040 and any future subsidiary, if any, of the Company that becomes a party to this Agreement (each such party other than the Company is referred to herein as a "Subsidiary Grantor"; the Company, the Subsidiary Grantors and any other Person agreeing to be bound hereby as a Grantor are each individually referred to herein as a "Grantor" and are collectively referred to herein as the "Grantors") in favor of and for the benefit of **CREDIT LYONNAIS LOS ANGELES BRANCH**, as agent (in such capacity, together with any successor in such capacity, the "Administrative Agent") for (i) the Lender Parties (as defined in the Revolving Credit Agreement referred to below) that are or may hereafter become party to the Revolving Credit Agreement (as hereinafter defined) and (ii) the Tranche A Lenders (the "Synthetic Lease Lenders") under, and as defined in, the Credit Agreement dated as of the date hereof among **FIRST SECURITY BANK, NATIONAL ASSOCIATION**, as the Owner Trustee (in such capacity, together with any successor in such capacity, the "Owner Trustee") under the S&F Trust 1998-I, as the Borrower, the Lenders from time to time party thereto and **CREDIT LYONNAIS LOS ANGELES BRANCH**, as Agent (in such capacity, together with any successor in such capacity, the "Synthetic Lease Agent") (such Credit Agreement, as it may be amended, supplemented, amended and restated or otherwise modified from time to time, the "Synthetic Lease Credit Agreement"). The Administrative Agent, the Lender Parties, the Synthetic Lease Agent and the Synthetic Lease Lenders are collectively referred to herein as the "Secured Parties").

## PRELIMINARY STATEMENTS

(1) The Lender Parties and the Administrative Agent have entered into a Credit Agreement dated as of November 13, 1998 (said Agreement, as it may hereafter be amended, supplemented, amended and restated or otherwise modified from time to time, being

the “Revolving Credit Agreement”, the terms defined therein and not otherwise defined herein being used herein as therein defined) with the Company.

(2) Pursuant to that certain Guaranty (as it may be amended, supplemented or otherwise modified from time to time, the “Revolving Credit Agreement Guaranty”) of even date herewith, the Subsidiary Grantors have guaranteed all obligations of the Company under the Revolving Credit Agreement.

(3) In connection with entering into the Synthetic Lease and pursuant to that certain Guaranty Agreement (as it may be amended, supplemented or otherwise modified from time to time, the “Synthetic Lease Credit Agreement Guaranty”) of even date herewith, the Grantors have guaranteed certain obligations of the Owner Trustee under the Synthetic Lease Credit Agreement.

(4) Each Grantor is the owner of the shares (the “Pledged Shares”) of stock and other certificated securities described in Part I of Schedule I hereto and attributed to such Grantor’s ownership and issued by the Persons named therein and of the indebtedness described in Part II of said Schedule I (the “Pledged Debt”) and attributed to such Grantor’s ownership and issued by the obligors named therein.

(5) It is a condition precedent to the making of (i) Advances by the Lender Parties under the Revolving Credit Agreement and (ii) Loans by the Synthetic Lease Lenders under the Synthetic Lease Credit Agreement that each Grantor shall have granted the assignment and security interest and made the pledge and assignment contemplated by this Agreement.

**NOW, THEREFORE**, in consideration of the premises and in order to induce (i) the Lender Parties to make Advances under the Revolving Credit Agreement, (ii) the Synthetic Lease Lenders to make Loans under the Synthetic Lease Credit Agreement, and (iii) the Owner Trustee to enter into the Synthetic Lease, the Grantors, and each of them, hereby agrees with the Administrative Agent for its benefit and the ratable benefit of the Secured Parties as follows:

**Section 1. Definitions.**

(a) **Certain Terms.** Capitalized terms defined in the preamble and the recitals to this Agreement have the meanings set forth therein. Capitalized terms defined in the Revolving Credit Agreement and used and not otherwise defined herein have the meanings assigned to such terms in the Revolving Credit Agreement. As used in this Agreement, the following terms have the meanings specified below:

“**Account Collateral**” has the meaning set forth in Section 2(a).

“**Bankruptcy Code**” means Title 11 of the United States Code, as from time to time amended.

“**CA Uniform Commercial Code**” means, at any time of determination, the Uniform Commercial Code in effect in the State of California at such time.

“**Claim**” has the meaning set forth in the Bankruptcy Code.

**“Collateral”** has the meaning set forth in Section 2(a).

**“Equity Interests”** means, with respect to any Person, any capital stock of such Person or membership interests, partnership interests (whether general or limited) or other equity interests in such Person, regardless of type, class, preference or designation, and all warrants, options, purchase rights, conversion or exchange rights, voting rights, calls or claims of any character with respect thereto, in each case whether outstanding on the date of this Agreement or issued or granted at any time thereafter.

**“Excluded Assets”** means rights, licenses and franchises granted by any governmental authority in which it is unlawful to create a Lien.

**“Related Contracts”** means all security agreements, leases and other contracts and agreements of every type included in the Collateral, whether relating to an Account or otherwise.

**“Secured Obligations”** is defined in Section 2(b).

**“Security Collateral”** has the meaning set forth in Section 2(a).

(b) **Terms Defined in the Uniform Commercial Code.** When capitalized, the following terms used in this Agreement or any other Collateral Document have the meanings given to them in the CA Uniform Commercial Code: Accounts; Certificated Security; Chattel Paper; Commodity Account; Commodity Contract; Commodities Intermediary; Control; Documents; Equipment; Financial Asset; Fixtures; General Intangibles; Goods; Instruments; Inventory; Investment Property; Securities Account; Securities Intermediary; Security; Security Certificate; Security Entitlement; and Uncertificated Security. Unless otherwise defined herein or in the Revolving Credit Agreement, terms used in Division 8 or Division 9 the CA Uniform Commercial Code are used herein as therein defined.

## **Section 2. Grant of Security; Secured Obligations.**

(a) **Grant of Security Interests.** As security for the payment of the Secured Obligations, each Grantor hereby assigns to the Administrative Agent for the ratable benefit of the Administrative Agent and the other Secured Parties, and grants to the Administrative Agent for the ratable benefit of the Administrative Agent and the other Secured Parties a continuing and first priority security interest in, all of such Grantor's right, title and interest in and to the following types or items of property, in each case whether now or hereafter existing or owned by such Grantor or in which such Grantor now owns or hereafter acquires an interest and wherever the same may be located (collectively, the **“Collateral”**), subject only to the Liens permitted under the Revolving Credit Agreement and the Synthetic Lease Credit Agreement (the **“Permitted Liens”**):

(i) all Inventory, including specifically all raw materials, work-in-process, finished Goods, supplies, materials, spare parts, Goods held for sale or on lease or for lease or furnished or to be furnished under contracts of service, merchandise inventory, rental inventory, and returned or repossessed Goods and

all rights to enforce return or repossession by reclamation, stoppage in transit or otherwise,

(ii) all Equipment, including specifically all manufacturing, distribution, delivery, retailing, vending, computing, data processing, communications, office and other equipment in all of its forms, all vehicles, all tools, dies, and molds, all Fixtures, all other Goods used or bought for use primarily in a business and all other Goods except Inventory,

(iii) all Accounts,

(iv) all Chattel Paper,

(v) all Documents,

(vi) all Instruments and all other Claims that are in any respect evidenced or represented by any writing, including specifically the Pledged Debt described in Schedule I and all other Pledged Debt and all other writings evidencing or representing a Claim against any Loan Party or any other Person,

(vii) all of the following (the "Security Collateral"): all Securities, whether constituting Certificated Securities or Uncertificated Securities, all Financial Assets, all Security Entitlements, all Securities Accounts, all Commodity Contracts, all Commodity Accounts, and all other Investment Property, including specifically the Pledged Shares described in Schedule I and all other Equity Interests,

(viii) all of the following (the "Account Collateral"): (a) the L/C Cash Collateral Account, all funds held therein and all certificates and instruments, if any, from time to time representing or evidencing the L/C Cash Collateral Account, (b) all other deposit accounts of such Grantor, all funds held therein and all certificates and instruments, if any from time to time representing or evidencing such deposit accounts, (c) all notes, certificates of deposit, deposit accounts, checks and other instruments from time to time hereafter delivered to or otherwise possessed by the Administrative Agent for or on behalf of such Grantor in substitution for or in addition to any or all of the then existing Account Collateral, and (d) all interest, dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the then existing Account Collateral,

(ix) all money, cash and cash equivalents,

(x) (A) all letters patent of the United States or any other country and all reissues and extensions thereof, including, without limitation, any thereof referred to in Part I of Schedule II hereto, and (B) all applications for letters patent of the United States or any other country and all divisions, continuations and continuations-in-part thereof, including, without limitation, any thereof referred to in Part I of Schedule II hereto (collectively, the "Patents"), and (C) all agreements,

whether written or oral, providing for the grant by or to such Grantor of any right to manufacture, use or sell any invention covered by a Patent, including, without limitation, any thereof referred to in Part II of Schedule II (collectively, the "Patent Licenses");

(xi) (A) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos and other source or business identifiers, and the goodwill associated therewith, now existing or hereafter adopted or acquired, all registrations and recordings thereof, and all applications in connection therewith, whether in the United States Patent and Trademark Office or in any similar office or agency of the United States, any state thereof or any other country or any political subdivision thereof, or otherwise, including, without limitation, any thereof referred to in Part I of Schedule III, and (B) all renewals thereof (collectively, the "Trademarks"), and (C) all agreements, written or oral, providing for the grant by or to such Grantor of any right to use any trademark, including, without limitation, any thereof referred to in Part II of Schedule III (collectively, the "Trademark Licenses");

(xii) (A) all copyrights in all works, whether published or unpublished, registered or unregistered, including, without limitation, those listed on Part I of Schedule IV, all registrations and recordings thereof, and all applications in connection therewith, including, without limitation, registrations, recordings and applications in the United States Copyright Office or in any other country, and (B) all renewals thereof (collectively, the "Copyrights"), and (C) all agreements, written or oral, providing for the grant by or to such Grantor of any right to reproduce, copy, publish or otherwise use any Copyright, including, without limitation, the agreements set forth on Part II of Schedule IV (collectively, the "Copyright Licenses");

(xiii) all other General Intangibles, including specifically (A) all customer lists and agreements, (B) all supplier lists and agreements, (C) all employee and consultant lists, rights, and agreements, (D) all computing, data and information processing and communications programs, discs, designs, and information and the data and other entries thereon, (E) all books, records, catalogs, back issues, library rights and all manifestations and embodiments thereof, (F) all contracts, contract rights and agreements and all rights and claims arising under or in respect of all contracts and agreements of every type and nature (including, without limitation, all stock and/or asset purchase agreements and all rights and claims arising under or in respect of the Revolving Credit Agreement or any other Loan Document or the Synthetic Lease Credit Agreement or any Synthetic Lease Document, including rights and claims against the Administrative Agent or any Secured Party and each Hedge Agreement to which such Grantor is now or may hereafter become a party, in each case as such agreements may be amended, amended and restated, supplemented or otherwise modified from time to time), (G) all rights and claims arising in respect of the related transaction, (H) all Net Cash Proceeds, (I) all tax refunds, (J) all policies of insurance and condemnation awards of every type and description and the

proceeds thereof, (K) all loans receivable, letters of credit, bonds and undertakings, deferred purchase price or deferred purchase consideration, consulting or non-competition payments and other indebtedness, liabilities and obligations receivable not constituting an Account and not evidenced or represented by any Instrument, Chattel Paper or Security, (L) all rights of recoupment, recourse, reimbursement, subrogation, indemnity or contribution (including those arising under any Loan Document or any Synthetic Lease Document, and those arising on account of any other agreement, transaction or event), (M) all rights of any Grantor to any proceeds of the sale, condemnation, damage or destruction of any Property (as defined in the Participation Agreement), (N) all other causes of action and claims of every type and description, whether fixed or contingent, liquidated or not liquidated, accrued or not accrued, and all judgments, orders and recoveries thereon, (O) all other rights, privileges, benefits, entitlements, franchises, licenses and expectancies of every type and description, (P) all other intangible property of every type and description, and (Q) all goodwill associated with any of the foregoing,

(xiv) all property that is at any time delivered to, or that is at any time in the Control of, the Administrative Agent,

*together, in each case, with* (1) all accessions thereto and products and replacements thereof, (2) all guaranties, Liens and other forms of collateral security therefor, and (3) all dividends, distributions, and payments received thereon or in exchange or substitution therefor or upon transfer thereof, and (4) all other proceeds thereof,

*except and excluding, however,* each item of property that is an Excluded Asset, for as long as it remains an Excluded Asset.

Notwithstanding anything to the contrary in this Agreement, no Grantor shall be required to pledge more than 65% of the shares of the capital stock of any Foreign Subsidiary (as defined below). For the purposes of this Section, "Foreign Subsidiary" means any "controlled foreign corporation" within the meaning of Section 957(a) of the Internal Revenue Code, as to which such Grantor is a "United States shareholder" as defined in Section 951(b) of the Internal Revenue Code.

(b) **Security for Obligations.** This Agreement secures with respect to each Grantor, and the Collateral of such Grantor is collateral security for, the prompt payment and performance in full when due, whether on a specified payment date, at stated maturity, by acceleration or otherwise (including, without limitation, the payment of amounts that would become due but for the operation of the automatic stay under Section 362(a) of the Bankruptcy Code or any similar law) of all Obligations of such Grantor now or hereafter existing under (i) the Loan Documents (including, without limitation, Bank Hedge Agreements) and (ii) the Synthetic Lease Credit Agreement Guaranty, in each case whether for principal, interest (including, without limitation, interest that, but for the filing of a petition in bankruptcy would accrue on such obligations), fees, expenses or otherwise (all such Obligations being the "Secured Obligations"). Without limiting the generality of the foregoing, this Agreement secures the payment of all amounts that constitute part of the Secured Obligations and would be owed by



any Grantor to the Administrative Agent or any other Secured Party under the Loan Documents or the Synthetic Lease Guaranty but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding.

**Section 3. Grantors Remain Liable.** Anything herein to the contrary notwithstanding, (a) each Grantor shall remain liable under the Related Contracts to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (b) the exercise by the Administrative Agent of any of the rights hereunder shall not release any Grantor from any of its duties or obligations under the Related Contracts and (c) neither the Administrative Agent nor any other Secured Party shall have any obligation or liability under the Related Contracts by reason of this Agreement, nor shall the Administrative Agent or any other Secured Party be obligated to perform any of the obligations or duties of any Grantor thereunder, to take any action to collect or enforce any claim for payment assigned hereunder, to make any payment or to make any inquiry as to the nature or the sufficiency of any payment received by it or as to the sufficiency of any performance by any party in respect of any Account or any Related Contract.

**Section 4. Delivery of Security Collateral and Account Collateral.** All certificates or instruments, if any, representing or evidencing Security Collateral or Account Collateral shall be delivered to and held by or on behalf of the Administrative Agent pursuant hereto (a) on or prior to the Closing Date, with respect to such Collateral in existence on the Closing Date, and (b) within 3 Business Days of any Grantor obtaining rights thereto with respect to any other such Collateral. All such Collateral when so delivered shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance satisfactory to the Administrative Agent. The Administrative Agent shall have the right, at any time in its discretion and without notice to any Grantor, to transfer to or to register in the name of the Administrative Agent or any of its nominees any or all of the Security Collateral and Account Collateral, subject only to the revocable rights specified in Section 10(a). In addition, the Administrative Agent shall have the right at any time to exchange certificates or instruments representing or evidencing Security Collateral or Account Collateral for certificates or instruments of smaller or larger denominations.

**Section 5. Representations and Warranties.** Each Grantor represents and warrants as follows:

(a) All of the Equipment and Inventory are located at the places specified in Schedules 5.01(r)(i) and 5.01(r)(ii) of the Revolving Credit Agreement or at another location permitted under Section 7(a) hereof. The chief place of business and chief executive office of such Grantor and the office where such Grantor keeps its records concerning the Accounts, and the original copies of the Related Contracts and all originals of all Chattel Paper, are located at the address first specified above for such Grantor, and the original copies of each Related Contract and all originals of all Chattel Paper that evidence Accounts, are located at the address first specified above for such Grantor. None of the Accounts or the Agreement Collateral is evidenced by a promissory note or other instrument.

(b) Such Grantor is the legal and beneficial owner of the Collateral of such Grantor free and clear of any Lien, except for the security interest created by this Agreement. No effective financing statement or other instrument similar in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Administrative Agent relating to this Agreement and except as otherwise permitted under Section 6.02(a) of the Revolving Credit Agreement. Such Grantor has the trade names listed on Part I of Schedule III.

(c) Such Grantor has exclusive possession and control of the Equipment constituting Collateral and Inventory constituting Collateral.

(d) The Pledged Shares have been duly authorized and validly issued and are fully paid and non-assessable. The Pledged Debt has been duly authorized, authenticated or issued and delivered, is the legal, valid and binding obligation of the issuers thereof and is not in default.

(e) The Pledged Shares constitute the percentage of the issued and outstanding shares of stock of the issuers thereof indicated on Schedule I.

(f) The Related Contracts, have been duly authorized, executed and delivered by all parties thereto, are in full force and effect and are binding upon and enforceable against all parties thereto in accordance with their terms. There exists no default under any Related Contract by any party thereto that would reasonably be expected to have a Material Adverse Effect.

(g) This Agreement, the pledge of the Security Collateral pursuant hereto and the pledge and assignment of the certificates, if any, representing the Account Collateral pursuant hereto create a valid and perfected first priority security interest in such Collateral, subject only to the Permitted Liens, securing the payment of the Secured Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interests have been duly taken. Upon the filing of financing statements under the Uniform Commercial Code in each of the filing offices listed on Schedule V with respect to each Grantor, and the filing of the Security Agreement with the United States Patent and Trademark Office which financing statements and Security Agreement have been duly filed or executed in appropriate form for filing and delivered to the Administrative Agent, the security interest of the Administrative Agent in respect of all other Collateral will be perfected to the extent a security interest in such Collateral may be perfected by the filing of financing statements.

(h) No consent of any other Person and no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or other third party is required either (i) for the grant by such Grantor of the assignment and security interest granted or purported to be granted hereby, for the pledge by such Grantor of the Security Collateral pursuant hereto or for the execution, delivery or performance of this Agreement by such Grantor, (ii) for the perfection or maintenance of the pledge, assignment and security interest created or purported to be created hereby (including the first priority nature of such pledge, assignment or security interest), except

for the filing of financing and continuation statements under the Uniform Commercial Code, which financing statements have been duly filed or executed in appropriate form for filing and delivered to the Administrative Agent, or (iii) for the exercise by the Administrative Agent of its voting or other rights provided for in this Agreement or the remedies in respect of the Collateral pursuant to this Agreement, except as may be required in connection with the disposition of any portion of the Security Collateral by laws affecting the offering and sale of securities generally.

(i) The Inventory has been produced by such Grantor in compliance with all requirements of the Fair Labor Standards Act.

(j) None of the Collateral constitutes, or is the proceeds of, farm products.

(k) None of the obligors on any Account is a governmental authority.

(l) The amounts represented by such Grantor to the Secured Parties from time to time as owing to such Grantor in respect of the Accounts will at such time be accurate.

**Section 6. Further Assurances.**

(a) Each Grantor agrees that from time to time, at the expense of such Grantor, such Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Administrative Agent may request, in order to perfect and protect any pledge, assignment or security interest granted or purported to be granted hereby or to enable the Administrative Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, such Grantor will: (i) at the request of the Administrative Agent, mark conspicuously all Chattel Paper, each Related Contract, and each of its records pertaining to the Collateral with a legend, in form and substance satisfactory to the Administrative Agent, indicating that such document, Chattel Paper, Related Contract or Collateral is subject to the security interest granted hereby; (ii) if any Collateral shall be evidenced by a promissory note or other instrument or Chattel Paper, deliver and pledge to the Administrative Agent hereunder such note or instrument or Chattel Paper duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Administrative Agent; and (iii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Administrative Agent may request, in order to perfect and preserve the pledge, assignment and security interest granted or purported to be granted hereby.

(b) Each Grantor hereby authorizes the Administrative Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of such Grantor where permitted by law. A photocopy or other reproduction of this Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

(c) Each Grantor will furnish to the Administrative Agent from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Administrative Agent may reasonably request, all in reasonable detail.

(d) Each Grantor hereby directs the Synthetic Lease Agent to make payment of any and all proceeds of the sale, condemnation, damage or destruction of any Property (as defined in the Participation Agreement) directly to the Administrative Agent hereunder and the Synthetic Lease Agent may rely on the provisions of this Section 6(d) without further inquiry.

**Section 7. As to Equipment and Inventory.**

(a) Each Grantor shall keep the Equipment and Inventory (other than Inventory sold in the ordinary course of business) at the places therefor specified in Section 5(a) or, upon 30 days' prior written notice to the Administrative Agent, at such other places in a jurisdiction where all action required by Section 6 shall have been taken with respect to the Equipment and Inventory.

(b) Each Grantor shall cause the Equipment to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall forthwith, or in the case of any loss or damage to any of the Equipment as quickly as practicable after the occurrence thereof, make or cause to be made all repairs, replacements and other improvements in connection therewith that are necessary or desirable to such end. Each Grantor shall promptly furnish to the Administrative Agent a statement respecting any loss or damage to any Equipment.

(c) Each Grantor shall pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims (including claims for labor, materials and supplies) against, the Equipment and Inventory. In producing the Inventory, such Grantor shall comply with all requirements of the Fair Labor Standards Act.

**Section 8. Insurance.**

(a) Each Grantor (or the Company, on behalf of each Grantor) shall, at its own expense, maintain insurance with respect to the Equipment and Inventory, in such amounts, against such risks, in such form and with such insurers, as shall be satisfactory to the Administrative Agent from time to time. Each policy for liability insurance shall provide for all losses to be paid on behalf of the Administrative Agent and such Grantor as their interests may appear, and each policy for property damage insurance shall provide for all losses (except for losses of less than \$50,000 per occurrence) to be paid directly to the Administrative Agent. Each such policy shall in addition (i) name such Grantor (or the Company) and the Administrative Agent as insured parties thereunder (without any representation or warranty by or obligation upon the Administrative Agent) as their interests may appear, (ii) contain the agreement by the insurer that any loss

thereunder shall be payable to the Administrative Agent notwithstanding any action, inaction or breach of representation or warranty by such Grantor, (iii) provide that there shall be no recourse against the Administrative Agent for payment of premiums or other amounts with respect thereto and (iv) provide that at least 30 days' prior written notice of cancellation or of lapse shall be given to the Administrative Agent by the insurer. Each Grantor shall, if so requested by the Administrative Agent, deliver to the Administrative Agent original or duplicate policies of such insurance and, as often as the Administrative Agent may reasonably request, a report of a reputable insurance broker with respect to such insurance. Further, each Grantor shall, at the request of the Administrative Agent, duly exercise and deliver instruments of assignment of such insurance policies to comply with the requirements of Section 6 and cause the insurers to acknowledge notice of such assignment.

(b) Reimbursement under any liability insurance maintained by any Grantor pursuant to this Section 8 may be paid directly to the Person who shall have incurred liability covered by such insurance. In case of any loss involving damage to Equipment or Inventory when subsection (c) of this Section 8 is not applicable, such Grantor shall make or cause to be made the necessary repairs to or replacements of such Equipment or Inventory, and any proceeds of insurance maintained by such Grantor pursuant to this Section 8 shall be paid to such Grantor as reimbursement for the costs of such repairs or replacements.

(c) Upon the occurrence and during the continuance of any Event of Default or the actual or constructive total loss (in excess of \$50,000 per occurrence) of any Equipment or Inventory, all insurance payments in respect of such Equipment or Inventory shall be paid to and applied by the Administrative Agent as specified in Section 17(b).

#### **Section 9. Place of Perfection; Records; Collection of Accounts.**

(a) Each Grantor shall keep its chief place of business and chief executive office and the office where it keeps its records concerning the Collateral, and the original copies of the Related Contracts and all originals of all Chattel Paper, at the location therefor specified in Section 5(a) or, upon 30 days' prior written notice to the Administrative Agent, at such other locations in a jurisdiction where all actions required by Section 6 shall have been taken with respect to the Collateral. Each Grantor will hold and preserve such records, Related Contracts and Chattel Paper and will permit representatives of the Administrative Agent at any time during normal business hours to inspect and make abstracts from such records, Related Contracts and Chattel Paper.

(b) Each Grantor will not change its name, identity or corporate structure to such an extent that any financing statement filed by the Administrative Agent in connection with this Agreement would become seriously misleading, unless it shall have given the Administrative Agent at least 30 days' prior written notice of such change and shall have taken any action required by the Administrative Agent in connection therewith.

(c) Except as otherwise provided in this subsection (c), each Grantor shall continue to collect, at its own expense, all amounts due or to become due such Grantor under the Accounts. In connection with such collections, each Grantor may take (and, at the Administrative Agent's direction, shall take) such action as such Grantor or the Administrative Agent may deem necessary or advisable to enforce collection of the Accounts; provided, however, that the Administrative Agent shall have the right at any time, upon written notice to such Grantor of its intention to do so, to notify the Obligors under any Accounts of the assignment of such Accounts to the Agent and to direct such Obligors to make payment of all amounts due or to become due to such Grantor thereunder directly to the Agent, and upon such notification and at the expense of such Grantor, to enforce collection of any such Accounts, and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as such Grantor might have done. After receipt by such Grantor of the notice from the Administrative Agent referred to in the proviso to the preceding sentence, (i) all amounts and proceeds (including instruments) received by such Grantor in respect of the Accounts shall be received in trust for the benefit of the Administrative Agent hereunder, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent in the same form as so received (with any necessary or requested indorsement) and either (A) released to such Grantor so long as no Event of Default shall have occurred and be continuing or (B) if any Event of Default shall have occurred and be continuing, applied as provided by Section 17(b) and (ii) such Grantor shall not adjust, settle or compromise the amount or payment of any Account, release wholly or partly any obligor thereof, or allow any credit or discount thereon. At the Administrative Agent's request such Grantor shall deliver to the Administrative Agent all original and other documents evidencing, and relating to, the agreements and transactions which gave rise to the Accounts, including, without limitation, all original orders, invoices and shipping receipts.

**Section 10. Voting Rights; Dividends; Etc.**

(a) So long as no Event of Default shall have occurred and be continuing:

(i) Each Grantor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Security Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Loan Documents; provided, however, that no Grantor shall exercise or refrain from exercising any such right if, in the Administrative Agent's judgment, such Action could reasonably be expected to have a Material Adverse Effect on the value of the Security Collateral or any part thereof or adversely affect (A) the validity, perfection or priority of the security interest and pledge granted or purported to be granted by this Agreement or (B) the right and remedies of the Administrative Agent or the Secured Parties hereunder;

(ii) Each Grantor shall be entitled to receive and retain any and all dividends and interest paid in respect of the Security Collateral; provided, however, that any and all

(A) dividends and interest paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of, or in exchange for, any Security Collateral,

(B) dividends and other distributions paid or payable in cash in respect of any Security Collateral in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in-surplus and

(C) cash paid, payable or otherwise distributed in respect of principal of, or in redemption of, or in exchange for, any Security Collateral

shall be, and shall be forthwith delivered to the Administrative Agent to hold as, Security Collateral and shall, if received by such Grantor, be received in trust for the benefit of the Administrative Agent, be segregated from the other property or funds of such Grantor and be forthwith delivered to the Administrative Agent as Security Collateral in the same form as so received (with any necessary or requested indorsement).

(iii) The Administrative Agent shall execute and deliver (or cause to be executed and delivered) to any Grantor all such proxies and other instruments as such Grantor may reasonably request for the purpose of enabling such Grantor to exercise the voting and other rights that it is entitled to exercise pursuant to paragraph (i) above and to receive the dividends or interest payments that it is authorized to receive and retain pursuant to paragraph (ii) above.

(b) Upon the occurrence and during the continuance of an Event of Default:

(i) All rights of each Grantor (x) to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 10(a)(i) shall, upon notice to such Grantor by the Administrative Agent, cease and (y) to receive the dividends and interest payments that it would otherwise be authorized to receive and retain pursuant to Section 10(a)(ii) shall automatically cease, and all such rights shall thereupon become vested in the Administrative Agent, which shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights and to receive and hold as Security Collateral such dividends and interest payments.

(ii) All dividends and interest payments that are received by any Grantor contrary to the provisions of paragraph (i) of this Section 10(b) shall be received in trust for the benefit of the Administrative Agent and the other Secured Parties, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent as Security Collateral in the same form as so received (with any necessary or requested indorsement).

**Section 11. As to Patents, Trademarks and Copyrights.**

- (a) Schedule II includes all Patents and Patent Licenses owned by each Grantor in its own name on the date hereof.
- (b) Schedule III includes all Trademarks and Trademark Licenses owned by each Grantor in its own name on the date hereof.
- (c) Schedule IV includes all Copyrights and Copyright Licenses owned by such Grantor in its own name on the date hereof.
- (d) To the best of each Grantor's knowledge, each Patent, Trademark and Copyright is on the date hereof valid, subsisting, unexpired, enforceable and has not been abandoned.
- (e) Except as set forth in Schedule II, III or IV, none of such Patents, Trademarks and Copyrights is on the date hereof the subject of any licensing or franchise agreement.
- (f) No holding, decision or judgment has been rendered by any governmental authority which would limit, cancel or question the validity of any Patent, Trademark or Copyright in any respect that could reasonably be expected to have a Material Adverse Effect.
- (g) No action or proceeding is pending on the date hereof (i) seeking to limit, cancel or question the validity of any Patent, Trademark or Copyright, or (ii) which, if adversely determined, would have a material adverse effect on the value of any Patent, Trademark or Copyright.
- (h) Each Grantor (either itself or through licensees) will (i) continue to use each material Trademark of such Grantor 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, (ii) maintain as in the past the quality of products and services offered under such Trademark, (iii) employ such Trademark with the appropriate notice of registration, (iv) not adopt or use any mark which is confusingly similar or a colorable imitation of such Trademark unless the Administrative Agent, for the ratable benefit of the Secured Parties, shall obtain a perfected first priority security interest in such mark pursuant to this Agreement, and (v) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby such Trademark may become invalidated.
- (i) No Grantor will do any act, or omit to do any act, whereby any material Patent may become abandoned or dedicated.
- (j) Each Grantor will notify the Administrative Agent immediately if it knows, or has reason to know, that any application or registration relating to any material Patent or Trademark may become abandoned or dedicated, or of any adverse determination or 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 such Grantor's ownership of any material Patent or Trademark or its right to register the same or to keep and maintain the same.

(k) Whenever any Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Patent or Trademark with the United States Patent and Trademark Office or any similar office or agency in any other country or any political subdivision thereof, such Grantor shall report such filing to the Administrative Agent and the Secured Parties within five Business Days after the last day of the fiscal quarter in which such filing occurs. Upon request of the Administrative Agent, such Grantor shall execute and deliver any and all agreements, instruments, documents, and papers as the Administrative Agent may request to evidence the Administrative Agent's security interest in any Patent or Trademark and the goodwill and general intangibles of such Grantor relating thereto or represented thereby.

(l) Each Grantor will take all reasonable and necessary steps, including, without limitation, in any proceeding before the United States Patent and Trademark Office, or any similar office or agency in any other country or any political subdivision thereof, to maintain and pursue each application (and to obtain the relevant registration) and to maintain each registration of the material Patents and Trademarks, including, without limitation, filing of applications for renewal, affidavits of use and affidavits of incontestability.

(m) In the event that any Patent or Trademark included in the Collateral is infringed, misappropriated or diluted by a third party, each Grantor shall (i) take such actions as such Grantor shall reasonably deem appropriate under the circumstances to protect such Patent or Trademark and (ii) if such Patent or Trademark is of material economic value, promptly notify the Administrative Agent after it learns thereof and sue for infringement, misappropriation or dilution, to seek injunctive relief where appropriate and to recover any and all damages for such infringement, misappropriation or dilution.

(n) Each Grantor (either itself or through licensees) will (i) employ the appropriate notice of copyright for each published work which is or may be subject to copyright protection under Title 17 of the U.S. Code (each such published work, a "Work") subject to copyright protection to the extent necessary to protect the Copyright relating to such Work and (ii) not (and not permit any licensee or sublicensee thereof to) do any act or knowingly omit to do any act whereby any material Copyright may become invalidated, except where the failure to take any such action would not reasonably be expected to have a Material Adverse Effect.

(o) No Grantor will (either itself or through licensees) do any act, or omit to do any act, whereby any material Copyright may become injected into the public domain, except where such action or the failure to take any such action would not have a Material Adverse Effect.

(p) Each Grantor will notify the Administrative Agent immediately if it knows, or has reason to know, that any Copyright may become injected into the public domain or of any adverse determination or development (including, without limitation, the institution of, or any such determination or development in, any proceeding in any court or tribunal in any country) regarding such Grantor's ownership of any such Copyright or its validity and of any action such Grantor is taking in respect of such event.

(q) Whenever any Grantor, either by itself or through any agent, employee, licensee or designee, shall file an application for the registration of any Copyright with the United States Copyright Office or any similar office in any other country or political subdivision thereof, such Grantor shall report such filing to the Administrative Agent within five Business Days after the last day of the fiscal quarter in which such filing occurs. Such Grantor shall execute and deliver any and all agreements, instruments, documents and papers as shall be necessary or appropriate or as the Administrative Agent reasonably may request to evidence the security interest granted or purported to be granted to the Administrative Agent for its benefit and the ratable benefit of the Secured Parties in such Copyright and shall deliver to the Administrative Agent an officer's certificate of such Grantor, in form and substance satisfactory to the Administrative Agent as to compliance with this Section 11(q).

(r) Each Grantor will take all reasonable and necessary steps, as it shall deem appropriate under the circumstances, in accordance with its reasonable business judgment, to maintain and pursue each application (and to obtain the relevant registration) and to maintain to the extent permitted by law each registration of each material Copyright owned by such Grantor including, without limitation, filing of applications for renewal, where necessary.

(s) Each Grantor will promptly notify the Administrative Agent of any material infringement of any Copyright owned by it of which it becomes aware and will take such actions as it shall reasonably deem appropriate under the circumstances to protect such Copyright, including, where appropriate in its reasonable business judgment, the bringing of suit or the settling of actual or potential suits for infringement, seeking injunctive relief and seeking to recover any and all damages for such infringement.

## **Section 12. Transfers and Other Liens; Additional Shares.**

(a) Each Grantor shall not, except as otherwise permitted by the Revolving Credit Agreement (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or suffer to exist any Lien upon or with respect to any of the Collateral except for the pledge, assignment and security interest created by this Agreement.

(b) Each Grantor shall (i) cause each issuer of the Pledged Shares not to issue any stock or other securities in addition to or in substitution for the Pledged Shares issued by such issuer, except to such Grantor, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or other securities of each issuer of the Pledged Shares.

**Section 13. Administrative Agent Appointed Attorney-in-Fact.** Each Grantor hereby irrevocably appoints the Administrative Agent and any officer or agent thereof, with full power of substitution, such Grantor's attorney-in-fact, with full authority in the place and stead of such Grantor and in the name of such Grantor or otherwise, from time to time in the Administrative Agent's discretion, to take any action and to execute any instrument that the Administrative Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including, without limitation:

(a) to obtain and adjust insurance required to be paid to the Administrative Agent pursuant to Section 8,

(b) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(c) to receive, indorse and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) or (b) above,

(d) in the case of any Patent, Trademark or Copyright, execute and deliver any and all agreements, instruments, documents, and papers as the Administrative Agent may request to evidence the Administrative Agent's security interest in such Patent, Trademark or Copyright and the goodwill and general intangibles of such Grantor relating thereto or represented thereby; and

(e) to file any claims or take any action or institute any proceedings that the Administrative Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce compliance with the terms and conditions of any Related Contract or the rights of the Administrative Agent with respect to any of the Collateral.

Anything in this Section 13 to the contrary notwithstanding, the Administrative Agent agrees that it will not exercise any rights under the power of attorney provided for in this Section 13 unless an Event of Default shall have occurred and be continuing. Each Grantor hereby ratifies all that said attorney shall lawfully do or cause to be done by virtue hereof. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

**Section 14. As to the Related Contracts.**

(a) Each Grantor shall at its expense:

(i) perform and observe all the terms and provisions of the Related Contracts to be performed or observed by it, maintain the Related Contracts in full force and effect, enforce the Related Contracts in accordance with their terms and take all such action to such end as may be from time to time requested by the Administrative Agent; and

(ii) from time to time (A) furnish to the Administrative Agent such information and reports regarding the Collateral as the Administrative Agent may reasonably request and (B) upon request of the Administrative Agent make to each other party to any Related Contract such demands and requests for information and reports or for action as such Grantor is entitled to make thereunder.

(b) Each Grantor shall not:

(i) cancel or terminate any Related Contract or consent to or accept any cancellation or termination thereof, except as could not reasonably be expected to have a Material Adverse Effect;

(ii) amend or otherwise modify any Related Contract or give any consent, waiver or approval thereunder, in each case, in any manner adverse to any Secured Party;

(iii) waive any default under or breach of any Related Contract, except as could not reasonably be expected to have a Material Adverse Effect;

(iv) consent to or permit or accept any prepayment of amounts to become due under or in connection with any Related Contract, except as expressly provided therein; or

(v) take any other action in connection with any Related Contract that would impair the value of the interest or rights of any Grantor thereunder or that would impair the interest or rights of the Administrative Agent.

**Section 15. Administrative Agent May Perform.** If any Grantor fails to perform any agreement contained herein, the Administrative Agent may itself perform, or cause performance of, such agreement, and the expenses of the Administrative Agent incurred in connection therewith shall be payable by such Grantor and the Company under Section 18(b).

**Section 16. The Administrative Agent's Duties.** The powers conferred on the Administrative Agent hereunder are solely to protect its interest in the Collateral and shall not impose any duty upon it to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Administrative Agent shall have no duty, under Section 9207 of the CA Uniform Commercial Code or otherwise, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Security Collateral, whether or not the Administrative Agent or any Secured Party has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral. The Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which the Administrative Agent, in its individual capacity, accords its own property.

**Section 17. Remedies.** If any Event of Default shall have occurred and be continuing:

(a) The Administrative Agent may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party upon default under the CA Uniform Commercial Code (whether or not the CA Uniform Commercial Code applies to the affected Collateral) and also may (i) require each Grantor to, and each Grantor hereby agrees that it will at its expense and upon request of the Administrative Agent forthwith, assemble all or part of the Collateral as directed by the Administrative Agent and make it available to the Administrative Agent at a place to be designated by the Administrative Agent that is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Administrative Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Administrative Agent may deem commercially reasonable. Each Grantor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to such Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Administrative Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Administrative Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash proceeds received by the Administrative Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Administrative Agent, be held by the Administrative Agent as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Administrative Agent pursuant to Section 18) in whole or in part by the Administrative Agent for the ratable benefit of the Secured Parties against, all or any part of the Secured Obligations in such order as the Administrative Agent shall elect. Any surplus of such cash or cash proceeds held by the Administrative Agent and remaining after payment in full of all the Secured Obligations shall be paid over to the Company or to whomsoever may be lawfully entitled to receive such surplus.

(c) The Administrative Agent may exercise any and all rights and remedies of any Grantor under or in connection with the Related Contracts or otherwise in respect of the Collateral, including, without limitation, any and all rights of any Grantor to demand or otherwise require payment of any amount under, or performance of any provision of, any Related Contract.

(d) All payments received by any of the Grantors under or in connection with any Related Contract or otherwise in respect of the Collateral shall be received in trust for the benefit of the Administrative Agent, shall be segregated from other funds of such Grantor and shall be forthwith paid over to the Administrative Agent in the same form as so received (with any necessary or requested indorsement).

(e) The Administrative Agent may, without notice to any Grantor except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against the L/C Cash Collateral Account or any part thereof.

**Section 18. Indemnity and Expenses.**

(a) Each Grantor agrees, jointly and severally, to indemnify the Administrative Agent from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including, without limitation, enforcement of this Agreement), except claims, losses or liabilities resulting from the Administrative Agent's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction.

(b) Each Grantor agrees, jointly and severally, upon demand to pay to the Administrative Agent the amount of any and all reasonable expenses, including the reasonable fees and expenses of its counsel and of any experts and agents, that the Administrative Agent may incur in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Administrative Agent or the Secured Parties hereunder or (iv) the failure by such Grantor to perform or observe any of the provisions hereof.

**Section 19. Waivers; Deficiency.** Each Grantor waives and agrees not to assert any rights or privileges which it may acquire under Section 9112 of the CA Uniform Commercial Code. Each Grantor shall remain liable for any deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay the Secured Obligations and the fees and disbursements of any attorneys employed by the Administrative Agent or any Secured Party to collect such deficiency.

**Section 20. Amendments; Waivers; Etc.** No amendment or waiver of any provision of this Agreement, and no consent to any departure by any Grantor herefrom, shall in any event be effective unless the same shall be in writing and signed by the Administrative Agent (with the consent or at the direction of the Required Lenders or, if required pursuant to the Revolving Credit Agreement, all Lenders), and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Administrative Agent to exercise, and no delay in exercising any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

**Section 21. Addresses for Notices.** All notices and other communications provided for hereunder shall be in writing (including telecopier, telegraphic, telex or cable communication) and, mailed, telegraphed, telecopied, telexed, cabled or delivered to each Grantor or to the Administrative Agent, as the case may be, in each case addressed to it at its address specified in the Revolving Credit Agreement or set forth opposite such Grantor's name on the signature page hereto or, as to any party, at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this

Section 21. All such notices and other communications shall, when mailed, telecopied, telegraphed, telexed or cabled, respectively, be effective when deposited in the mails, telecopied, delivered to the telegraph company, confirmed by telex answerback or delivered to the cable company, respectively, addressed as aforesaid.

**Section 22. Continuing Security Interest; Assignments under the**

**Revolving Credit Agreement.** This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the latest of the payment in full in cash of the Secured Obligations, the expiration or termination of all Bank Hedge Agreements and the Commitment Termination Date, (b) be binding upon each Grantor, its successors and assigns and (c) inure, together with the rights and remedies of the Administrative Agent hereunder, to the benefit of the Administrative Agent, the other Secured Parties and their respective successors, transferees and assigns. Without limiting the generality of the foregoing clause (c), any Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Revolving Credit Agreement (including, without limitation, all or any portion of its Commitments, the Advances owing to it and the Note or Notes held by it) and the other Loan Documents and under the Synthetic Lease Documents to any other Person, and such other Person shall thereupon become vested with all the benefits in respect thereof granted to or for the benefit of such Secured Party herein or otherwise, in each case as provided in Section 9.07 of the Revolving Credit Agreement and Section 10 of the Participation Agreement.

**Section 23. Release and Termination.**

(a) Upon any sale, lease, transfer or other disposition of any item of Collateral permitted in accordance with the terms of the Loan Documents and the Synthetic Lease Documents (other than sales of Inventory in the ordinary course of business), the Administrative Agent will, at such Grantor's expense, execute and deliver to such Grantor such documents as such Grantor shall reasonably request to evidence the release of such item of Collateral from the assignment and security interest granted hereby; provided, however, that (i) at the time of such request and such release no Event of Default shall have occurred and be continuing, (ii) such Grantor shall have delivered to the Administrative Agent, at least ten Business Days prior to the date of the proposed release, a written request for release describing the item of Collateral and the terms of the sale, lease, transfer or other disposition in reasonable detail, including the price thereof and any expenses in connection therewith, together with a form of release for execution by the Administrative Agent and a certification by such Grantor to the effect that the transaction is permitted in compliance with the Loan Documents and the Synthetic Lease Documents and as to such other matters as the Administrative Agent may request, and (iii) the proceeds of any such sale, lease, transfer or other disposition required to be applied in accordance with Section 2.05 of the Revolving Credit Agreement shall be paid to, or in accordance with the instructions of the Administrative Agent.

(b) Subject to Section 23(c) below, upon the latest of the payment in full in cash of the Secured Obligations, the termination or expiration of all Bank Hedge Agreements and the Commitment Termination Date, the pledge, assignment and security interest granted hereby shall terminate and all rights to the Collateral shall revert to such Grantor. Upon any such termination, the Administrative Agent will, at such Grantor's

expense, execute and deliver to such Grantor such documents as such Grantor shall reasonably request to evidence such termination.

(c) This Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any amount received by the Administrative Agent or any Secured Party in respect of the Secured Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Secured Party upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of any Grantor or any other Person or upon the appointment of any receiver, intervenor, conservator, trustee or similar official for any Grantor or any other Person or any substantial part of its assets, or otherwise, all as though such payments had not been made.

**Section 24. Mortgages.** In the event that any of the Collateral hereunder is also subject to a valid and enforceable Lien under the terms of any Mortgage and the terms of such Mortgage are inconsistent with the terms of this Agreement, then with respect to such Collateral, the terms of such Mortgage shall be controlling in the case of Fixtures and leases, letting and licenses of, and contracts and agreements relating to the lease of real property, and the terms of this Agreement shall be controlling in the case of all other Collateral.

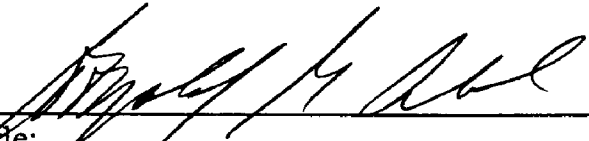
**Section 25. Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California, except to the extent that the validity or perfection of the security interest hereunder, or remedies hereunder, in respect of any particular Collateral are governed by the laws of a jurisdiction other than the State of California.

*[Remainder of page intentionally blank. Signature page follows]*

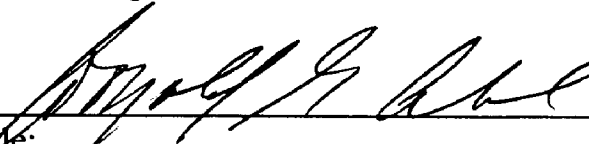


IN WITNESS WHEREOF, each Grantor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

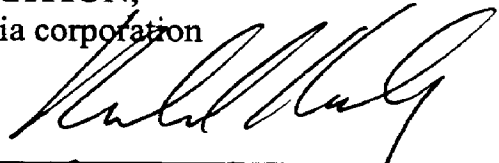
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a Delaware corporation

By:   
Title:

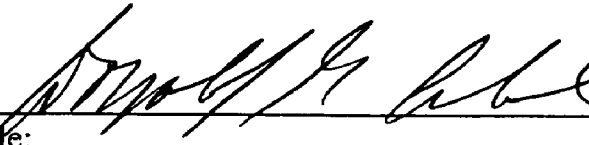
**AMERICAN FOODSERVICE  
DISTRIBUTORS,**  
a California corporation

By:   
Title:

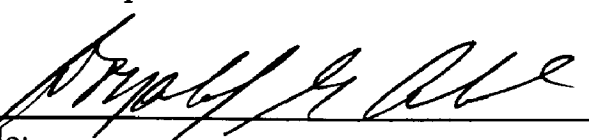
**SMART & FINAL STORES  
CORPORATION,**  
a California corporation

By:   
Title: RICHARD MIZEN  
VICE PRESIDENT & TREASURER

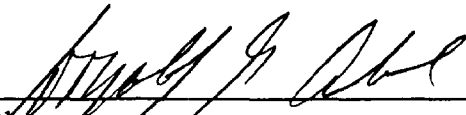
**SMART & FINAL OREGON, INC.,**  
an Oregon corporation

By:   
Title:

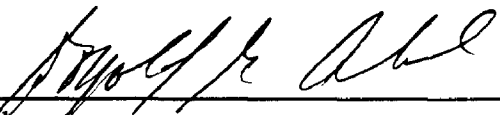
**PORT STOCKTON FOOD  
DISTRIBUTORS, INC.,**  
a California corporation

By:   
Title:

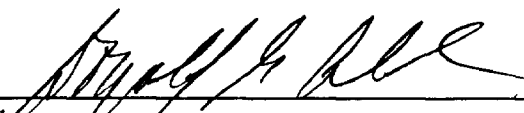
**HENRY LEE COMPANY,**  
a Florida corporation

By:   
Title:

**CASINO FROZEN FOODS, INC.,**  
a California corporation

By:   
Title:

**AMERIFOODS TRADING COMPANY,**  
a Florida corporation

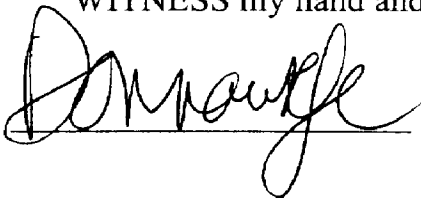
By:   
Title:

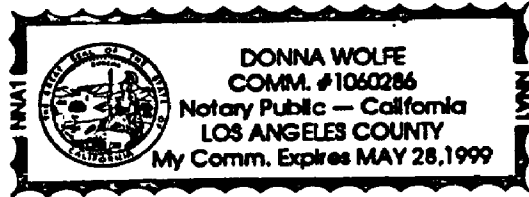
ACKNOWLEDGMENT

State of California        )  
County of Los Angeles    )

On November 12, 1998, before me, Donna Wolfe, Notary Public, personally appeared Donald G. Alvarado, proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature:  (Seal)



Attaches to Security Agreement

## Schedule I

### PLEGDED SHARES AND PLEDGED DEBT

#### Part I. Pledged Shares

1. Smart & Final Stores Corporation

Jurisdiction of incorporation:	California
# of Authorized Shares:	100,000
# of Issued Shares:	10,000
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None

2. American Foodservice Distributors

Jurisdiction of incorporation:	California
# of Authorized Shares:	100,000
# of Issued Shares:	10,000
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None

3. Henry Lee Company

Jurisdiction of incorporation:	Florida
# of Authorized Shares:	Class A 24,000 Non Cumulated Non-Voting \$.01 Par Value Class B 24,000 Shares Preferred Stock Non- Cumulative, Non-Voting \$.01 Par Value Class A 7,500 shares Common Voting \$1.00 Par Value Class B 60,000 shares Common Voting \$.01 Par Value
# of Issued Shares:	4,500 Class A Common Voting \$.01 Par Value
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None

4. Amerifoods Trading Company

Jurisdiction of incorporation:	Florida
# of Authorized Shares:	100
# of Issued Shares:	100
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None

5. Casino Frozen Foods, Inc.

Jurisdiction of Incorporation:	California
# of Authorized Shares:	1,000
# of Issued Shares:	100
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None
  
6. Port Stockton Food Distributors, Inc.

Jurisdiction of Incorporation:	California
# of Authorized Shares:	500,000 (one class)
# of Issued Shares:	192,510
Shareholder:	American Foodservice Distributors (100%)
Outstanding options, etc.:	None
  
7. Smart & Final Oregon, Inc.

Jurisdiction of Incorporation:	Oregon
# of Authorized Shares:	1,000
# of Issued Shares:	100
Shareholder:	Smart & Final Inc. (100%)
Outstanding options, etc.:	None

**Part II.**

**Pledged Debt**

1. Intercompany Note dated November 13, 1998 by Smart & Final Oregon, Inc. in favor of Smart & Final Inc.
2. Intercompany Note dated November 13, 1998 by Port Stockton Food Distributors, Inc. in favor of Smart & Final Inc.
3. Intercompany Note dated November 13, 1998 by Casino Frozen Foods, Inc. in favor of Smart & Final Inc.
4. Intercompany Note dated November 13, 1998 by Amerifoods Trading Company in favor of Smart & Final Inc.
5. Intercompany Note dated November 13, 1998 by Henry Lee Company in favor of Smart & Final Inc.
6. Intercompany Note dated November 13, 1998 by American Foodservice Distributors in favor of Smart & Final Inc.

7. Intercompany Note dated November 13, 1998 by Smart & Final Stores Corporation in favor of Smart & Final Inc.

**Schedule II**

**PATENTS AND PATENT LICENSES**

**None.**

## Schedule III

## TRADEMARKS AND TRADEMARK LICENSES

<u>Trademark Asset</u>	<u>Status of Asset</u>
<b><i>Trademarks owned by Smart &amp; Final Stores Corporation</i></b>	
SMART & FINAL (Stylized) <sup>TM</sup> (Serial No. 75/481,270)	Pending application filed 5/7/98 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,199,487)	Registered 10/27/98 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,180,065)	Registered 8/11/98 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,180,066)	Registered 8/11/98 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,187,207)	Registered 9/8/98 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,130,164)	Registered 1/20/98 based on use beginning 1927.
SMARTADVANTAGE <sup>TM</sup> (Serial No. 75/191,219)	Pending application filed 11/1/96 based on use beginning 9/16/96.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,070,012)	Registered 6/10/97 based on use beginning 1927.
SMART & FINAL (Stylized) <sup>®</sup> (Reg. No. 2,069,692)	Registered 6/10/97 based on use beginning 1927.



<u>Trademark Asset</u>	<u>Status of Asset</u>
SMART & FINAL (Reg. No. 1,260,298)	Registered 12/6/83 based on use beginning 1927.
SMART & FINAL (Stylized)® (Reg. No. 2,128,362)	Registered 1/13/98 based on use beginning 1927.
SMART & FINAL (Stylized)® (Reg. No. 2,130,003)	Registered 1/20/98 based on use beginning 1927.
SMART & FINAL (Stylized)® (Reg. No. 2,130,002)	Registered 1/20/98 based on use beginning 1927.
SMART ALLIANCE® (Reg. No. 2,038,746)	Registered 2/18/97 based on use beginning 2/26/96.
SMART & FINAL & DESIGN® (Reg. No. 2,045,799)	Registered 3/18/97 based on use beginning 5/15/95.
THE SMARTEST MAN IN THE WORLD® (Reg. No. 1,982,658)	Registered 6/25/96 based on use beginning 8/17/94.
SMART PARTNERS® (Reg. No. 1,927,296)	Registered 10/17/95 based on use beginning 8/93.
SMARTY® (Reg. No. 1,840,778)	Registered 6/21/94 based on use beginning 1980.
SMART UNIVERSITY® (Reg. No. 1,811,195)	Registered 12/14/93 based on use beginning 8/91.
SMART U & DESIGN® (Reg. No. 1,811,196)	Registered 12/14/93 based on use beginning 8/91.

<u>Trademark Asset</u>	<u>Status of Asset</u>
SMART & FINAL (Stylized)® (Reg. No. 1,797,358)	Registered 10/5/93 based on use beginning 10/88.
DEC-O-TOPPERS® (Reg. No. 1,809,395)	Registered 12/7/93 based on use beginning 7/89.
WHERE SMALL BUSINESS SHOPS & SAVES® (Reg. No. 1,637,960)	Registered 3/12/91 based on use beginning 1/89.
MONTECITO® (Reg. No. 1,596,691)	Registered 5/15/90 based on use beginning 12/15/88.
SMART BUY® (Reg. No. 1,393,707)	Registered 5/20/86 based on use beginning 3/15/82.
TENDER-LEE® (Reg. No. 1,348,349)	Registered 7/9/85 based on use beginning 5/13/75.
SMART & FINAL IRIS CO.® (Reg. No. 1,260,297)	Registered 12/6/83 based on use beginning 1953.
SMART & FINAL® (Reg. No. 1,260,298)	Registered 12/6/83 based on use beginning 1936.
IRIS® (Reg. No. 1,232,379)	Registered 3/29/83 based on use beginning 4/1/73.
IRIS® (Reg. No. 949,445)	Registered 12/26/72 based on use beginning 1/1898.
IRIS® (Reg. No. 553,059)	Registered 1/8/52 based on use beginning 2/20/50.

<u>Trademark Asset</u>	<u>Status of Asset</u>
IRIS® (Reg. No. 1,138,499)	Registered 8/6/80 based on use beginning 1927.
SMART & FINAL (Puerto Rico Reg. No. 37799)	Registered 1/96.
SMART & FINAL & DESIGN® (Reg. No. 1,797,359)	Registered 10/5/93 based on use beginning 10/88.
<b><i>Trademarks owned by Henry Lee Company</i></b>	
SMART TRACK® (Reg. No. 2,134,349)	Registered 2/3/98 based on use beginning 7/1/96.
HENRY LEE® (Reg. No. 2,030,297)	Registered 1/14/97 based on use beginning 6/46.
<b><i>Trademarks owned by Port Stockton Food Distributors, Inc.</i></b>	
PORT STOCKTON® (Reg. No. 2,092,832)	Registered 9/2/97 based on use beginning 5/62.
<b><i>Trademarks owned by American Food Services Distributors</i></b>	
LA ROMANELLA® (Reg. No. 2,046,604)	Registered 3/18/97 based on use beginning 10/1/95.

**Schedule IV**

**COPYRIGHTS AND COPYRIGHT LICENSES**

**None.**

Schedule V

FILING OFFICES

STATE	JURISDICTION
Arizona	Secretary of State
California	Secretary of State
Delaware	Secretary of State
Florida	Department of State
Idaho	Secretary of State
Nevada	Secretary of State
Oregon	Secretary of State
Texas	Secretary of State
Washington	Department of Licensing UCC Division