

01-20-2004

Form PT-394 (Rev. 10/02) OMB No. 0651-0027 (exp. 6/30/2005) Tab settings

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J.S. DEPARTMENT OF COMMERCE U.S. Patent and Trademark Office

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

1. Name of conveying party(ies): Larry's Markets, Inc. **1-14-04**

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

Additional name(s) of conveying party(ies) attached? Yes No

2. Name and address of receiving party(ies)
 Name: Sterling Savings Bank
 Internal Address: _____
 Address: _____
 Street Address: 111 N. Wall Street
 City: Spokane State: WA Zip: 99201

Individual(s) citizenship _____
 Association _____
 General Partnership _____
 Limited Partnership _____
 Corporation-State Washington Chartered
 Other Savings Bank

If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
 (Designations must be a separate document from assignment)
 Additional name(s) & address(es) attached? Yes No

3. Nature of conveyance:
 Assignment Merger
 Security Agreement Change of Name
 Other

Execution Date: November 20, 2003

4. Application number(s) or registration number(s):
 A. Trademark Application No.(s)
See Attached Exhibit "A"

B. Trademark Registration No.(s)
See Attached Exhibit "A"

Additional number(s) attached Yes No

5. Name and address of party to whom correspondence concerning document should be mailed:
 Name: Michael D. Currin
 Internal Address: _____
Witherspoon, Kelley, Davenport
& Toole, P.S.
 Street Address: 422 W. Riverside, Suite 1100
 City: Spokane State: Wa Zip: 99201

6. Total number of applications and registrations involved: 7

7. Total fee (37 CFR 3.41).....\$ 190.00
 Enclosed
 Authorized to be charged to deposit account

8. Deposit account number: _____
 (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.

Mark H. McKinney
 Name of Person Signing

[Signature]
 Signature

12/24/2003
 Date

Total number of pages including cover sheet, attachments, and document: 2

01/16/2004 DRYER

01 FC:8521
02 FC:8522

40.00 DP
150.00 DP

Mail documents to be recorded with required cover sheet information to:
Commissioner of Patent & Trademarks, Box Assignments
Washington, D.C. 20231

EXHIBIT "A"

FEDERAL TRADEMARKS

<u>MARK</u>	<u>OWNER</u>	<u>FILING DATE</u>	<u>SERIAL/REGISTRATION NO.</u>	<u>INTL CLASS</u>
A GROCERY STORE AND A WHOLE LOT MORE	Larry's Markets, Inc.	August 13, 1999	75/782889 (pending)	Class 42 Wholesale grocery supply & retail grocery services featuring wines and specialty foods
BIG BAD BROWNIE AND DESIGN	Larry's Markets, Inc.	July 1, 1999	Registration 2,338,714 75/741138	Class 30 Bakery products, namely brownies
CHINESE NOW!	Larry's Markets, Inc.	August 20, 1999	Registration 2,598,527 75/781261	Class 42 Dine-in or take-out restaurant services for ethnic food products
DAY IN DAY OUT	Larry's Markets, Inc.	August 20, 1999	Registration 2,582,897 75/781263	Class 29 Canned and packaged food products including fruits and vegetables
EPICUREAN ASSOCIATION	Larry's Markets, Inc.	March 1, 2001	78/054136 (pending) (ITU)	Class 42 Association services, namely, promoting the interests of members . . .
LARRY'S MARKETS	Larry's Markets, Inc.	May 24, 1993	Registration 1,878,088 74/393797	Class 42
LORENZO'S COFFEE "WE'RE ROASTING FOR YOU"	Larry's Markets, Inc.	August 20, 1999	75/780984 (pending)	Class 30 Coffee

TRADEMARK

REEL: 002959 FRAME: 0455

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (the "Agreement") is made as of the 20th day of November, 2003, by and between LARRY'S MARKETS, INC., a Washington corporation (hereinafter referred to as "Borrower") and STERLING SAVINGS BANK, a Washington chartered savings bank (hereinafter referred to as "Lender"), and consented to by THE MCKINNEY FAMILY PARTNERSHIP, L.P., a Washington limited partnership (hereinafter referred to as "Third Party Pledgor").

RECITALS

WHEREAS, Borrower desires to establish certain financing arrangements with and borrow funds from Lender (the "Loan"), including the following: (1) a Commercial Line of Credit, in the principal amount of \$3,500,000.00 (the "Line of Credit"); and (2) a Commercial Term Loan, in the principal amount of \$8,000,000.00 (the "Term Loan");

WHEREAS, Lender is willing to establish such arrangements for and make loans and extensions of credit to Borrower, on the terms and conditions set forth below;

WHEREAS, As an inducement to Lender to approve the Loan, David L. McKinney and Mark H. McKinney (hereinafter referred to, jointly and severally, as "Guarantor") have agreed to absolutely and unconditionally guaranty the payment and performance of all of Borrower's obligations to Lender under the Loan;

WHEREAS, Borrower understands and agrees that: (1) in granting, renewing, or extending the Loan, or any advance there under, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; (2) the granting, renewing, or extending of any Loan, or any advance on any Loan, by Lender at all times shall be subject to Lender's sole judgment and discretion, subject to the terms hereof; and (3) any Loan shall be and shall remain subject to the following terms and conditions of this Agreement; and

WHEREAS, the parties desire to define the terms and conditions of their relationship and to reduce their agreements to writing.

NOW, THEREFORE, in consideration of the promises and covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties covenant and agree as follows:

ARTICLE I DEFINITIONS

As used in this Agreement, unless otherwise specified, all references to "Sections" shall be deemed to refer to Sections of this Agreement, and, unless otherwise defined herein, the following terms shall have the meanings set forth below:

SECTION 1.1. ACCOUNT. "Account" means any right to payment of a monetary obligation, whether or not earned by performance, including, but not limited to, the right to payment of management fees. Without limiting the generality of the foregoing, the term "Account" shall further include any "account" (as that term is defined in the Uniform Commercial Code now or hereafter in effect), any accounts receivable, any "payment intangibles" (as that term is defined in the Uniform Commercial Code now or hereafter in effect) and all other rights to payment of every kind and description, whether or not earned by performance.

SECTION 1.2. ACCOUNT DEBTOR. "Account Debtor" means any Person obligated on any Account of Borrower.

SECTION 1.3. AFFILIATE. "Affiliate" means, with respect to a specified Person, any Person directly or indirectly controlling, controlled by, or under common control with the specified Person, including without limitation their stockholders and any Affiliates thereof. A Person shall be deemed to control a corporation or other entity if the Person possesses, directly or indirectly, the power to direct or cause the direction of the management and business of the corporation or other entity, whether through the ownership of voting securities, by contract, or otherwise.

SECTION 1.4. AGREEMENT. "Agreement" means this Loan and Security Agreement, as it may be amended or supplemented from time to time, together with all attachments, exhibits, schedules, riders and addenda, all of which are incorporated herein by this reference and made a part hereof.

SECTION 1.5. BASE RATE. "Base Rate" means: (a) with respect to the Revolving Line of Credit Note, a rate of interest equal to two and three quarters (2.75%) percent in excess of the one (1) month LIBOR Rate, fully floating; (b) with respect to Term Note No. 1, a rate of interest equal to two and three quarters (2.75%) percent in excess of the seven (7) year SWAP rate; and (c) with respect to Term Note No. 2, Term Note No. 3, and Term Note No. 4, a rate of interest equal to Prime Rate, fully floating.

SECTION 1.6. BORROWED MONEY. "Borrowed Money" means, with respect to any Person, without duplication (a) all indebtedness for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) that portion of obligations with respect to capital leases that is properly classified as a liability on a balance sheet in conformity with GAAP, (d) any obligations of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person if the purchase price is due more than six (6) months from the date the obligation is incurred

(other than trade debt incurred in the ordinary course of business and due under ordinary business terms within six (6) months of the incurrence thereof) or is evidenced by a note or other instrument, (e) all Borrowed Money of others secured by (or for which the holder of such Borrowed Money has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, any property or asset owned, held or acquired by such Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person, (f) all guaranty obligations of such Person in respect of any Borrowed Money of any other person, (g) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn there under (to the extent un-reimbursed), (h) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product plus any accrued interest thereon, and (i) the Borrowed Money of any partnership or unincorporated joint venture in which such Person is a general partner or joint venturer.

SECTION 1.7. BORROWER. "Borrower" has the meaning set forth in the Preamble.

SECTION 1.8. BORROWING BASE. "Borrowing Base" has the meaning set forth in Section 2.1(a)(iv).

SECTION 1.9. BUSINESS DAY. "Business Day" means any day on which financial institutions are open for business in the State of Washington, excluding Saturdays and Sundays.

SECTION 1.10. CLOSING; CLOSING DATE. "Closing" and "Closing Date" have the meanings set forth in Section 5.3.

SECTION 1.11. COLLATERAL. "Collateral" has the meaning set forth in Section 3.1.

SECTION 1.12. COMMITMENT FEE. "Commitment Fee" shall mean the Line Commitment Fee and the Term Loan Commitment Fee as set forth in Section 2.3(a).

SECTION 1.13. CONTROLLED GROUP. "Controlled Group" means all businesses that would be treated as a single employer under Section 401(b) of ERISA.

SECTION 1.14. CURRENT RATIO. "Current Ratio" means the ratio determined by Borrower's total current assets divided by its total current liabilities, as determined under GAAP.

SECTION 1.15. DEFAULT RATE. "Default Rate" means a rate per annum equal to four percent (4.00%) per annum above the then applicable Base Rate.

SECTION 1.16. DEBT TO WORTH RATIO. "Debt to Worth Ratio" means the ratio determined by Borrowers total liabilities (excluding the Subordinated Notes) divided by its total tangible net worth (including the Subordinated Notes), as determined under GAAP.

SECTION 1.17. DEBT SERVICE COVERAGE RATIO. "Debt Service Coverage Ratio" means the ratio determined by the fraction, the numerator of which is (Borrower's net profit (after tax), plus its depreciation, depletion, amortization, interest expense, and income tax expense), minus (draws and distributions taken by Borrower's equity owners plus capital contributions), and the denominator of which is the current portion of long term debt, including, without limitation, principal and interest payments made on the Subordinated Notes, for the prior fiscal year plus interest expense, all as determined under GAAP; provided, in the first loan year, for purposes of determining the Debt Service Coverage Ratio, the amortization of principal and interest on that term debt which has been satisfied by Borrower with the proceeds of the Term Loan shall be calculated as if it were amortized over the same amortization term, and at the same rate of interest, as the Term Loan.

SECTION 1.18. ERISA. "ERISA" has the meaning set forth in Section 4.12.

SECTION 1.19. EVENT OF DEFAULT. "Event of Default" and "Events of Default" have the meanings set forth in Section 8.1.

SECTION 1.20. GAAP. "GAAP" means generally accepted accounting principles applied in a consistent manner.

SECTION 1.21. GOVERNMENTAL AUTHORITY. "Governmental Authority" means and includes any federal, state, District of Columbia, county, municipal, or other government and any department, commission, board, bureau, agency or instrumentality thereof, whether domestic or foreign.

SECTION 1.22. GUARANTOR. "Guarantor" means any Person who may from time to time guaranty, pledge assets as security for or otherwise become obligated in respect of the obligations of Borrower under the Loan Documents.

SECTION 1.23. GUARANTY. "Guaranty" means any guaranty of the obligations of Borrower under the Loan Documents from time to time outstanding, as the same may be amended, modified, or supplemented from time to time.

SECTION 1.24. HAZARDOUS MATERIAL. "Hazardous Material" means any substances defined or designated as hazardous or toxic waste, hazardous or toxic material, hazardous or toxic substance, or similar term, by any environmental statute, rule or regulation or any Governmental Authority applicable to Borrower or its business, operations or assets.

SECTION 1.25. HIGHEST LAWFUL RATE. "Highest Lawful Rate" means the maximum lawful rate of interest referred to in Section 2.7 that may accrue pursuant to this Agreement.

SECTION 1.26. JUNIOR DEED OF TRUST. "Junior Deed of Trust" means the Deed of Trust granting Lender a second priority lien and encumbrance on property commonly known as 12321 120th Place N.E., Kirkland, Washington, the Grantor of which is Third Party Pledgor.

SECTION 1.27. LEASEHOLD DEED OF TRUST. "Leasehold Deed of Trust" means the Deed of Trust given by Borrower, as Grantor, to Lender, encumbering Borrower's leasehold interest in the property described therein, as partial collateral security for the Loan.

SECTION 1.28. LENDER. "Lender" has the meaning set forth in the Preamble.

SECTION 1.29. LIEN. "Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any capital lease having substantially the same practical effect as any of the foregoing).

SECTION 1.30. LIBOR. "LIBOR" means the one (1) month London Inter-Bank Overnight Rate, fully floating.

SECTION 1.31. LIBOR RATE MARGIN. "LIBOR Rate Margin" means LIBOR plus two and three quarters (2.75%) percent.

SECTION 1.32. LOAN. "Loan" shall mean the loans from Lender to Borrower evidenced by the Notes.

SECTION 1.33. LOAN DOCUMENTS. "Loan Documents" means and includes this Agreement, the Line of Credit Note, Term Note No. 1, Term Note No. 2, Term Note No. 3, Term Note No. 4, the Senior Deed of Trust, Junior Deed of Trust, Leasehold Deed of Trust, any Guaranty and each and every other document now or hereafter delivered by Borrower or any Guarantor in connection with this Agreement or the Loan, as any of them may be amended, modified, increased, renewed or restated from time to time.

SECTION 1.34. MAXIMUM LINE AMOUNT. "Maximum Line Amount" has the meaning set forth in Section 2.1(a).

SECTION 1.35. MINIMUM EQUITY. "Minimum Equity" shall mean the excess of Borrower's total assets over its total liabilities, (the Subordinated Notes shall be included in the equity calculation), each to be determined in accordance with GAAP,

SECTION 1.36. NOTES. "Notes" shall mean the Revolving Line of Credit Note, Term Note No. 1, Term Note No. 2, Term Note No. 3, and Term Note No. 4, and each of them.

SECTION 1.37. OBLIGATIONS. "Obligations" has the meaning set forth in Section 3.1.

SECTION 1.38. PERMITTED LIENS. "Permitted Liens" means: (a) deposits or pledges to secure obligations under workmen's compensation, social security or similar laws, or under unemployment insurance; (b) deposits or pledges to secure bids, tenders, contracts (other than contracts for the

payment of money), leases, statutory obligations, surety and appeal bonds and other obligations of like nature arising in the ordinary course of business; (c) mechanic's, workmen's, materialmen's or other like Liens arising in the ordinary course of business with respect to obligations which are not due, or which are being contested in good faith by appropriate proceedings which suspend the collection thereof and in respect of which adequate reserves have been made (provided that such proceedings do not, in Lender's sole discretion, involve any substantial risk of the sale, loss or forfeiture of such property or assets or any interest therein); (d) Liens and encumbrances in favor of Lender; (e) Liens set forth on Schedule 1.38, (f) Liens for taxes, assessments, charges or other governmental levies not yet due or as to which the applicable grace period (not to exceed sixty (60) days) has not expired or which are being contested in good faith by appropriate proceedings and in respect of which adequate reserves have been made; and (g) Liens placed upon assets to secure the purchase price thereof, provided that, in each of its fiscal years, Borrower shall be permitted to create new Borrowed Money up to \$250,000.

SECTION 1.39. PERSON. "Person" means an individual, partnership, corporation, trust, joint venture, joint stock company, limited liability company, association, unincorporated organization, Governmental Authority, or any other entity.

SECTION 1.40. PLAN. "Plan" has the meaning set forth in Section 4.12.

SECTION 1.41. PREMISES. "Premises" has the meaning set forth in Section 4.14.

SECTION 1.42. PRIME RATE OF INTEREST. "Prime Rate of Interest" means that rate of interest designated as such by the Wall Street Journal, or any successor thereto, as the same may from time to time fluctuate.

SECTION 1.43. PROHIBITED TRANSACTION. "Prohibited Transaction" means a "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975(c)(1) of the Internal Revenue Code that is not exempt under Section 407 or Section 408 of ERISA or Section 4975(c)(2) or (d) of the Internal Revenue Code or under a class exemption granted by the U.S. Department of Labor.

SECTION 1.44. QUALIFIED ACCOUNT. "Qualified Account" means an Account of Borrower generated in the ordinary course of Borrower's business from the sale of goods or rendition of services which Lender, in its sole credit judgment, deems to be a Qualified Account. Without limiting the generality of the foregoing, no Account shall be a Qualified Account if: (a) the Account remains unpaid more than ninety (90) days past the claim or invoice date (but in no event more than ninety (90) days after the applicable goods have been sold or services have been rendered); (b) the Account is subject to any defense, set-off, counterclaim, deduction, discount, credit, chargeback, freight claim, allowance, or adjustment of any kind; (c) any part of any goods the sale of which has given rise to the Account has been returned, rejected, lost, or damaged; (d) if the Account arises from the sale of goods by Borrower, the sale was not an absolute sale, or the sale was made on consignment or on approval or on a sale-or-return basis, or the sale was made subject to any other

repurchase or return agreement, or the goods have not been shipped to the Account Debtor or its designee; (e) if the Account arises from the performance of services, the services have not been actually performed or the services were undertaken in violation of any law; (f) the Account is subject to a Lien other than a Permitted Lien; (g) Borrower knows or should have known based on information to which participants in the industry can reasonably be expected to have access of the bankruptcy, receivership, reorganization, or insolvency of the Account Debtor; (h) the Account is evidenced by chattel paper or an instrument of any kind, or has been reduced to judgment; (i) the Account is an Account of an Account Debtor having its principal place of business or executive office outside the United States; (k) the Account Debtor is an Affiliate or subsidiary of Borrower; (l) any covenant, representation or warranty contained in the Loan Documents with respect to such Account has been breached; or (m) the Account fails to meet such other specifications and requirements which may from time to time be established by Lender in its reasonable credit judgment.

SECTION 1.45. REPORTABLE EVENT. "Reportable Event" means a "reportable event" as defined in Section 4043(c) of ERISA for which the notice requirements of Section 4043(a) of ERISA are not waived.

SECTION 1.46. REVOLVING CREDIT LOAN. "Revolving Credit Loan" has the meaning set forth in Section 2.1(b).

SECTION 1.47. REVOLVING LINE OF CREDIT NOTE. "Revolving Line of Credit Note" shall mean that certain promissory note given by Borrower to Lender concurrently herewith, in the maximum principal amount of \$3,500,000, evidencing the Revolving Credit Loan.

SECTION 1.48. SENIOR DEED OF TRUST. "Senior Deed of Trust" shall mean the Deed of Trust granting Lender a first priority lien and encumbrance on Third Party Pledgor's property commonly known as 14227 Pacific Highway South, Tukwila, Washington.

SECTION 1.49. SUBORDINATION AGREEMENT. "Subordination Agreement" means the agreement given by Subordinators to Lender, subordinating their right to receive payments under the Subordinated Notes to Lender's rights to receive payments under the Notes and Loan.

SECTION 1.50. SUBORDINATED NOTES. "Subordinated Notes" means the following promissory notes payable by Borrower to one (1) or more of the Subordinators, including any modifications or amendments thereto: (a) that certain Installment Note dated September 30, 2003, in the principal amount of \$227,201.31, payable to Mark H. McKinney and David L. McKinney, as Co-Trustees of the Michelle A. McKinney Trust; (b) that certain Installment Note dated October 31, 2003, in the principal amount of \$4,000,000.00, payable to Larry McKinney and Suzi McKinney, husband and wife; (c) that certain Installment Note dated October 31, 2003, in the principal amount of \$500,000.00, payable to The McKinney Family Partnership, L.P.; (d) that certain Installment Note dated September 30, 2003, in the principal amount of \$227,201.31, payable to Donald M. McKinney; (e) that certain Installment Note dated September 30, 2003, in the principal amount of \$268,991.24,

payable to Mark H. McKinney and David L. McKinney, as Co-Trustees of the Donald M. McKinney Trust; and (f) that certain Installment Note dated September 30, 2003, in the principal amount of \$268,991.24, payable to Michelle A. McKinney.

SECTION 1.51. SUBORDINATORS. "Subordinators" means Mark H. McKinney and David L. McKinney, as Co-Trustees of the Michelle A. McKinney Trust, Larry McKinney, Suzi McKinney, The McKinney Family Partnership, Donald M. McKinney, Mark H. McKinney and David L. McKinney, as Co-Trustees of the Donald M. McKinney Trust, and Michelle A. McKinney.

SECTION 1.52. TERM. "Term" has the meaning set forth in Section 2.7, and in Section 2.1(b)(iv), for the Revolving Line of Credit Note and the Term Loan, respectively.

SECTION 1.53. TERM LOAN. "Term Loan" shall mean the loan evidenced by Term Note No. 1, Term Note No. 2, Term Note No. 3 and Term Note No. 4, which may also be referred to, collectively, as the "Term Notes".

SECTION 1.54. TERM NOTE NO. 1. "Term Note No. 1" shall mean that certain promissory note given by Borrower to Lender, concurrently herewith, in the original principal amount of \$3,000,000 and bearing interest at the seven (7) year SWAP Rate plus two and three quarters (2.75%) percent.

SECTION 1.55. TERM NOTE NO. 2. "Term Note No. 2" shall mean that certain promissory note given by Borrower to Lender, concurrently herewith, in the original principal amount of \$3,000,000 and bearing interest at the Prime Rate.

SECTION 1.56. TERM NOTE NO. 3. "Term Note No. 3" shall mean one of promissory notes given by Borrower to Lender, concurrently herewith, in the original principal amount of \$1,000,000 and bearing interest at the Prime Rate.

SECTION 1.57. TERM NOTE NO. 4. "Term Note No. 4" shall mean one of promissory notes given by Borrower to Lender, concurrently herewith, in the original principal amount of \$1,000,000 and bearing interest at the Prime Rate.

SECTION 1.58. THIRD PARTY PLEDGOR. "Third Party Pledgor" shall mean The McKinney Family Partnership, L.P., a Washington limited partnership, the partners of which have a financial interest in Borrower.

ARTICLE II LOAN

SECTION 2.1. TERMS. The Loan shall have the following terms:

(a) The Loan evidenced by the Revolving Line of Credit Note shall have the following terms: (i) The maximum aggregate principal amount of credit extended by Lender to Borrower under the Revolving

Line of Credit Note, that will be outstanding at any time, is the Maximum Line Amount. (ii) Once repaid, so long as no Borrower is not in default on its obligations under the Loan Documents, principal may be re-borrowed, and shall include sums advanced and other credit extended by Lender to or for the benefit of Borrower from time to time under this Article II (each a "Revolving Credit Loan") up to the Maximum Line Amount depending upon the availability in the Borrowing Base, the requests of Borrower pursuant to the terms and conditions of Section 2.2, and on such other basis as Lender may reasonably determine. The outstanding principal balance of the Loan may fluctuate from time to time, be reduced by repayments made by Borrower (which may be made without penalty or premium) and be increased by future Revolving Credit Loans, advances and other extensions of credit to or for the benefit of Borrower, and shall be due and payable in full upon the expiration of the Term. For purposes of this Agreement, any determination as to whether there is availability within the Borrowing Base for advances or extensions of credit shall be made by Lender in its sole discretion and is final and binding upon Borrower. (iii) At Closing, Borrower shall execute and deliver to Lender the Revolving Line of Credit Note, evidencing Borrower's unconditional obligation to repay Lender for Revolving Credit Loans, advances, and other extensions of credit made under the Loan, dated the date of this Agreement, payable to the order of Lender in accordance with the terms thereof. The Revolving Line of Credit Note shall bear interest on the outstanding principal balance from the date of each advance there under until repaid, with interest payable monthly in arrears on the first Business Day of each month, at a rate per annum (on the basis of the actual number of days elapsed over a year of 365 days) equal to the Base Rate, provided that after the occurrence and during the continuance of an Event of Default such rate shall be equal to the Default Rate. Each Revolving Credit Loan, advance and other extension of credit shall be deemed evidenced by the Note, which is deemed incorporated into and made a part of this Agreement by this reference. (iv) Subject to the terms and conditions of this Agreement, advances under the Revolving Line of Credit Note shall be made against a borrowing base equal to the following (the "Borrowing Base"): (A) eighty percent (80.00%) of Qualified Accounts due and owing from any Account Debtor; (B) fifty percent (50.00%) of the value of inventory, determined on a "first in-first out" or "FIFO" basis, under GAAP; (C) thirty-five percent (35.00%) of the value, as reasonably determined by Lender, of Borrower's furniture, fixtures and equipment; and (D) eighty percent (80.00%) of the fair market value, as determined by an MAI Appraisal acceptable to Lender, of the real property encumbered by the Senior Deed of Trust and the Junior Deed of Trust, less the amount of all Liens against such property; and LESS (E) the amount reserved for the Term Notes equal to the amount then outstanding under the Term Notes.

(b) The Loan evidenced by the Term Notes shall have the following terms: (i) The maximum aggregate principal amount of credit extended by Lender to Borrower under the Term Notes shall be Eight Million Dollars (\$8,000,000.00); (ii) Borrower may repay up to twenty percent (20%) of the principal balance of each Term Note in any year, without payment of any premium, but any further or additional prepayment of principal shall be subject to the payment of a premium to Lender as provided in each Term Note; (iii) At Closing, Borrower shall execute and deliver to Lender the Term Notes, evidencing Borrower's unconditional obligation to repay Lender for the Term Loan, dated the date of this Agreement, payable to the order of Lender in accordance with the terms thereof. The Term Notes shall bear interest on the outstanding principal balance from the date of

each advance there under until repaid, with interest accruing thereon at the Base Rate, provided that after the occurrence and during the continuance of an Event of Default such rate shall be equal to the Default Rate; (iv) Each Term Note shall have a maturity date of October 31, 2010, and shall provide for monthly payments of principal and interest in an amount sufficient to fully amortize principal and interest over a ten (10) year term (the "Amortization Term"); provided, however, in the event of a change in the Base Rate, the monthly payment shall be adjusted to an amount necessary to fully amortize the remaining principal and interest, at the interest rate as adjusted, in equal monthly payments over the remaining months in the Amortization Term. Advances under the Term Notes shall be limited to an amount no greater than the following (the "Term Loan Advance Value") the sum of the Borrowing Base components (A) through (D) listed in Section 2.1(a)(iv). In the event that the total of the Borrowing Base components (A) through (D) listed in Section 2.1(a)(iv) are not sufficient to support the advance by Lender to Borrower under the Term Notes, then Borrower shall pay to Lender, on demand, the difference between the then outstanding principal balance of the Term Notes and the Term Loan Advance Value. In addition, Lender shall have received the consent, in form and content satisfactory to Lender, of Borrower's landlords to the Leasehold Deed of Trust (the "Landlord Consents").

SECTION 2.2. ADMINISTRATION OF REVOLVING LINE OF CREDIT LOAN. Borrowings under the Revolving Line of Credit Note shall be as follows: (a) A request for a Revolving Credit Loan shall be made, or shall be deemed to be made, in the following manner: (i) Borrower may give Lender notice of its intention to borrow, in which notice Borrower shall specify the amount of the proposed borrowing and the proposed borrowing date, not later than noon Pacific time on the proposed borrowing date by telephone (which telephonic notice shall be promptly confirmed by Borrower in writing); provided, however, that no such request may be made at a time when there exists an Event of Default; and (ii) the becoming due of any amount required to be paid under this Agreement, whether as interest or for any other Obligation, shall be deemed irrevocably to be a request for a Revolving Credit Loan on the day following the due date in the amount required to pay such interest or other Obligation if such was not paid by Borrower on the due date; (b) Borrower hereby irrevocably authorizes Lender to disburse the proceeds of each Revolving Credit Loan requested, or deemed to be requested, as follows: (i) the proceeds of each Revolving Credit Loan requested under subsection 2.2(a)(i) shall be deposited into Borrower's bank account maintained at one of Lender's bank branches, or as may be agreed upon by Borrower and Lender from time to time or elsewhere if pursuant to written direction from Borrower; and (ii) the proceeds of each Revolving Credit Loan deemed to be requested under subsection 2.2(a)(ii) shall be disbursed by Lender by way of direct payment of the relevant interest or other Obligation; (c) All Revolving Credit Loans, advances and other extensions of credit to or for the benefit of Borrower shall constitute one general Obligation of Borrower, and shall be secured by Lender's Lien upon all of the Collateral; (d) Lender shall enter all Revolving Credit Loans as debits to a loan account in the name of Borrower and shall also record in said loan account all payments made by Borrower on any Obligations and all proceeds of Collateral which are indefeasibly paid to Lender, and may record therein, in accordance with customary accounting practice, other debits and credits, including interest and all charges and expenses properly chargeable to Borrower. All payments received by Lender shall be applied first to fees, costs and expenses due and owing under the Loan Documents, then to late charges owing under

the Loan Documents, then to interest due and owing under the Loan Documents, and then to principal; (e) Lender will account to Borrower monthly with a statement of Revolving Credit Loans, charges and payments made pursuant to this Agreement, and such accounting rendered by Lender shall be deemed final, binding and conclusive upon Borrower, absent manifest error, unless Lender is notified by Borrower in writing to the contrary within thirty (30) days of the date each accounting is mailed to Borrower. Such notice shall be deemed an objection to those items specifically objected to in the notice.

SECTION 2.3. FEES. (a) By executing this Agreement, Borrower agrees unconditionally to pay to Lender a commitment fee equal to one quarter of one percent (.250%) of the Maximum Line Amount, or \$8,750.00 (the "Line Commitment Fee") and three eighths of one percent (.3750%) of the amount of the Term Notes, or \$30,000.00 (the "Term Loan Commitment Fee"); (b) Subject to the provisions of this Section 2.3(b), Borrower shall pay to or reimburse Lender for, as the case may be, any and all out-of-pocket fees incurred by Lender in connection with up to one (1) audit per calendar quarter of Borrower's books and records. All amounts to be paid or reimbursed by Borrower hereunder shall be due and payable on the first Business Day of the month following the date of issuance by Lender of a request for payment or reimbursement thereof to Borrower; provided, however, that on the occurrence and during the continuance of any Event of Default under this Agreement or any of the other Loan Documents, the foregoing limitation on the number of audits to be paid for or reimbursed by Borrower shall not apply, and (i) Borrower shall be required to pay or reimburse Lender for any and all fees described in this Section 2.3(b) that are incurred by Lender in connection with any audits conducted by Lender during such period, without regard to the foregoing cap on such fees, and (ii) any audits conducted Lender during such period shall not be applied towards the number of audits for which Borrower is required to pay or reimburse Lender as provided herein. Borrower shall pay to Lender, on demand, any and all customary fees, costs or expenses which Lender or any participant pays to a bank or other similar institution (including, without limitation, any fees paid by Lender to any participant) arising out of or in connection with (i) the forwarding to Borrower or any other Person on behalf of Borrower, by Lender, of proceeds of Revolving Credit Loans made by Lender to Borrower pursuant to this Agreement, and (ii) the depositing for collection, by Lender or any participant, of any check or item of payment received or delivered to Lender or any participant on account of Obligations.

SECTION 2.4. PAYMENTS. Principal payable on account of Revolving Credit Loans shall be payable by Borrower to Lender immediately upon the earliest of (a) the maturity date of the Revolving Line of Credit Note, (b) the occurrence of an Event of Default if the Loan and the maturity of the payment of the Obligations are accelerated, or (c) the termination of this Agreement pursuant to Section 2.7 of this Agreement; provided, however, that if the outstanding principal balance of the Revolving Credit Loans is at any time in excess of the Borrowing Base, Borrower shall, immediately upon demand, repay such excess. Interest accrued on the Revolving Credit Loans shall be due on the earliest of (x) the first Business Day of each month (for the immediately preceding month), computed on the last calendar day of the preceding month, (y) the occurrence of an Event of Default if the Loan and the maturity of the payment of the Obligations are accelerated, or (z) the termination of this Agreement pursuant to Section 2.7. All payments of principal and of

interest on the Loan, all other charges and any other obligations of Borrower under this Agreement, shall be made to Lender in immediately available funds. All payments shall be made without deduction for any set-off, recoupment, counterclaim or defense that Borrower now has or may have in the future.

SECTION 2.5. USE OF PROCEEDS. The proceeds of Lender's advances under the Loan shall be used solely for working capital and for other costs of Borrower arising in the ordinary course of Borrower's business, and for repayment or refinancing of Borrower's existing indebtedness as approved by Lender.

SECTION 2.6. INTEREST RATE LIMITATION. The parties intend to conform strictly to the applicable usury laws in effect from time to time during the term of the Loan. Accordingly, if any transaction contemplated by this Agreement would be usurious under such laws, then notwithstanding any other provision of this Agreement: (a) the aggregate of all interest that is contracted for, charged, or received under this Agreement or under any other Loan Document shall not exceed the maximum amount of interest allowed by applicable law (the "Highest Lawful Rate"), and any excess shall be promptly credited to Borrower by Lender (or, to the extent that such consideration shall have been paid, such excess shall be promptly refunded to Borrower by Lender); (b) neither Borrower nor any other Person now or hereafter liable under this Agreement shall be obligated to pay the amount of such interest to the extent that it is in excess of the Highest Lawful Rate; and (c) the effective rate of interest shall be reduced to the Highest Lawful Rate. All sums paid, or agreed to be paid, to Lender for the use, forbearance, and detention of the debt of Borrower to Lender shall, to the extent permitted by applicable law, be allocated throughout the full term of the Note until payment is made in full so that the actual rate of interest does not exceed the Highest Lawful Rate in effect at any particular time during the full term thereof. If at any time the rate of interest under the Note exceeds the Highest Lawful Rate, the rate of interest to accrue pursuant to this Agreement shall be limited, notwithstanding anything to the contrary in this Agreement, to the Highest Lawful Rate, but any subsequent reductions in the Base Rate shall not reduce the interest to accrue pursuant to this Agreement below the Highest Lawful Rate until the total amount of interest accrued equals the amount of interest that would have accrued if a varying rate per annum equal to the interest rate under the Note had at all times been in effect.

SECTION 2.7. LINE OF CREDIT TERM. (a) Subject to Lender's right to cease making Revolving Credit Loans to Borrower upon or after any Event of Default, and provided Lender has not made demand for immediate payment under the Line of Credit Note, whether or not an Event of Default has occurred, Lender's obligation to make Revolving Credit Loans shall be in effect until October 31, 2004 (the "Line Term"), unless terminated as provided in this Section 2.7, unless thereafter renewed and extended upon the mutual written agreement of the parties; provided, however, Borrower expressly recognizes that Lender has made no agreement or commitment to extend or otherwise renew this Agreement beyond the Term; (b) Notwithstanding anything in this Agreement to the contrary, Lender may terminate this Agreement, and its obligation to make Revolving Credit Loans without notice upon or after the occurrence of an Event of Default, which Event of Default remains uncured for a period of ten (10) days. All undertakings, agreements, covenants, warranties,

and representations of Borrower contained in the Loan Documents shall survive any such termination and Lender shall retain its Liens in the Collateral and all of its rights and remedies under the Loan Documents notwithstanding such termination until Borrower has paid the Obligations to Lender, in full, in immediately available funds.

ARTICLE III COLLATERAL SECTION

3.1. GENERALLY. As security for the payment of all liabilities of Borrower to Lender, including without limitation: (x) indebtedness evidenced under the Term Notes, repayment of Revolving Credit Loans, advances and other extensions of credit, all fees and charges owing by Borrower and all other liabilities and obligations of every kind or nature whatsoever of Borrower to Lender under the Loan Documents, whether now existing or hereafter incurred, joint or several, matured or unmatured, direct or indirect, primary or secondary, related or unrelated, due or to become due, including but not limited to any extensions, modifications, substitutions, increases and renewals thereof, (y) the payment of all amounts advanced by Lender to preserve, protect, defend, and enforce its rights under this Agreement and in the following property in accordance with the terms of this Agreement, and (z) the payment of all expenses incurred by Lender in connection therewith ((x), (y) and (z) collectively, the "Obligations"), Borrower hereby assigns and grants to Lender a continuing first priority Lien (subject to any Permitted Lien described in Section 1.39 that may, by operation of law, have priority over Lender's first priority Lien hereunder) on and security interest in, upon, and to the following property whether now owned or hereafter acquired or arising (the "Collateral"); unless otherwise defined in this Agreement, all terms used in the following subparagraphs shall have the meanings given them in the Uniform Commercial Code as now or hereafter in effect): (a) all of Borrower's Accounts, and all of Borrower's money, contract rights, chattel paper, documents, deposit accounts, securities, investment property and instruments with respect thereto, and all of Borrower's rights, remedies, security, Liens and supporting obligations, in, to and in respect of the foregoing, including, without limitation, rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guaranties or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligation of any Account Debtor, and credit and other insurance; (b) to the extent not listed above, all of Borrower's money, securities, investment property, deposit accounts, instruments and other property and the proceeds thereof that are now or hereafter held or received by, in transit to, in possession of, or under the control of Lender or a bailee or Affiliate of Lender, whether for safekeeping, pledge, custody, transmission, collection or otherwise; (c) to the extent not listed above, all of Borrower's now owned or hereafter acquired deposit accounts into which Accounts or the proceeds of Accounts are deposited; (d) to the extent not listed above, all of Borrower's Inventory, and any now owned or hereafter acquired deposit account to which the proceeds of the sale of Inventory are deposited; (e) all of Borrower's general intangibles (including, but not limited to, payment intangibles) and other property of every kind and description with respect to, evidencing or relating to its Accounts, including, but not limited to, all existing and future customer lists, choses in action, commercial tort claims, other claims, books, records, ledger cards, contracts, licenses, formulae, tax and other types of refunds, returned and unearned insurance premiums, rights and claims under insurance policies,

and computer programs, information, software, records, and data, as the same relates to the Accounts; (f) all of Borrower's other money, securities, investment property, deposit accounts, instruments, documents, supporting obligations, to the extent the same represent the proceeds of Collateral; (g) all of Borrower's goods, furniture, fixtures and equipment, and all replacements of and accessions thereto; (h) Property No. 1 and Property No. 2, and all buildings and improvements situated thereon, and rents, income and profits generated by or produced there from; (i) Borrower's leasehold interests in the properties described in the Leasehold Deed of Trust; and (j) to the extent not listed above as original collateral, the proceeds (including, without limitation, insurance proceeds) and products of all of the foregoing.

SECTION 3.2. LIEN DOCUMENTS. At Closing and thereafter as Lender deems necessary in its sole discretion, Borrower shall execute and deliver to Lender, or have executed and delivered (all in form and substance satisfactory to Lender in its sole discretion) any agreements, documents, instruments, and writings deemed necessary by Lender or as Lender may otherwise request from time to time in its sole discretion to evidence, perfect, or protect Lender's Lien and security interest in the Collateral required under this Agreement, including, without limitation, the Senior Deed of Trust and the Junior Deed of Trust. Borrower hereby authorizes Lender to file one or more financing statements and amendments thereto describing the Collateral and describing any liens held by Lender.

SECTION 3.3. COLLATERAL ADMINISTRATION. (a) Borrower shall keep accurate and complete records of its Accounts and all payments and collections thereon, and its Inventory, and shall submit to Lender on such periodic basis as Lender shall request a sales and collections report for the preceding period, in form satisfactory to Lender. If requested by Lender, after the occurrence of an Event of Default, or in the event Borrower fails to comply with any covenant or condition of the Loan Documents, Borrower shall execute and deliver to Lender formal written assignments of all of its Accounts weekly or daily, which shall include all Accounts that have been created since the date of the last assignment, together with copies of claims, invoices or other information related thereto; (b) Whether or not an Event of Default has occurred, any of Lender's officers, employees or agents shall have the right, at any time or times hereafter, in the name of Lender or any designee of Lender or Borrower, to (i) inspect and count Borrower's Inventory and (ii) verify the validity, amount or any other matter relating to any Accounts by mail, telephone, telegraph or otherwise. Borrower shall cooperate fully with Lender in an effort to facilitate and promptly conclude such verification process; (d) After the occurrence of an Event of Default, or in the event Borrower fails to comply with any covenant or condition of the Loan Documents, Lender shall have the right to notify Account Debtors that Accounts have been assigned to Lender; (e) As between Borrower and Lender, Borrower shall bear the risk of loss on all Collateral, regardless of whether such Collateral is in the possession or control of Borrower, Lender, a bailee or any other Person, provided that Lender agrees to treat any Collateral in its possession in a commercially reasonable manner.

SECTION 3.4. OTHER ACTIONS. In addition to the foregoing, Borrower: (a) shall do and hereby authorizes Lender to do anything further that may be lawfully required by Lender to perfect the security interest in the Collateral given to Lender and to effectuate the intentions and objects of this

Agreement and the Loan Documents, including but not limited to the execution and delivery of financing statements, continuation statements, amendments to financing statements, and any other documents required under this Agreement or the Loan Documents; (b) at Lender's request, shall immediately deliver to Lender all items for which Lender must receive possession to obtain a perfected security interest; (c) shall, on Lender's demand, join with Lender in notifying any third party of Lender's security in the Collateral, including, without limitation, any notice of assignment given to an Account Debtor; and (d) shall do any other act reasonably necessary to perfect Lender's lien on the Collateral.

SECTION 3.5. SEARCHES. Before Closing, and thereafter (as and when determined by Lender in its sole discretion), Lender will perform the searches described in clauses (a), (b), (c) and (d) below against Borrower (the results of which are to be consistent with Borrower's representations and warranties under this Agreement), all at Borrower's expense: (a) Uniform Commercial Code searches with the Secretary of State and local filing offices of the jurisdiction in which the Borrower is organized, confirming that Lender's security interest in the personal property Collateral will be in a first priority position; (b) Preliminary Commitments for a 1992 ALTA Mortgagee's Policy of Title Insurance, insuring the Senior Deed of Trust in a first priority lien position on Property No. 1, and the Junior Deed of Trust in a second priority lien position on Property No. 2, subject to only such exceptions, liens and encumbrances as are acceptable to Lender; (c) judgment, federal tax lien and corporate and partnership tax lien searches, in the jurisdiction searched under clause (a) above; and (c) searches of applicable corporate and related records to confirm the continued existence, organization and good standing of Borrower and the exact legal name under which Borrower is organized.

SECTION 3.6. POWER OF ATTORNEY. Each of the officers of Lender is hereby irrevocably made, constituted and appointed the true and lawful attorney for Borrower (without requiring any of them to act as such) with full power of substitution to do the following: (a) endorse the name of Borrower upon any and all checks, drafts, money orders, and other instruments for the payment of money that are payable to Borrower and constitute collections on Borrower's Accounts; (b) execute in the name of Borrower any financing statements, schedules, assignments, instruments, documents, and statements that Borrower is obligated to give Lender under this Agreement; (c) take any action Borrower is required to take under Section 3.4 above; and (d) do such other and further acts and deeds in the name of Borrower that Lender may deem necessary or desirable to enforce any Account or other Collateral or perfect Lender's security interest or Lien in any Collateral.

SECTION 3.7. RELEASE OF PROPERTY NO. 2. So long as Borrower is not then, and has not been, in default of any of its Obligations under this Agreement or the Loan Documents, and it is in full compliance with the conditions and covenants of this Agreement, including, without limitation, the Affirmative Covenants set forth in Article VI of this Agreement, for six (6) consecutive quarters, as shown in Borrower's audited financial statements, Lender agrees to cause the trustee under the Junior Deed of Trust to reconvey such deed of trust as a lien against Property No. 2.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender, and shall be deemed to represent and warrant on each day on which any Obligations shall be outstanding under this Agreement, that:

SECTION 4.1. SUBSIDIARIES. Except as set forth in Schedule 4.1, Borrower has no subsidiaries.

SECTION 4.2. ORGANIZATION AND GOOD STANDING. Borrower is a corporation, duly organized, validly existing, and in good standing under the laws of its state of formation, is in good standing as a foreign corporation in each jurisdiction in which the character of the properties owned or leased by it therein or the nature of its business makes such qualification necessary, has the corporate power and authority to own its assets and transact the business in which it is engaged, and has obtained all certificates, licenses and qualifications required under all laws, regulations, ordinances, or orders of public authorities necessary for the ownership and operation of all of its properties and transaction of all of its business, all of which are in the name of Borrower. Borrower's state of organization is the state of Washington and its exact legal name is as set forth in the first paragraph of this Agreement.

SECTION 4.3. AUTHORITY. Borrower has full corporate power and authority to enter into, execute, and deliver this Agreement and the Loan Documents and to perform its obligations under this Agreement, to borrow the Loan, to execute and deliver the Revolving Line of Credit Note and the Term Notes, and to incur and perform the obligations provided for in the Loan Documents, all of which have been duly authorized by all necessary corporate action. No consent or approval of shareholders, directors of, or lenders to, Borrower and no consent, approval, filing or registration with any Governmental Authority is required as a condition to the validity of the Loan Documents or the performance by Borrower of its obligations under the Loan Documents.

SECTION 4.4. BINDING AGREEMENT. This Agreement and all other Loan Documents constitute, and the Revolving Line of Credit Note and Term Notes, when issued and delivered pursuant to this Agreement for value received, will constitute, the valid and legally binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms.

SECTION 4.5. LITIGATION. Except as disclosed in Schedule 4.5, there are no actions, suits, proceedings or investigations pending or, to the best of Borrower's knowledge, threatened against Borrower before any court or arbitrator or before or by any Governmental Authority which, in any one case or in the aggregate, if determined adversely to the interests of Borrower, could have a material adverse effect on the business, properties, condition (financial or otherwise) or operations, current or prospective, of Borrower, or upon its ability to perform its obligations under the Loan Documents. Borrower is not in default with respect to any order of any court, arbitrator, or Governmental Authority applicable to Borrower or its properties.

SECTION 4.6. NO CONFLICTS. The execution and delivery by Borrower of this Agreement and the other Loan Documents do not, and the performance of its obligations under the Loan Documents

will not, violate, conflict with, constitute a default under, or result in the creation of a Lien or encumbrance upon the property of Borrower (other than for the benefit of Lender) under: (a) any provision of Borrower's articles of incorporation or bylaws, (b) any provision of any law, rule, or regulation applicable to Borrower, (c) any indenture or other agreement or instrument to which Borrower is a party or by which Borrower or its property is bound, or (d) any judgment, order or decree of any court, arbitration tribunal, or Governmental Authority having jurisdiction over Borrower which is applicable to Borrower.

SECTION 4.7. FINANCIAL CONDITION. The financial statements of Borrower which have been delivered to Lender fairly present the financial condition of Borrower and the results of its operations and changes in financial condition as of the dates and for the periods referred to, and have been prepared in accordance with GAAP. There are no material unrealized or anticipated liabilities, direct or indirect, fixed or contingent, of Borrower as of the dates of such financial statements which are not reflected in such financial statements or in the notes to such financial statements. There has been no adverse change in the business, properties, condition (financial or otherwise) or operations (current or prospective) of Borrower since the date of the last financial statement delivered to Lender. The federal tax identification number and fiscal year of Borrower is 91-0824846.

SECTION 4.8. NO DEFAULT. Borrower is not in default under or with respect to any obligation in any respect which could be materially adverse to its business, operations, property or financial condition, or which could materially adversely affect the ability of Borrower to perform its obligations under the Loan Documents. No Event of Default or event that, with the giving of notice or lapse of time, or both, could become an Event of Default, has occurred and is continuing.

SECTION 4.9. TITLE TO PROPERTIES. Borrower has good, marketable and indefeasible title to, rights in and the power to transfer its properties and assets, including the Collateral, except for the real property encumbered by the Senior Deed of Trust and Junior Deed of Trust, in which Borrower has only a leasehold interest and the fee simple title to which is held by Third Party Pledgor, and the properties and assets reflected in the financial statements described in Section 4.7, subject to no Lien, mortgage, pledge, encumbrance or charge of any kind, other than Permitted Liens. Borrower has not agreed or consented to cause any of its properties or assets whether owned now or hereafter acquired to be subject in the future (upon the happening of a contingency or otherwise) to any Lien, mortgage, pledge, encumbrance or charge of any kind other than Permitted Liens. All of the Collateral, and all other property and assets of Borrower that are necessary to the conduct of Borrower's business, is owned by Borrower or the rights to same are held by Borrower in its name, and none of the Collateral, or any such property or assets are owned or the rights thereto held in the name of any other entity.

SECTION 4.10. TAXES. Borrower has filed, or has obtained extensions for the filing of, all federal, state and other tax returns which are required to be filed, and has paid all taxes shown as due on those returns and all assessments, fees and other amounts due as of the date of this Agreement. All tax liabilities of Borrower are adequately provided for on Borrower's books. No tax liability has been asserted by the Internal Revenue Service or other taxing authority against Borrower for taxes in

excess of those already paid, except for such liabilities as are being contested by Borrower in good faith by appropriate proceedings and in respect of which adequate reserves have been made.

SECTION 4.11. SECURITIES AND BANKING LAWS AND REGULATIONS. (a) The use of the proceeds of the Loan and Borrower's issuance of the Note will not directly or indirectly violate or result in a violation of the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including without limitation Regulations U, T or X of the Board of Governors of the Federal Reserve System. Borrower is not engaged in the business of extending credit for the purpose of the purchasing or carrying "margin stock" within the meaning of those regulations. No part of the proceeds of the Loan under this Agreement will be used to purchase or carry any margin stock or to extend credit to others for such purpose. (b) Borrower is not an investment company within the meaning of the Investment Company Act of 1940, as amended, nor is it, directly or indirectly, controlled by or acting on behalf of any Person which is an investment company within the meaning of that Act.

SECTION 4.12. ERISA. No employee benefit plan (a "Plan") subject to the Employee Retirement Income Security Act of 1974 ("ERISA") and regulations issued pursuant to ERISA that is maintained by Borrower or under which Borrower could have any material liability under ERISA (i) has failed to meet minimum funding standards established in Section 302 of ERISA, (ii) has failed to substantially comply with all applicable requirements of ERISA and of the Internal Revenue Code, including all applicable rulings and regulations thereunder, or (iii) has engaged in or been involved in a prohibited transaction (as defined in ERISA) under ERISA or under the Internal Revenue Code. Neither Borrower nor any member of a Controlled Group that includes Borrower has assumed, or received notice of a claim asserted against Borrower or another member of the Controlled Group for, withdrawal liability (as defined in the Multi-Employer Pension Plan Amendments Act of 1980, as amended) with respect to any multi-employer pension plan. Borrower has timely made when due all contributions with respect to any multi-employer pension plan in which it participates and no event has occurred triggering a material claim against Borrower for withdrawal liability with respect to any multi-employer pension plan in which Borrower participates.

SECTION 4.13. COMPLIANCE WITH LAWS. To the best of Borrower's knowledge, Borrower is not in violation of any statute, rule or regulation of any Governmental Authority (including, without limitation, any statute, rule or regulation relating to employment practices or to environmental, occupational and health standards and controls). Borrower has obtained all licenses, permits, franchises, and other governmental authorizations necessary for the ownership of its properties and the conduct of its business. Borrower is current with all reports and documents required to be filed with any state or federal securities commission or similar Governmental Authority and is in full compliance with all applicable rules and regulations of such commissions.

SECTION 4.14. ENVIRONMENTAL MATTERS. To the best of Borrower's knowledge, other than in the ordinary course of business and in compliance with all applicable laws, rules and regulations governing same, no use, exposure, release, generation, manufacture, storage, treatment, transportation or disposal of Hazardous Material has occurred or is occurring on or from any real

property on which the Collateral is located or which is owned, leased or otherwise occupied by Borrower (the "Premises"), or off the Premises as a result of any action of Borrower, except as described in Schedule 4.14. All Hazardous Material used, treated, stored, transported to or from, generated or handled on the Premises, or off the Premises by Borrower, has been disposed of on or off the Premises by or on behalf of Borrower in a lawful manner. There are no underground storage tanks present on or under the Premises owned or, to Borrower's knowledge after due inquiry, leased by Borrower. No other environmental, public health or safety hazards exist with respect to the Premises.

SECTION 4.15. INTELLECTUAL PROPERTY. Borrower exclusively owns or possesses all the patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, franchises, licenses, and rights with respect to the foregoing necessary for the current and planned future conduct of its business, without any conflict with the rights of others. A list of all such intellectual property (indicating the nature of Borrower's interest), as well as all outstanding franchises and licenses given by or held by Borrower, is attached as Schedule 4.15. Borrower is not in default of any obligation or undertaking with respect to such intellectual property or rights. Except as otherwise disclosed on Schedule 4.15, Borrower is not infringing on any patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, franchises, licenses, any rights with respect to the foregoing, or any other intellectual property rights of others and the Borrower is not aware of any infringement by others of any such rights owned by Borrower.

SECTION 4.16. CAPITALIZATION. The authorized equity securities (whether capital stock, partnership or membership interests or otherwise) of each entity comprising Borrower are as set forth in Schedule 4.16. All issued and outstanding equity securities of the Borrower are duly authorized and validly issued, and nonassessable, and such equity securities were issued in compliance with all applicable state, federal and foreign laws concerning the issuance of securities. The identity of all holders of Borrower's outstanding equity securities and the percentage of such holder's fully diluted ownership of such equity securities are set forth on Schedule 4.16. No shares of the equity securities of Borrower, other than those described above, are issued and outstanding. Except as provided in Schedule 4.16, there are no preemptive or other outstanding rights, options, warrants, conversion rights or similar agreements or understandings for the purchase or acquisition from Borrower of any equity securities of Borrower.

SECTION 4.17. MATERIAL FACTS. To the best of Borrower's knowledge, after reasonable investigation, neither this Agreement nor any other Loan Document nor any other agreement, document, certificate, or statement furnished to Lender by or on behalf of Borrower in connection with the transactions contemplated by this Agreement contains any untrue statement of material fact or omits to state a material fact necessary to make the statements contained in this Agreement or other Loan Document not misleading. There is no fact known to Borrower that adversely affects or in the future may materially adversely affect the business, operations, affairs or financial condition of Borrower, or any of its properties or assets.

SECTION 4.18. INVESTMENTS, GUARANTEES, AND CERTAIN CONTRACTS. Borrower does not own or hold any equity or long-term debt investments in, have any outstanding advances to, have any outstanding guarantees for the obligations of, or have any outstanding borrowings from, any Person, except as described on Schedule 4.18. Borrower is not a party to any contract or agreement, or subject to any corporate restriction, which adversely affects its business.

SECTION 4.19. BUSINESS INTERRUPTIONS. Within five years before the date of this Agreement, neither the business, property or assets, or operations of Borrower has been adversely affected in any way by any casualty, strike, lockout, combination of workers, or order of the United States of America or other Governmental Authority, directed against Borrower. There are no pending or, to Borrower's knowledge, threatened labor disputes, strikes, lockouts, or similar occurrences or grievances against Borrower or its business.

SECTION 4.20. NAMES. Within five years before the date of this Agreement, Borrower has not conducted business under or used any other name (whether corporate or assumed) other than as "Larry's Markets". Borrower is the sole owner of the names "Larry's Markets" and "Catering by Larry's Markets," and any and all business done and invoices issued in such names are Borrower's sales, business, and invoices.

SECTION 4.21 JOINT VENTURES. Borrower is not engaged in any joint venture or partnership with any other Person, except as set forth on Schedule 4.21.

SECTION 4.22 ACCOUNTS. Lender may rely, in determining which Accounts are Qualified Accounts, on all statements and representations made by Borrower with respect to any Account or Accounts. Unless otherwise indicated in writing to Lender, with respect to each Qualified Account, Borrower represents that: (a) the Account is genuine and in all respects what it purports to be, and is not evidenced by a judgment; (b) the Account arises out of a completed, bona fide sale and delivery of goods or rendition of services by Borrower in the ordinary course of its business and in accordance with the terms and conditions of all purchase orders, contracts or other documents relating thereto and forming a part of the contract between Borrower and the Account Debtor; (c) the Account is for a liquidated amount maturing as stated in a duplicate claim or invoice covering such sale of goods or rendition of services, a copy of which has been furnished or is available to Lender; (d) the Account, and Lender's security interest in such Account, is not, and will not (by voluntary act or omission by Borrower), be in the future, subject to any offset, Lien, deduction, defense, dispute, counterclaim or any other adverse condition, and each such Account is absolutely owing to Borrower and is not contingent in any respect or for any reason; (e) there are no facts, events or occurrences which in any way impair the validity or enforceability of any Accounts or tend to reduce the amount payable there under from the face amount of the claim or invoice and statements delivered to Lender with respect thereto; (f) to the best of Borrower's knowledge, (i) the Account Debtor under the Account had the capacity to contract at the time any contract or other document giving rise to the Account was executed and (ii) such Account Debtor is solvent; and (g) to the best of Borrower's knowledge, there are no proceedings or actions which are threatened or pending against any Account

Debtor under the Account which might result in any material adverse change in such Account Debtor's financial condition or the collectibility of such Account.

SECTION 4.23 INVENTORY. Lender may rely on all statements and representations made by Borrower with respect to its Inventory, including, without limitation, statements and representations with respect to the quality, quantity, cost, and components of such Inventory.

SECTION 4.24. SOLVENCY. Both before and after giving effect to the transactions contemplated by the terms and provisions of this Agreement, Borrower (a) owns property whose fair saleable value is greater than the amount required to pay all of Borrower's Indebtedness (including contingent debts), (b) was and is able to pay all of its Indebtedness as such Indebtedness matures, and (c) had and has capital sufficient to carry on its business and transactions and all business and transactions in which it about to engage. For purposes of this Agreement, the term "Indebtedness" means, without duplication (x) all items which in accordance with GAAP would be included in determining total liabilities as shown on the liability side of a balance sheet of such Borrower as of the date on which Indebtedness is to be determined, (y) all obligations of any other person or entity which such Borrower has guaranteed, and (z) the Obligations.

ARTICLE V CLOSING AND CONDITIONS OF LENDING

SECTION 5.1. CONDITIONS PRECEDENT TO AGREEMENT. The obligation of Lender to enter into and perform this Agreement, fund the Term Notes, and make Revolving Credit Loans is subject to the following conditions precedent: (a) Lender shall have received two (2) originals of this Agreement, any Guaranty and all other Loan Documents required to be executed and delivered at or before Closing (other than the Notes, as to which Lender shall receive only one (1) original of each), executed by Borrower; (b) Lender shall have received all searches required by Section 3.5, the results of which shall be satisfactory to Lender; (c) Borrower and any Guarantor shall have complied and shall then be in compliance with all the terms, covenants and conditions of the Loan Documents; (d) there shall have occurred and be continuing no Event of Default and no event that, with the giving of notice or the lapse of time, or both, could constitute such an Event of Default; (e) the representations and warranties contained in Article IV shall be true and correct in all material respects; (f) Lender shall have received two (2) duly executed copies of a certificate of the Secretary of Borrower, together with all attachments thereto, which attachments shall include, at a minimum, (i) copies, certified as true, correct and complete by the secretary of state of the state of incorporation of Borrower, of the certificate of incorporation of Borrower, together with any and all amendments thereto, (ii) copies, certified by the Secretary of Borrower of the Bylaws of Borrower, together with any and all amendments thereto, (iii) the names and signatures of the officers of the Borrower authorized to execute documents on its behalf in connection with this Agreement and the Loan, including but not limited to any Borrowing Base certificates submitted to Lender by Borrower, and (iv) copies of all board of directors resolutions of Borrower and any other action taken by or on behalf of Borrower to authorize the execution, delivery and performance of the Loan Documents and the borrowing of the Loan under the Loan Documents; (g) Lender shall have received certificates of

good standing for Borrower by the state of incorporation of Borrower; (h) At Lender's option, Lender shall have received a written opinion of counsel for Borrower and any Guarantor, dated the date of this Agreement, to be reasonably acceptable to Lender and its counsel, in form and content, opining that Borrower has taken all steps necessary to authorize the execution of any and all documents and instruments evidencing the Loan and to incur the Obligations; (i) Lender shall have received such financial statements, reports, certifications, and other operational information required to be delivered under this Agreement, including, without limitation, an initial borrowing base certificate calculating the Borrowing Base; (j) Lender shall have received the Commitment Fee; (k) Lender shall have received an Inter-Creditor Agreement, in form and content acceptable to Lender, with Associated Grocers, Inc., Supermarket Development Corporation, and Market Finance Company (collectively, "AGI"); and (l) Lender shall have received the Landlord Consents.

SECTION 5.2. CONDITIONS PRECEDENT TO ADVANCES. Notwithstanding any other provision of this Agreement, no Loan proceeds, Revolving Credit Loans, advances or other extensions of credit under the Term Notes or Revolving Line of Credit Note shall be disbursed under this Agreement unless the following conditions have been satisfied or waived immediately before such disbursement:

(a) the representations and warranties on the part of Borrower contained in Article IV of this Agreement shall be true and correct in all material respects at and as of the date of each disbursement or advance, as though made on and as of such date (except to the extent that such representations and warranties expressly relate solely to an earlier date and except that the references in Section 4.7 to financial statements shall be deemed to be a reference to the then most recent annual and interim financial statements of Borrower furnished to Lender pursuant to Section 6.1); (b) no Event of Default or event that, with the giving of notice or the lapse of time, or both, could become an Event of Default shall have occurred and be continuing or would result from the making of the disbursement or advance; and (c) no adverse change in the condition (financial or otherwise), properties, business, or operations of Borrower shall have occurred and be continuing with respect to Borrower or any Guarantor since the date of this Agreement.

SECTION 5.3. CLOSING. Subject to the conditions of this Article V, the Loan shall be made available on the date as is mutually agreed by the parties (the "Closing Date"), at such time as may be mutually agreeable to the parties upon the execution of this Agreement (the "Closing"), and at such place as may be requested by Lender.

SECTION 5.4. WAIVER OF RIGHTS. By completing the Closing under this Agreement, or by making advances under the Loan, Lender does not waive a breach of any representation or warranty of Borrower under this Agreement or under any other Loan Document, and all of Lender's claims and rights resulting from any breach or misrepresentation by Borrower are specifically reserved by Lender.

ARTICLE VI AFFIRMATIVE COVENANTS

Borrower covenants and agrees that for so long as Borrower may borrow under this Agreement and until payment in full of the Note and performance of all other obligations of Borrower under the Loan Documents:

SECTION 6.1. FINANCIAL STATEMENTS AND COLLATERAL REPORTS. Borrower will furnish to Lender (a) a sales and collections report and accounts receivable aging schedule on a form acceptable to Lender within thirty (30) days after the end of each calendar month, which shall include, but not be limited to, a report of accounts receivable, including agings; (b) payables aging schedules within thirty (30) days after the end of each calendar month; (c) a schedule of inventory, including agings of such inventory, by department of Borrower, and including such additional detail as may be reasonably required by Lender; (d) a Borrowing Base Certificate, certified as true and correct by an executive officer of Borrower, within thirty (30) days after the end of each calendar month, certifying the then existing Borrowing Base; (e) a detailed equipment listing, certified as true and correct by an executive officer of Borrower, within ninety (90) days of the end of fiscal year, identifying all of Borrower's furniture, fixtures and equipment, and its respective location; (f) internally prepared monthly financial statements for Borrower, certified by the chief financial officer of Borrower, within thirty (30) days of the end of each calendar month, accompanied by management analysis and actual vs. budget variance reports; (g) to the extent prepared by Borrower, annual projections, profit and loss statements, balance sheets, and cash flow reports (prepared on a monthly basis) for the succeeding fiscal year within thirty (30) days before the end of each of Borrower's fiscal years; (h) annual audited financial statements for Borrower prepared by a firm of independent public accountants satisfactory to Lender, within ninety (90) days after the end of each of Borrower's fiscal years; (i) promptly upon receipt thereof, copies of any reports submitted to Borrower by the independent accountants in connection with any interim audit of the books of Borrower and copies of each management control letter provided to Borrower by independent accountants; (j) as soon as available, copies of all financial statements and notices provided by Borrower to all of its stockholders; (k) upon request by Lender, evidence satisfactory to Lender that all federal and state taxes, including, without limitation payroll taxes, sales taxes, excise taxes and Business and Occupation Taxes, that are due have been paid in full; (l) within ninety (90) days of the end of each calendar year, Borrower shall cause any Guarantor to provide Lender with his current financial statement; (m) within 120 days of filing, annual federal tax returns for Borrower and each Guarantor; (n) within forty five (45) days of the end of each fiscal quarter, a certificate, executed by an executive officer of Borrower, certifying that Borrower is in compliance with all of the terms, conditions and covenants of this Agreement and the Loan Documents; and (o) such additional information, reports or statements as Lender may from time to time request. Annual financial statements shall set forth in comparative form figures for the corresponding periods in the prior fiscal year. All financial statements of Borrower shall include a balance sheet and statement of earnings and shall be prepared in accordance with GAAP.

SECTION 6.2. PAYMENTS UNDER THIS AGREEMENT. Borrower will make all payments of principal, interest, fees, and all other payments required under this Agreement and under the Loan, and under any other agreements with Lender to which Borrower is a party, as and when due.

SECTION 6.3. EXISTENCE, GOOD STANDING, AND COMPLIANCE WITH LAWS. Borrower will do or cause to be done all things necessary (a) to obtain and keep in full force and effect its corporate existence, all rights, licenses, permits, privileges, agreements, and franchises (collectively, "Permits") of Borrower necessary to the ownership of its property or the conduct of its business, and comply with all applicable current and future laws, ordinances, rules, regulations, orders and decrees of any Governmental Authority having or claiming jurisdiction over Borrower; (b) to maintain and protect the properties used or useful in the conduct of the operations of Borrower, in a prudent manner, including without limitation the maintenance at all times of such insurance upon its insurable property and operations as required by law or by Section 6.7; and (c) to maintain all Permits free from restrictions or known conflicts which could materially impair their use or operation or cause the Permits to be provisional, probationary or restricted in any way.

SECTION 6.4. LEGALITY. The making of the Loan and each disbursement or advance under the Loan shall not be subject to any penalty or special tax, shall not be prohibited by any governmental order or regulation applicable to Lender.

SECTION 6.5. LENDER'S SATISFACTION. All instruments and legal documents and proceedings in connection with the transactions contemplated by this Agreement shall be satisfactory in form and substance to Lender and its counsel, and Lender shall have received all documents, including records of corporate proceedings and opinions of counsel, which Lender may have requested in connection therewith.

SECTION 6.6. TAXES AND CHARGES. Borrower will timely file all tax reports and pay and discharge all taxes, assessments and governmental charges or levies imposed upon Borrower, or its income or profits or upon its properties or any part thereof, before the same shall be in default and before the date on which penalties attach thereto, as well as all lawful claims for labor, material, supplies or otherwise which, if unpaid, might become a Lien or charge upon the properties or any part thereof of Borrower; provided, however, that Borrower shall not be required to pay and discharge or cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith and by appropriate proceedings by Borrower, and Borrower shall have set aside on their books adequate reserve therefor; and provided further, that such deferment of payment is permissible only so long as Borrower's title to, and its right to use, the Collateral is not adversely affected thereby and Lender's Lien and priority on the Collateral are not adversely affected, altered or impaired thereby.

SECTION 6.7. INSURANCE. Borrower will carry adequate public liability and professional liability insurance with responsible companies reasonably satisfactory to Lender in such amounts and against such risks as is customarily maintained by similar businesses and by owners of similar property in the same general area. In addition, Borrower shall insure its tangible personal property Collateral against risk of loss in amounts and with companies satisfactory to Lender. Further, Borrower shall

insure Property No. 1, Property No. 2, and its leasehold estates as required by the Senior Deed of Trust, Junior Deed of Trust and Leasehold Deed of Trust.

SECTION 6.8. INFORMATION; VISITS AND INSPECTIONS. Borrower shall furnish to Lender such information as Lender may, from time to time, request with respect to the business or financial affairs of Borrower. Borrower shall also permit any officer, employee, agent or representative of Lender to visit and inspect any of the properties of Borrower, to inspect, audit and make copies of or prepare extracts from Borrower's minute books, books of account and other records, including management letters prepared by Borrower's auditors, of Borrower, and make copies thereof or extracts therefrom, and to discuss the business affairs, finances and accounts of Borrower with, and be advised as to the same by, the officers, employees and independent accountants Borrower, all at such times and as often as Lender may reasonably require.

SECTION 6.9. MAINTENANCE OF PROPERTY. Borrower will maintain, keep and preserve all of its properties in good repair, working order and condition and from time to time make all necessary repairs, renewals, replacements, betterments and improvements thereto, so that the business carried on in connection therewith may be properly conducted at all times.

SECTION 6.10. NOTIFICATION OF EVENTS OF DEFAULT AND ADVERSE DEVELOPMENTS. Borrower promptly will notify Lender upon the occurrence of: (a) any Event of Default; (b) any event that, with the giving of notice or lapse of time, or both, could constitute an Event of Default; (c) any event, development or circumstance whereby the financial statements previously furnished to Lender fail in any material respect to present fairly, in accordance with GAAP, the financial condition and operational results of Borrower; (d) any judicial, administrative or arbitration proceeding pending against Borrower, and any judicial or administrative proceeding known by Borrower to be threatened against it which, if adversely decided, could adversely affect its condition (financial or otherwise) or operations (current or prospective) or which may expose Borrower to uninsured liability of \$100,000.00 or more, in the aggregate (not including any applicable deductibles); (e) any default claimed by any other creditor for Borrowed Money of Borrower other than Lender; and (f) any other development in the business or affairs of Borrower which may be materially adverse; in each case describing the nature of the event or development. In the case of notification under clauses (a) and (b)), Borrower should set forth the action Borrower proposes to take with respect to such event.

SECTION 6.11. EMPLOYEE BENEFIT PLANS. Borrower will (a) comply with the funding requirements of ERISA with respect to the Plans for its employees, or will promptly satisfy any accumulated funding deficiency that arises under Section 302 of ERISA; (b) furnish Lender, promptly after filing the same, with copies of all reports or other statements filed with the United States Department of Labor, the Pension Benefit Guaranty Corporation, or the Internal Revenue Service with respect to all Plans, or which Borrower, or any member of a Controlled Group, may receive from such Governmental Authority with respect to any such Plans, and (c) promptly advise Lender of the occurrence of any Reportable Event or Prohibited Transaction with respect to any such Plan and the action which Borrower proposes to take with respect thereto. Borrower will make all

contributions when due with respect to any multi-employer pension plan in which it participates and will promptly advise Lender: (x) upon its receipt of notice of the assertion against Borrower of a claim for withdrawal liability; (y) upon the occurrence of any event that could trigger the assertion of a claim for withdrawal liability against Borrower; and (z) upon the occurrence of any event that would place Borrower in a Controlled Group as a result of which any member (including Borrower) thereof may be subject to a claim for withdrawal liability, whether liquidated or contingent.

SECTION 6.12. FINANCING STATEMENTS. Borrower shall provide to Lender evidence satisfactory to Lender as to the due recording of termination statements, releases of collateral, and Forms UCC-3, and shall cause to be recorded financing statements on Form UCC-1, in all places necessary to release all existing security interests and other Liens in the Collateral (other than as permitted by this Agreement) and to perfect and protect Lender's first priority Lien and security interest in the Collateral, as Lender may request.

SECTION 6.13. FINANCIAL RECORDS. Borrower shall keep current and accurate books of records and accounts in which full and correct entries will be made of all of its business transactions, and will reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with GAAP.

SECTION 6.14. PLACES OF BUSINESS. Borrower shall give thirty (30) days' prior written notice to Lender of any change in the location of any of its places of business, of the places where its records concerning its Accounts are kept, of the places where the Collateral is kept, or of the establishment of any new, or the discontinuance of any existing, places of business.

SECTION 6.15. BUSINESS CONDUCTED. Borrower shall continue in the business currently conducted by it using its best efforts to maintain its customers and goodwill. Borrower shall not engage, directly or indirectly, in any line of business substantially different from the business conducted by it immediately before the Closing Date, or engage in business or lines of business which are not reasonably related thereto.

SECTION 6.16. EQUITY OWNERSHIP. Until such time as the Obligations have been paid in full, and Lender is under no further obligation with respect to any Revolving Credit Loan, Mark H. McKinney shall own or control more than fifty percent (50.00%) of Borrower's outstanding voting capital stock.

SECTION 6.17. LITIGATION AND OTHER PROCEEDINGS. Borrower shall give prompt notice to Lender of any litigation, arbitration, or other proceeding before any Governmental Authority against or affecting Borrower if the amount claimed is more than \$100,000, in the aggregate.

SECTION 6.18. BANK ACCOUNTS. Borrower shall maintain with Lender its primary bank deposit accounts.

SECTION 6.19. SUBMISSION OF COLLATERAL DOCUMENTS. Borrower will, on demand of Lender, make available to Lender copies of shipping and delivery receipts evidencing the shipment of goods that gave rise to an Account or other proof of the satisfactory performance of services that gave rise to an Account, a copy of the claim or invoice for each Account and copies of any written contract or order from which the Account arose, and a copy of any invoice showing the purchase of Inventory, furniture, Fixtures or Equipment.

SECTION 6.20. OFFICER'S CERTIFICATES. Together with the financial statements delivered pursuant to Section 6.1, and together with the audited annual financial statements delivered pursuant to that Section, Borrower shall deliver to Lender a certificate of its chief financial officer, in form and substance satisfactory to Lender: (a) setting forth the information (including detailed calculations) required to establish whether Borrower is in compliance with the requirements of Articles VI and VII as of the end of the period covered by the financial statements then being furnished; and (b) stating that such officer has reviewed the relevant terms of this Agreement, and has made (or caused to be made under such officer's supervision) a review of the transactions and conditions of Borrower from the beginning of the accounting period covered by the income statements being delivered to the date of the certificate, and that such review has not disclosed the existence during such period of any fact, event or circumstance that constitutes an Event of Default or that is then, or with the passage of time or giving of notice or both, could become an Event of Default, and if any such condition or event existed during such period or now exists, specifying the nature and period of existence thereof and what action Borrower has taken or proposes to take with respect thereto.

SECTION 6.21. MINIMUM EQUITY REQUIREMENT. [REDACTED]

SECTION 6.22. DEBT SERVICE COVERAGE. [REDACTED]

SECTION 6.23. DEBT TO NET WORTH. [REDACTED]

SECTION 6.24. CAPITAL EXPENDITURES. [REDACTED]

SECTION 6.25. MINIMUM "EBITDA".

SECTION 6.26. CAPITAL ADEQUACY AND OTHER ADJUSTMENTS.

SECTION 6.27. TAXES. (a) No Deductions. Any and all payments or reimbursements made under the Loan Documents shall be made free and clear of and without deduction for any and all taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto of any nature whatsoever imposed by any taxing authority, excluding such taxes to the extent imposed on Lender's net income by the jurisdiction in which Lender is organized. If Borrower shall be required by law to deduct any such amounts from or in respect of any sum payable hereunder to Lender, then the sum payable hereunder shall be increased as may be necessary so that, after making all required deductions, Lender receives an amount equal to the sum it would have received had no such deductions been made; (b) Changes in Tax Laws. In the event that, subsequent to the initial advance under the Loan, (1) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (2) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (3) compliance by Lender with any request or directive (whether or not having the force of law) from any governmental authority, agency or instrumentality: (A) does or shall subject Lender to any tax of any kind whatsoever with respect to this Agreement or the other Loan Documents, or change the basis of taxation of payments to Lender of principal, fees, interest or any other amount payable hereunder (except for net income taxes, or franchise taxes imposed in lieu of net income taxes, imposed generally by federal, state or local taxing authorities with respect to interest or commitment fees or other fees payable hereunder or changes in the rate of tax on the overall net income of Lender); or (B) does or shall impose on Lender any other condition or increased cost in connection with the transactions contemplated hereby or participations herein; and the result of any of the foregoing is to increase the cost to Lender of making or continuing the Loan hereunder, as the case may be, or to reduce any amount receivable hereunder, then, in any such

case, Borrower shall promptly pay to Lender, upon its demand, any additional amounts necessary to compensate Lender, on an after-tax basis, for such additional cost or reduced amount receivable, as determined by Lender with respect to this Agreement or the other Loan Documents. If Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower of the event by reason of which Lender has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

SECTION 6.28. FURTHER DOCUMENTATION. In the event any further documentation or information is (a) required by Lender or any prospective transferee in connection with selling, transferring, delivering, assigning, securitizing or granting a participation in the Loan (or transferring the servicing of the Loan), or (b) deemed necessary or appropriate by Lender in the exercise of its rights under the Loan Documents or to correct patent mistakes in the Loan Documents, materials relating to mortgagee's land title insurance or the funding of the Loan, Borrower shall provide, or cause to be provided to Lender, at Borrower's cost and expense, such documentation or information. Borrower shall execute and deliver to Lender and/or the prospective transferee or servicer such documentation, including but not limited to, any amendments, corrections, deletions or additions to the Loan Documents as is required by Lender and/or the prospective transferee; provided, however, that Borrower shall not be required to do anything that has the effect of changing the essential economic terms of the Loan set forth in the Loan Documents.

SECTION 6.29 COMPLIANCE WITH REQUIREMENTS OF PROSPECTIVE TRANSFEREE. Borrower shall do anything necessary to comply with the requirements of any prospective transferee or servicer of the Loan, in order to enable Lender or such transferee to sell, transfer, deliver, assign, securitize or grant a participation in the Loan; provided, however, that Borrower shall not be required to do anything that has the effect of changing the essential economic terms of this Agreement.

SECTION 6.30 LEASEHOLD DEED OF TRUST ON BELLEVUE STORE. Within a reasonable time after closing of the Loan, but in any event no later than March 31, 2004, Borrower shall have obtained the consent of its Landlord, TRF Capital, and its Landlord's lender, to Borrower's granting Lender a first priority Leasehold Deed of Trust encumbering Borrower's leasehold estate in its Bellevue, Washington supermarket, which supermarket is commonly known as 699 120th Ave. N.E., Bellevue, Washington, and legally described in the Shopping Center Lease between Borrower and such Landlord dated June 22, 1989.

ARTICLE VII NEGATIVE COVENANTS

Borrower covenants and agrees that so long as Borrower may borrow under this Agreement and until payment in full of the Note and performance of all other obligations of Borrower under the Loan Documents:

SECTION 7.1. BORROWING. Borrower will not create, incur, assume or suffer to exist any liability for Borrowed Money except: (a) indebtedness to Lender; (b) accounts payable to trade creditors and current operating expenses (other than for borrowed money) which are not aged more than sixty (60) days from the billing date or more than thirty (30) days from the due date, in each case incurred in the ordinary course of business and paid within such time period, unless the same are being contested in good faith and by appropriate and lawful proceedings, and Borrower shall have set aside such reserves, if any, with respect thereto as are required by GAAP and deemed adequate by Borrower and its independent accountants; (c) borrowings incurred in the ordinary course of its business and not exceeding new Borrowed Money of \$250,000.00 annually; and (d) indebtedness secured by Permitted Liens. Borrower will not make prepayments on any existing or future indebtedness for other Loan Documents. If Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower of the event by reason of which Lender has become so entitled. A certificate as to any additional amounts payable pursuant to the foregoing sentence submitted by Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

SECTION 7.2. CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those in which Borrower is presently engaged, or (b) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change ownership, dissolve or transfer or sell property out of the ordinary course of business.

SECTION 7.3. LOANS, ACQUISITIONS AND GUARANTIES. (a) Loan, invest in or advance money or assets, (b) purchase, create or acquire any interest in any other enterprise or entity, or (c) incur any obligation as surety or guarantor, all other than in the ordinary course of business.

SECTION 7.4. INDEBTEDNESS. Borrower shall not permit any mortgage, security interest, lien or other encumbrance of any kind against the real property acting as security for the Loan other than those contemplated or permitted under the Loan Documents.

SECTION 7.5. SUBSIDIARIES. Borrower will not form any subsidiary, or make any investment in or any loan in the nature of an investment to, any other Person.

SECTION 7.6. COMPLIANCE WITH ERISA. Borrower will not permit with respect to any Plan covered by Title IV of ERISA any Prohibited Transaction or any Reportable Event.

SECTION 7.7. TRANSACTIONS WITH AFFILIATES. Borrower will not enter into any transaction, including without limitation the purchase, sale, or exchange of property, or the loaning or giving of funds to any Affiliate or subsidiary, except in the ordinary course of business and pursuant to the reasonable requirements of Borrower's business and upon terms substantially the same and no less favorable to Borrower as it would obtain in a comparable arm's length transaction with any Person not an Affiliate or subsidiary, and so long as the transaction is not otherwise prohibited under this Agreement. For purposes of the foregoing, Lender consents to the transactions described on Schedule 7.7.

SECTION 7.8. CHANGE IN CAPITAL STRUCTURE. Without Lender's prior written consent, (a) there shall occur no change in the legal or beneficial ownership of the capital stock, or in the capital structure, of Borrower, from that set forth on Schedule 4.16, (b) there shall occur no pledge, assignment or hypothecation of or Lien or encumbrance on any of the legal or beneficial equity interests in the Borrower or any Guarantor, except as noted in Schedule 7.8 and (c) Borrower shall not consent to or acknowledge any of the transactions described in the foregoing subparts (a) and (b) of this sentence.

SECTION 7.9. CONTRACTS AND AGREEMENTS. Borrower will not become or be a party to any contract or agreement which would breach this Agreement, or breach any other instrument, agreement, or document to which Borrower is a party or by which it is or may be bound.

SECTION 7.10. MARGIN STOCK. Borrower will not carry or purchase any "margin security" within the meaning of Regulations U, T or X of the Board of Governors of the Federal Reserve System.

SECTION 7.11. TRUTH OF STATEMENTS AND CERTIFICATES. Borrower will not furnish to Lender any certificate or other document that contains any untrue statement of a material fact or that omits to state a material fact necessary to make it not misleading in light of the circumstances under which it was furnished.

SECTION 7.12. CERTAIN FUNDAMENTAL CHANGES. Borrower will not, without providing Lender with thirty (30) days' prior written notice, change the state of its formation or change its legal name.

ARTICLE VIII EVENTS OF DEFAULT

SECTION 8.1. EVENTS OF DEFAULT. Each of the following (individually, an "Event of Default" and collectively, the "Events of Default") shall constitute an event of default under this Agreement: (a) a default in the payment of any principal of, or interest upon, the Notes when due and payable, whether at maturity or otherwise, which default or breach, as applicable, shall have continued unremedied for a period of ten (10) days; (b) a default in the payment of any other charges, fees, or other monetary obligations owing to Lender arising out of or incurred in connection with this Agreement when such payment is due and payable, which default shall have continued unremedied for a period of ten (10) days after written notice of the default from Lender to Borrower; (c) a default in the due observance or performance by Borrower or any guarantor of the Obligations of any other term, covenant or agreement contained in any of the Loan Documents, which default shall have continued unremedied for a period of ten (10) days after written notice of the default from Lender to Borrower; (d) a default by Third Party Pledgor on its obligations under the Senior Deed of Trust and Junior Deed of Trust; (e) any representation or warranty made by Borrower in this Agreement or in any of the other Loan Documents, any financial statement, or any statement or representation made in any other certificate, report or opinion delivered in connection with this Agreement or the other

Loan Documents proves to have been incorrect or misleading in any material respect when made; (f) any obligation of Borrower (other than its Obligations under this Agreement) for the payment of Borrowed Money having an aggregate principal amount in excess of \$100,000 is not paid when due or within any applicable grace period, or such obligation becomes or is declared to be due and payable before the expressed maturity of the obligation, or there shall have occurred an event that, with the giving of notice or lapse of time, or both, would cause any such obligation to become, or allow any such obligation to be declared to be, due and payable; (f) Borrower makes an assignment for the benefit of creditors, offers a composition or extension to creditors, or makes or sends notice of an intended bulk sale of any business or assets now or hereafter conducted by Borrower; (g) Borrower or any Guarantor (i) files a petition in bankruptcy, (ii) is adjudicated insolvent or bankrupt, petitions or applies to any tribunal for any receiver of or any trustee for itself or any substantial part of its property, (iii) commences any proceeding relating to itself under any reorganization, arrangement, readjustment or debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or any such proceeding is commenced against Borrower or any Guarantor and such proceeding remains undismissed for a period of sixty (60) days, (iv) by any act indicates its consent to, approval of, or acquiescence in, any such proceeding or the appointment of any receiver of or any trustee for a Borrower or Guarantor or any substantial part of its property, or suffers any such receivership or trusteeship to continue undischarged for a period of sixty (60) days, or (v) admits in writing its inability to pay its debts as they become due; (h) one or more (i) final judgments against Borrower or attachments against its property shall be rendered by a court, arbitrator, arbitration panel, mediator or any individual(s) or entity with the authority to issue binding judgments against Borrower or (ii) final settlements by or on behalf of Borrower of any pending litigation, arbitration or other claim or otherwise disputed matter, in any event not fully and unconditionally covered by insurance, shall remain unpaid, unstayed on appeal, undischarged, unbonded and undismissed for a period of ten (10) days; (i) a Reportable Event that might constitute grounds for termination of any Plan covered by Title IV of ERISA or for the appointment by the appropriate United States District Court of a trustee to administer any such Plan or for the entry of a Lien or encumbrance to secure any deficiency, has occurred and is continuing thirty (30) days after its occurrence, or any such Plan is terminated, or a trustee is appointed by an appropriate United States District Court to administer any such Plan, or the Pension Benefit Guaranty Corporation institutes proceedings to terminate any such Plan or to appoint a trustee to administer any such Plan, or a Lien or encumbrance is entered to secure any deficiency or claim; (j) Mark H. McKinney ceases to own or control less than 50.01% of the voting equity interests in Borrower; (k) upon the issuance of any execution or distraint process against Borrower or any of its property or assets in excess of \$100,000 individually or in the aggregate; (l) Borrower ceases any material portion of its business operations as currently conducted; (m) any indication or evidence is received by Lender that Borrower may have directly or indirectly been engaged in any type of activity which, in Lender's discretion, may result in the forfeiture of any property of Borrower to any Governmental Authority, which default shall have continued unremedied for a period of ten (10) days after written notice from Lender; (n) Borrower or any Affiliate of Borrower, shall challenge or contest, in any action, suit or proceeding, the validity or enforceability of this Agreement, or any of the other Loan Documents, the legality or the enforceability of any of the Obligations or the perfection or priority of any Lien granted to Lender; (o) Borrower shall be criminally indicted or convicted under any law that could

lead to a forfeiture of any Collateral; (p) there shall occur a material adverse change in the financial condition or business prospects of Borrower, or if Lender in good faith deems itself insecure as a result of acts or events bearing upon the financial condition of Borrower or the repayment of the Note, which default shall have continued unremedied for a period of ten (10) days after written notice from Lender; or (q) a default or event of default occurs under any of the Loan Documents; (r) an Event of Default occurs under any Guaranty. Notwithstanding the foregoing, Borrower's failure to comply with any same provision of this Agreement two (2) times in any twelve (12) month period shall effect an immediate Event of Default (without the expiration of any applicable cure period) with respect to all subsequent failures by Borrower to comply with such provision of this Agreement, and Lender thereupon may exercise any remedy set forth in this Article VIII without affording Borrower any opportunity to cure such Event of Default.

SECTION 8.2. ACCELERATION. Upon the occurrence of any of the foregoing Events of Default, the Obligations under the Notes, and each of them, shall become and be immediately due and payable upon declaration to that effect delivered by Lender to Borrower; provided that, upon the happening of any event specified in Section 8.1(g), all Obligations, shall be immediately due and payable without declaration or other notice to Borrower.

SECTION 8.3. REMEDIES. (a) Upon the occurrence of and during the continuance of an Event of Default under this Agreement or the other Loan Documents, Lender, in addition to all other rights, options, and remedies granted to Lender under this Agreement or at law or in equity, may take any of the following steps (which list is given by way of example and is not intended to be an exhaustive list of all such rights and remedies): (i) terminate the Loan, whereupon all outstanding Obligations shall be immediately due and payable; (ii) exercise all other rights granted to it under this Agreement and all rights under the UCC in effect in the applicable jurisdiction(s) and under any other applicable law; and (iii) exercise all rights and remedies under all Loan Documents now or hereafter in effect, including but not limited to: (A) the right to take possession of, send notices regarding, and collect directly the Collateral, with or without judicial process; (B) the right to (by its own means or with judicial assistance) enter any of Borrower's premises and take possession of the Collateral, or render it unusable, or dispose of the Collateral on such premises in compliance with subsection (C) below, without any liability for rent, storage, utilities, or other sums, and Borrower shall not resist or interfere with such action; (C) the right to require Borrower at Borrower's expense to assemble all or any part of the Collateral and make it available to Lender at any place designated by Lender; and (D) the right to enforce Borrower's rights against Account Debtors and other obligors, including, but not limited to, the right to collect Accounts directly in Lender's own name and to charge the collection costs and expenses, including reasonable attorneys' fees, to Borrower; (b) Borrower agrees that a notice received by it at least five (5) days before the time of any intended public sale, or the time after which any private sale or other disposition of the Collateral is to be made, shall be deemed to be reasonable notice of such sale or other disposition. If permitted by applicable law, any perishable Collateral which threatens to speedily decline in value or which is sold on a recognized market may be sold immediately by Lender without prior notice to Borrower. At any sale or disposition of Collateral, Lender may (to the extent permitted by applicable law) purchase all or any part of the Collateral, free from any right of redemption by Borrower, which right is hereby waived and

released. Borrower covenants and agrees not to interfere with or impose any obstacle to Lender's exercise of its rights and remedies with respect to the Collateral. Lender shall have no obligation to clean-up or otherwise prepare the Collateral for sale. Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral. Lender may sell the Collateral without giving any warranties as to the Collateral. Lender may specifically disclaim any warranties of title or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral. If Lender sells any of the Collateral upon credit, Borrower will be credited only with payments actually made by the purchaser, received by Lender and applied to the indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, Lender may resell the Collateral and Borrower shall be credited with the proceeds of the sale. (c) Lender shall have no obligation to marshal any assets in favor of Borrower, or against or in payment of the Note, any of the other Obligations or any other obligation owed to Lender by Borrower or any other person.

SECTION 8.4. NATURE OF REMEDIES. Lender shall have the right to proceed against all or any portion of the Collateral to satisfy in any order the liabilities and Obligations of Borrower to Lender under this Agreement or any other Loan Documents evidencing financings provided to Borrower. All rights and remedies granted Lender under this Agreement and under any agreement referred to in this Agreement, or otherwise available at law or in equity, shall be deemed concurrent and cumulative, and not alternative remedies, and Lender may proceed with any number of remedies at the same time until the Loan, and all other existing and future liabilities and Obligations of Borrower to Lender, are satisfied in full. The exercise of any one right or remedy shall not be deemed a waiver or release of any other right or remedy, and Lender, upon the occurrence of an Event of Default, may proceed against Borrower, and/or the Collateral, at any time, under any agreement, with any available remedy and in any order. All sums received from Borrower and/or the Collateral in respect of the Loan may be applied by Lender to the any other liabilities and Obligations of Borrower under the Loan Documents in such order of application and in such amounts as Lender shall deem appropriate in its sole and absolute discretion. Borrower waives any right it may have to require Lender to pursue any Person for any of the Obligations.

SECTION 8.5. APPRAISAL. Upon the occurrence of an event of default under the Loan Documents, at Lender's request, Lender may obtain, at Borrower's cost, an appraisal of the real property acting as security for the Loan. The appraisal shall be ordered by Lender and shall comply fully with the requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, 12 U.S.C. 3310, *et seq*, as amended ("FIRREA"). The appraisal shall be by an appraiser and in a form acceptable to Lender.

ARTICLE IX MISCELLANEOUS

SECTION 9.1. EXPENSES AND TAXES. (a) Borrower agrees to pay, whether or not the Closing occurs, a reasonable documentation preparation fee, together with reasonable legal, audit and

appraisal fees and all other reasonable charges and expenses (including actual out-of-pocket expenses) incurred by Lender in connection with the negotiation, preparation, legal review and execution of each of the Loan Documents, including but not limited to real property title report search charges, UCC and judgment lien searches and recording fees, UCC filings and fees for post-Closing UCC and judgment lien searches. In addition, Borrower shall pay all such fees associated with any amendments, modifications and terminations to the Loan Documents following Closing, except those amendments necessitated by the syndication, participation or other transfer of the Loan by Lender. If Lender uses in-house counsel for any of these purposes, Borrower further agrees that its Obligations under the Loan Documents include reasonable charges for such work commensurate with the fees that would otherwise be charged by outside legal counsel selected by Lender for the work performed. (b) Borrower also agrees to pay all out-of-pocket charges and expenses incurred by Lender (including the fees and expenses of Lender's counsel) in connection with the enforcement, protection or preservation of any right or claim of Lender, the termination of this Agreement, the termination of any Liens of Lender on the Collateral, or the collection of any amounts due under the Loan Documents. If Lender uses in-house counsel for any of these purposes (i.e., for any task in connection with the enforcement, protection or preservation of any right or claim of Lender and the collection of any amounts due under its Loan Documents), Borrower further agrees that its Obligations under the Loan Documents include reasonable charges for such work commensurate with the fees that would otherwise be charged by outside legal counsel selected by Lender for the work performed. (c) Borrower shall pay all taxes (other than taxes based upon or measured by Lender's income or revenues or any personal property tax), if any, in connection with the issuance of the Note and the recording of the security documents therefor. The obligations of Borrower under this clause (c) shall survive the payment of Borrower's indebtedness under this Agreement and the termination of this Agreement.

SECTION 9.2. ENTIRE AGREEMENT; AMENDMENTS. This Agreement and the other Loan Documents constitute the full and entire understanding and agreement among the parties with regard to their subject matter and supersede all prior written or oral agreements, understandings, representations and warranties made with respect thereto. No amendment, supplement or modification of this Agreement nor any waiver of any provision thereof shall be made except in writing executed by the party against whom enforcement is sought.

SECTION 9.3. NO WAIVER; CUMULATIVE RIGHTS. No waiver by any party to this Agreement of any one or more defaults by the other party in the performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature. No failure or delay on the part of any party in exercising any right, power or remedy under this Agreement, nor acceptance of partial performance or partial payment, shall operate as a waiver of such right, power or remedy nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise of such right, power or remedy or the exercise of any other right, power or remedy. The remedies provided for in this Agreement are cumulative and are not exclusive of any remedies that may be available to any party to this Agreement at law, in equity or otherwise.

SECTION 9.4. NOTICES. Any notice or other communication required or permitted under this Agreement shall be in writing and personally delivered, mailed by registered or certified mail (return receipt requested and postage prepaid), sent by telecopier (with a confirming copy sent by regular mail), or sent by prepaid overnight courier service, and addressed to the relevant party at its address set forth below, or at such other address as such party may, by written notice, designate as its address for purposes of notice under this Agreement:

If to Lender: Sean Morreale
Corporate Banking
Sterling Savings Bank
Two Union Square
601 Union Street
Seattle, WA 98101
Fax: (206) 625-9099

Copy to: Michael D. Currin, Esq.
Witherspoon, Kelley, Davenport & Toole, P.S.
W. 422 Riverside Ave., Suite 1100
Spokane, WA 99201
Fax: (509) 458-2717

If to Borrower: Mark H. McKinney, CEO
Larry's Markets, Inc.
Regular Mail: 11410 124th St PMB 626
Kirkland, WA 98034
Personal 12321 120th PINE
Delivery: Kirkland, WA 98034
Fax: (425) 820-7610

Copy to: Todd W. Wilson, Esq.
Scarff Law Firm, PLLC
3035 Island Crest Way
Mercer Island, WA 98040-2919
Fax: (206) 686-3030

If to Third Party
Pledgor: The McKinney Family Partnership, L.P.
11410 124th St PMB 626
Kirkland, WA 98034
Personal 12321 120th PINE
Delivery: Kirkland, WA 98034
Fax: (425) 820-7610

SECTION 9.5. SEVERABILITY. If any term, covenant or condition of this Agreement, or the application of such term, covenant or condition to any party or circumstance shall be found by a court of competent jurisdiction to be, to any extent, invalid or unenforceable, the remainder of this Agreement and the application of such term, covenant, or condition to parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term, covenant or condition shall be valid and enforced to the fullest extent permitted by law. Upon determination that any such term is invalid, illegal or unenforceable, Lender may, but is not obligated to, advance funds to Borrower under this Agreement until the parties to this Agreement amend this Agreement so as to effect the original intent of the parties as closely as possible in a valid and enforceable manner.

SECTION 9.6. SUCCESSORS AND ASSIGNS. This Agreement, the Note, and the other Loan Documents shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns and shall bind all Persons who become bound as a debtor to this Agreement. Notwithstanding the foregoing, Borrower may not assign any of its rights or delegate any of its obligations under this Agreement without the prior written consent of Lender, which may be withheld in its sole discretion. Lender may sell, assign, transfer, or participate any or all of its rights or obligations under this Agreement without notice to or consent of Borrower.

SECTION 9.7. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute but one instrument.

SECTION 9.8. INTERPRETATION. No provision of this Agreement or any other Loan Document shall be interpreted or construed against any party because that party or its legal representative drafted that provision. The titles of the paragraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement. Any pronoun used in this Agreement shall be deemed to include singular and plural and masculine, feminine and neuter gender as the case may be. The words "herein," "hereof," and "hereunder" shall be deemed to refer to this entire Agreement, except as the context otherwise requires.

SECTION 9.9. SURVIVAL OF TERMS. All covenants, agreements, representations and warranties made in this Agreement, any other Loan Document, and in any certificates and other instruments delivered in connection with this Agreement shall be considered to have been relied upon by Lender and shall survive the making by Lender of the Loans contemplated by this Agreement and the execution and delivery to Lender of the Note, and shall continue in full force and effect until all liabilities and obligations of Borrower to Lender are satisfied in full.

SECTION 9.10. RELEASE OF LENDER. For and in consideration of the Loan and each advance or other financial accommodation hereunder, Borrower, voluntarily, knowingly, unconditionally, and irrevocably, with specific and express intent, for and on behalf of itself and its agents, attorneys, heirs, successors, and assigns (collectively the "Releasing Parties") does hereby fully and completely release, acquit and forever discharge Lender, and its successors, assigns, heirs, affiliates, subsidiaries,

parent companies, principals, directors, officers, employees, shareholders and agents (hereinafter called the "Lender Parties"), and any other person, firm, business, corporation, insurer, or association which may be responsible or liable for the acts or omissions of the Lender Parties taken or omitted in good faith, or who may be liable for the injury or damage resulting therefrom (collectively the "Released Parties"), of and from any and all actions, causes of action, suits, debts, disputes, damages, claims, obligations, liabilities, costs, expenses and demands of any kind whatsoever, at law or in equity, whether matured or unmatured, liquidated or unliquidated, vested or contingent, choate or inchoate, known or unknown that the Releasing Parties (or any of them) have or may have, against the Released Parties or any of them (whether directly or indirectly), other than acts or omissions arising from the negligence or willful misconduct of Lender. Borrower acknowledges that the foregoing release is a material inducement to Lender's decision to extend to Borrower the financial accommodations hereunder and has been relied upon by Lender in agreeing to make the Loan and in making each advance of Loan proceeds hereunder.

SECTION 9.11. TIME. Whenever Borrower is required to make any payment or perform any act on a Saturday, Sunday, or a legal holiday under the laws of the State of Washington (or other jurisdiction where Borrower is required to make the payment or perform the act), the payment may be made or the act performed on the next Business Day. Time is of the essence in Borrower's performance under this Agreement and all other Loan Documents.

SECTION 9.12. THIRD PARTIES. No rights are intended to be created under this Agreement or under any other Loan Document for the benefit of any third party donee, creditor, or incidental beneficiary of Borrower.

SECTION 9.13. DISCHARGE OF BORROWER'S OBLIGATIONS. Lender, in its sole discretion, shall have the right at any time, and from time to time, without prior notice to Borrower if Borrower fails to do so, to: (a) obtain insurance covering any of the Collateral as required under this Agreement; (b) pay for the performance of any of Borrower's obligations under this Agreement; (c) discharge taxes, Liens, security interests, or other encumbrances at any time levied or placed on any of the Collateral in violation of this Agreement unless Borrower is in good faith with due diligence by appropriate proceedings contesting those items; and (d) pay for the maintenance and preservation of any of the Collateral. Expenses and advances shall be added to the Loan, until reimbursed to Lender and shall be secured by the Collateral. Any such payments and advances by Lender shall not be construed as a waiver by Lender of an Event of Default.

SECTION 9.14. INFORMATION TO PARTICIPANTS. Lender may divulge to any participant it may obtain in the Loan, or any portion of the Loan, all information, and furnish to such participant copies of reports, financial statements, certificates, and documents obtained under any provision of this Agreement or any other Loan Document; provided that Lender shall require that any such participant execute a confidentiality agreement with respect to such information.

SECTION 9.15. INDEMNITY. Borrower hereby indemnifies and agrees to defend (with counsel acceptable to Lender) and hold harmless Lender, its partners, officers, agents and employees

(collectively, "Indemnitee") from and against any liability, loss, cost, expense (including reasonable attorneys' fees and expenses for both in-house and outside counsel), claim, damage, suit, action or proceeding ever suffered or incurred by Lender or in which Lender may ever be or become involved (whether as a party, witness or otherwise) (a) arising from Borrower's failure to observe, perform or discharge any of its covenants, obligations, agreements or duties under this Agreement, (b) arising from the breach of any of the representations or warranties contained in Article IV of this Agreement, (c) by reason of this Agreement, the other Loan Documents or the transactions contemplated hereby or thereby, or (d) relating to claims of any Person with respect to the Collateral other than, in each case, to the extent arising from the gross negligence or willful misconduct of Indemnitee. Notwithstanding any contrary provision in this Agreement, the obligation of Borrower under this Section 9.16 shall survive the payment in full of the Obligations and the termination of this Agreement.

SECTION 9.16. LENDER APPROVALS. Unless expressly provided herein to the contrary, any approval, consent, waiver or satisfaction of Lender with respect to any matter that is the subject of this Agreement or the other Loan Documents may be granted or withheld by Lender in its sole and absolute discretion.

SECTION 9.17. FURTHER ASSURANCES. Borrower hereby agrees that at any time and from time to time, at the expense of Borrower, Borrower will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or that Lender may reasonably request, in order to perfect and protect any security interest granted or purported to be granted hereby, or to enable Lender or any of its agents to exercise and enforce its rights and remedies under this Agreement with respect to any portion of such collateral.

SECTION 9.18. COSTS AND EXPENSES. Borrower agrees to pay upon demand all of Lender's reasonable out-of-pocket expenses, including reasonable attorneys' fees, incurred in connection with the enforcement and collection of this Agreement, including but not limited to reasonable attorneys' fees and costs incurred by Lender in connection with any bankruptcy proceeds, any bankruptcy motions for relief from stay, bankruptcy proofs of claim, and support of or opposition to any plan of reorganization proposed in any such bankruptcy proceeding. Lender may pay someone else to help collect the Loan or Loans and to enforce this Agreement, and Borrower will pay that amount. This includes, subject to any limits under applicable law, Lender's reasonable attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including reasonable attorneys' fees for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also will pay any court costs, in addition to all other sums provided by law.

SECTION 9.19. ARBITRATION. Lender and Borrower agree that, except for Lender's exercise of its remedies to sue upon the note and foreclose upon the collateral, by reason of Borrower's failure to pay as required under any Loan or the Obligations, all other disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Agreement or otherwise, including without limitation contract and tort disputes, shall be arbitrated pursuant to the Rules of the

American Arbitration Association, upon request of either party. No act to take or dispose of any Collateral shall constitute a waiver of this arbitration agreement or be prohibited by this arbitration agreement, including, without limitation, obtaining injunctive relief or a temporary restraining order; invoking a power of sale under any deed of trust or mortgage; obtaining a writ of attachment or imposition of a receiver; or exercising any rights relating to personal property, including taking or disposing of such property with or without judicial process pursuant to Article 9 of the Uniform Commercial Code. Any disputes, claims, or controversies concerning the lawfulness or reasonableness of any act, or exercise of any right, concerning any collateral for any Loan or Loans, including any claim to rescind, reform, or otherwise modify any agreement relating to the collateral, shall also be arbitrated, provided however that no arbitrator shall have the right or the power to enjoin or restrain any act of any party. Judgment upon any award rendered by any arbitrator may be entered in any court having jurisdiction. Nothing in this Agreement shall preclude any party from seeking equitable relief from a court of competent jurisdiction. The statute of limitations, estoppel, waiver, laches, and similar doctrines which would otherwise be applicable in an action brought by a party shall be applicable in any arbitration proceeding, and the commencement of an arbitration proceeding shall be deemed the commencement of an action for these purposes. The Federal Arbitration Act shall apply to the construction, interpretation, and enforcement of this arbitration provision. The prevailing party in any dispute brought under this Section 9.19 shall be entitled to recover from the other party its costs and reasonable attorneys fees.

SECTION 9.20. CHOICE OF LAW; CONSENT TO JURISDICTION. EXCEPT TO THE EXTENT THAT THE UCC PROVIDES FOR THE APPLICATION OF THE LAW OF THE BORROWER'S STATE OF ORGANIZATION, THIS AGREEMENT AND THE NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON, WITHOUT REGARD TO ANY OTHERWISE APPLICABLE PRINCIPLES OF CONFLICTS OF LAWS. IF ANY ACTION ARISING OUT OF THIS AGREEMENT OR THE NOTE IS COMMENCED BY LENDER IN THE STATE COURTS OF THE STATE OF WASHINGTON OR IN THE U.S. DISTRICT COURT FOR THE DISTRICT OF WASHINGTON, BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUCH ACTION AND TO THE LAYING OF VENUE IN THE STATE OF WASHINGTON. ANY PROCESS IN ANY SUCH ACTION SHALL BE DULY SERVED IF MAILED BY REGISTERED MAIL, POSTAGE PREPAID, TO BORROWER AT ITS ADDRESS DESCRIBED IN SECTION 9.4. OR IF SERVED BY ANY OTHER MEANS PERMITTED BY APPLICABLE LAW.

SECTION 9.21. WAIVER OF RIGHT TO JURY TRIAL. BORROWER, AND EACH OF THEM, HEREBY EXPRESSLY WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO JUDICIALLY ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT OR THE LOAN INSTRUMENTS OR UNDER ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED (OR WHICH MAY IN THE FUTURE BE DELIVERED) IN CONNECTION HEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR THE LOAN INSTRUMENTS. BORROWER AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

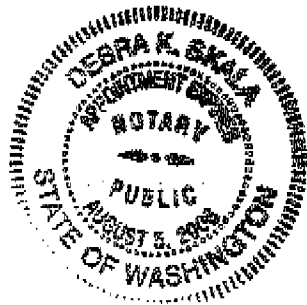
BORROWER ACKNOWLEDGES HAVING READ ALL OF THE PROVISIONS OF THIS AGREEMENT, AND BORROWER AGREES TO ITS TERMS AND EACH HAS BEEN ADVISED OF ITS RIGHT TO CONSULT LEGAL COUNSEL REGARDING THIS AND ALL OTHER LOAN INSTRUMENTS.

ORAL COMMITMENTS OR AGREEMENTS TO LOAN MONEY, EXTEND CREDIT, OR FORBEAR FROM COLLECTION OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

IN WITNESS WHEREOF, intending to be legally bound, the parties have caused this Loan and Security Agreement to be executed as of the date first written above.

LARRY'S MARKETS, INC.,
a Washington corporation

By: [Signature]
Mark H. McKinney, Chief Executive Officer



STERLING SAVINGS BANK, a Washington
Chartered savings bank,

By: [Signature]
Its: Vice President

Consented to:

THE MCKINNEY FAMILY PARTNERSHIP, L.P.,
A Washington limited partnership,

By: [Signature]
Its: G.P.

SCHEDULE 1.38 - PERMITTED LIENS

LOAN AND SECURITY AGREEMENT - 42

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TRADEMARK
REEL: 002959 FRAME: 0497

LOAN AND SECURITY AGREEMENT - 43

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TRADEMARK
REEL: 002959 FRAME: 0498

SCHEDULE 4.1 – SUBSIDIARIES

None

SCHEDULE 4.5 – LITIGATION

None

SCHEDULE 4.14 – ENVIRONMENTAL MATTERS

SCHEDULE 4.15 - INTELLECTUAL PROPERTY

List of intellectual property:

<u>MARK</u>	<u>OWNER</u>	<u>FILING DATE</u>	<u>SERIAL/REGISTRATION NO.</u>	<u>INTL CLASS</u>
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FEDERAL TRADEMARKS

A GROCERY STORE AND A WHOLE LOT MORE	Larry's Markets, Inc.	August 13, 1999	75/782889 (pending)	Class 42 Wholesale grocery supply & retail grocery services featuring wines and specialty foods
BIG BAD BROWNIE AND DESIGN	Larry's Markets, Inc.	July 1, 1999	Registration 2,338,714 75/741138	Class 30 Bakery products, namely brownies
CHINESE NOW!	Larry's Markets, Inc.	August 20, 1999	Registration 2,598,527 75/781261	Class 42 Dine-in or take-out restaurant services for ethnic food products
DAY IN DAY OUT	Larry's Markets, Inc.	August 20, 1999	Registration 2,582,897 75/781263	Class 29 Canned and packaged food products including fruits and vegetables
EPICUREAN ASSOCIATION	Larry's Markets, Inc.	March 1, 2001	78/054136 (pending) (ITU)	Class 42 Association services, namely, promoting the interests of members . . .
LARRY'S MARKETS	Larry's Markets, Inc.	May 24, 1993	Registration 1,878,088 74/393797	Class 42
LORENZO'S COFFEE "WE'RE ROASTING FOR YOU"	Larry's Markets, Inc.	August 20, 1999	75/780984 (pending)	Class 30 Coffee

WASHINGTON STATE TRADEMARKS

BEST OF THE NORTHWEST	Larry's Markets, Inc.	January 14, 1994	WA Registration 022792	Class 42 Products of the NW producers such as pickled vegetables, jams, . . .
BIO BEING IN ONE	Larry's Markets, Inc.	July 29, 1992	WA Registration 021561	Class 42 Natural foods and environmental sensitive . . .
ESSENTIALS	Larry's Markets, Inc.	July 29, 1992	WA Registration 021562	Class 21 Kitchenwares
LARRY'S GRAND DESSERTS	Larry's Markets, Inc.	May 30, 1997	WA Registration 026134	Class 16 Advertising of desserts

LOAN AND SECURITY AGREEMENT - 47

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TRADEMARK
REEL: 002959 FRAME: 0502

<u>MARK</u>	<u>OWNER</u>	<u>FILING DATE</u>	<u>SERIAL/REGISTRATION NO.</u>	<u>INTL CLASS</u>
LARRY'S MARKETS and design	Larry's Markets, Inc.	February 4, 1994	WA Registration 022840	Class 35 Retail sale of groceries, kitchenwares, . . .
LARRY'S MARKETS ONE PRICE CANDY	Larry's Markets, Inc.	January 14, 1994	WA Registration 022794	Class 42 No description listed
MEALS-TO-GO	Larry's Markets, Inc.	July 29, 1992	WA Registration 021563	Class 29 Prepackaged entrees sold retail out of supermkt
PANIZZA	Larry's Markets, Inc.	January 14, 1994	WA Registration 022795	Class 42 Providing of Italian sandwiches and pizza
PRODUCE ROW	Larry's Markets, Inc.	August 10, 1988	WA Registration 018259	Class 100 Retail sale of produce out of supermarkets
SIMPLE SACK LUNCH	Larry's Markets, Inc.	November 28, 1994	WA Registration 023671	Class 42 Sack lunch sandwiches prepared and delivered
TAQUERIA APRISA	Larry's Markets, Inc.	January 14, 1994	WA Registration 022793	Class 42 Departmental signage, advertising and labeling .
THE ULTIMATE BOX LUNCH	Larry's Markets, Inc.	November 28, 1994	WA Registration 023672	Class 42 Box lunch prepared and delivered.

Infringements on the intellectual property rights of others – none known

SCHEDULE 4.16 – CAPITALIZATION

LOAN AND SECURITY AGREEMENT - 50

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TRADEMARK
REEL: 002959 FRAME: 0505

SCHEDULE 4.18 – INVESTMENTS, GUARANTEES AND CERTAIN CONTRACTS

SCHEDULE 4.21 – JOINT VENTURES

None

SCHEDULE 7.7 - TRANSACTIONS WITH AFFILIATES

SCHEDULE 7.8 – CHANGE IN CAPITAL STRUCTURE

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