

Form PTO-1594 (Rev. 07/05)
OMB Collection 0651-0027 (exp. 6/30/2008)

U.S. DEPARTMENT OF COMMERCE
United States Patent and Trademark Office

RECORDATION FORM COVER SHEET TRADEMARKS ONLY

To the Director of the U. S. Patent and Trademark Office: Please record the attached documents or the new address(es) below.

1. Name of conveying party(ies):

PACIFIC BAG, INC.

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

Citizenship (see guidelines) _____

Additional names of conveying parties attached? Yes No

3. Nature of conveyance /Execution Date(s) :

Execution Date(s) JULY 13, 2006

- Assignment
- Security Agreement
- Other LOAN AND SECURITY AGREEMENT
- Merger
- Change of Name

2. Name and address of receiving party(ies)

Additional names, addresses, or citizenship attached? Yes No

Name: STERLING SAVINGS BANK

Internal _____

Address: _____

Street Address: 601 UNION STREET, SUITE 1717

City: SEATTLE

State: WASHINGTON

Country: USA Zip: 98101

- Association Citizenship _____
- General Partnership Citizenship _____
- Limited Partnership Citizenship _____
- Corporation Citizenship _____

Other BANK Citizenship _____

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)

4. Application number(s) or registration number(s) and identification or description of the Trademark.

A. Trademark Application No.(s)
75404003

B. Trademark Registration No.(s)
2204042

Additional sheet(s) attached? Yes No

C. Identification or Description of Trademark(s) (and Filing Date if Application or Registration Number is unknown):

SEE ATTACHED EXHIBIT A

5. Name & 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 WEST RIVERSIDE AVENUE SUITE 1100

City: SPOKANE

State: WA Zip: 99201

Phone Number: 509-624-5265

Fax Number: 509-458-2717

Email Address: mdc@wkdflaw.com

6. Total number of applications and registrations involved:

1

7. Total fee (37 CFR 2.6(b)(6) & 3.41) \$ PAID

- Authorized to be charged by credit card
- Authorized to be charged to deposit account
- Enclosed

8. Payment Information:

a. Credit Card Last 4 Numbers _____
Expiration Date _____

b. Deposit Account Number _____
Authorized User Name _____

9. Signature: _____ Date: 8/31/06

Signature

Date

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

Name of Person Signing

Documents to be recorded (including cover sheet) should be faxed to (571) 273-0140, or mailed to:
Mail Stop Assignment Recordation Services, Director of the USPTO, P.O. Box 1450, Alexandria, VA 22313-1450

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TRADEMARK ASSIGNMENT

07/19/2006
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SUBMISSION TYPE:		NEW ASSIGNMENT	
NATURE OF CONVEYANCE:		LOAN AND SECURITY AGREEMENT	
CONVEYING PARTY DATA			
Name	Formerly	Execution Date	Entity Type
PACIFIC BAG, INC.		07/13/2006	CORPORATION: WASHINGTON
RECEIVING PARTY DATA			
Name:	STERLING SAVINGS BANK		
Street Address:	601 UNION STREET		
Internal Address:	SUITE 1717		
City:	SEATTLE		
State/Country:	WASHINGTON		
Postal Code:	98101		
Entity Type:	WASHINGTON STATE CHARTERED BANK: WASHINGTON		
PROPERTY NUMBERS Total: 2			
Property Type	Number	Word Mark	
Serial Number:	75404003	PACIFIC BAG INC.	
Registration Number:	2204042	PACIFIC BAG INC.	
CORRESPONDENCE DATA			
Fax Number:	(509)457-2717		
	<i>Correspondence will be sent via US Mail when the fax attempt is unsuccessful.</i>		
Phone:	509-624-5265		
Email:	debbiep@wkdtlaw.com		
Correspondent Name:	Debra A. Palm		
Address Line 1:	422 West Riverside Ave., Suite 1100		
Address Line 4:	Spokane, WASHINGTON 99201		
ATTORNEY DOCKET NUMBER:	81316-2017		
NAME OF SUBMITTER:	Debra A. Palm		
Signature:	/dap/		

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Date:

07/19/2006

Total Attachments: 38

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (the "Agreement") is made as of July 13, 2006, by PACIFIC BAG, INC., a Washington corporation (hereinafter referred to as "Borrower"), and STERLING SAVINGS BANK, a Washington State chartered bank (hereinafter referred to as "Lender").

RECITALS

WHEREAS, Borrower desires to establish certain financing arrangements with and borrow funds from Lender, including a revolving commercial line of credit, in the original maximum principal amount of \$ [REDACTED] and a term loan in the principal amount of \$ [REDACTED] (together, the "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, Borrower understands that: (1) in granting, renewing, or extending the Loan, or any advance thereunder, Lender is relying upon Borrower's representations, warranties, and agreements, as set forth in this Agreement; and (2) the granting, renewing, or extending of any Loan, or any advance on any Loan, by Lender at all times shall be and remain subject to the terms hereof; 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

SECTION 1.1 SPECIFIC TERMS. The following terms shall have the meanings set forth below:

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 UCC), any accounts receivable, any "payment intangibles" (as that term is defined in the UCC) and all other rights to payment of every kind and description, whether or not earned by performance.

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

ADVANCES. "Advances" shall mean all advances made by Lender from time to time to or on behalf of Borrower under the Revolving Line of Credit Note as well as the advance of principal under the Term Note.

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.

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.

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 Capitalized Lease Obligations 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 thereunder (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.

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

BORROWING BASE. "Borrowing Base" shall mean, with respect to Accounts, 75% of Qualified Accounts, measured monthly, as evidenced by a Borrowing Base Certificate.

LOAN AND SECURITY AGREEMENT - 2

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BORROWING BASE CERTIFICATE. "Borrowing Base Certificate" means a certificate, in form and content satisfactory to Lender and certified to Lender by an executive officer of Borrower, setting forth the name, address, date, including aging, and amounts of all of Borrower's Accounts.

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

CAPITAL EXPENDITURES. "Capital Expenditures" means, for any period for which the same is to be determined, the aggregate amount of any expenditures made by Borrower or any Subsidiary for capital assets, plus the aggregate amount of Capitalized Lease Obligations incurred for such period, determined in accordance with GAAP.

CAPITAL LEASE. "Capital Lease" means a lease of, or other agreement conveying the right to use, real or personal property, or both, which obligation is, or in accordance with GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board) required to be, classified and accounted for as a capital lease.

CAPITALIZED LEASE OBLIGATIONS. "Capitalized Lease Obligations" means the obligations of Borrower or any Subsidiary, as lessee, to pay rent or other amounts under all Capitalized Leases, the amount thereof determined in accordance with GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

CASH FLOW RECAPTURE. "Cash Flow Recapture" means sixty percent (60%) of Free Cash Flow, payable annually.

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

CODE. "Code" means the Internal Revenue Code of 1986, as amended.

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

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

DEBT SERVICE COVERAGE RATIO. "Debt Service Coverage Ratio" means EBITDA less current taxes and dividend distributions divided by scheduled principal and interest payments with respect to the Obligations plus scheduled interest payments with respect to the Subordinated Debt plus scheduled payments of any Capitalized Lease Obligations, all as determined under GAAP.

LOAN AND SECURITY AGREEMENT - 3

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DEFAULT RATE. "Default Rate" means a rate per annum equal to four percent (4.00%) per annum above the then otherwise applicable interest rate under the Note(s).

EARNINGS. "Earnings" means net income, all as determined under GAAP.

EBITDA. "EBITDA" means Borrower's Earnings before payment of interest, taxes, depreciation and amortization, all as determined under GAAP; provided, however, that for purposes of covenant compliance calculations for the trailing twelve-month periods ending on September 30, 2006, December 31, 2006, March 31, 2007, and June 30, 2007, Borrower's Earnings shall be increased by the sum of all expenses incurred by Borrower in connection with the Pending Transactions up to an aggregate increase of \$ [REDACTED]

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

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

FREE CASH FLOW. "Free Cash Flow" means EBITDA less (i) all scheduled principal and interest payments with respect to Borrowed Money, (ii) the lesser of actual Capital Expenditures or budgeted Capital Expenditures (which Capital Expenditures, in either case, for deduction purposes in determining Free Cash Flow, shall not exceed \$ [REDACTED]), and (ii) all cash tax payments.

GAAP. "GAAP" means generally accepted accounting principles as adopted from time to time by the American Institute of Certified Public Accountants, applied in a consistent manner.

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.

GUARANTOR. "Guarantor" shall mean [REDACTED]

GUARANTY. "Guaranty" shall mean the Conditional Guaranty executed by Guarantor in favor of Lender, guarantying Borrower's obligations to Lender under the Loan and Loan Documents, as conditioned therein.

H.15 RELEASE. "H.15 Release" means the weekly statistical release designated as such, or any successor publication, published by the Board of Governors of the Federal Reserve System on the Monday immediately preceding the date on which Borrower makes its interest rate reference selection pursuant to Section 2.1(b).

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.

HIGHEST LAWFUL RATE. "Highest Lawful Rate" means the maximum lawful rate of interest referred to in Section 2.6 that may accrue pursuant to this Agreement.

INDEBTEDNESS. "Indebtedness" has the meaning set forth in Section 4.19.

INVENTORY. "Inventory" shall have the meaning ascribed to such term by the UCC.

INVESTMENT. "Investment" means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock of another Person, (b) a loan, advance or capital contribution to, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, or (c) the purchase or other acquisition of all or a substantial portion of the property of, or a line of business or division of, another Person.

INVESTMENT AGREEMENT. "Investment Agreement" means the Investment Agreement dated as of July 13, 2006 between Borrower, Subordinate Lender, and Roynat Merchant Capital Inc.

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

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 any conditional sale or other title retention agreement and any capital lease having substantially the same practical effect as any of the foregoing).

LOAN. "Loan" has the meaning set forth in the Recitals.

LOAN DOCUMENTS. "Loan Documents" means and includes this Agreement, the Notes, the Guaranty and each and every other instrument and agreement now or hereafter delivered by Borrower or Guarantor in connection with this Agreement or the Loan, as the same may be amended, modified, increased, renewed or restated from time to time.

MATERIAL ADVERSE CHANGE OR MATERIAL ADVERSE EFFECT. "Material Adverse Change" or "Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the business, assets, liabilities (actual or contingent), operations or financial condition of Borrower, (b) a material adverse change in, or a material adverse effect upon, the ability of Borrower to perform its material obligations under any Loan Document to which it is a party; or (c) a material adverse change in, or a material adverse effect upon the legality, validity, binding

effect or enforceability against Borrower of any Loan Document (other than Uniform Commercial Code filing statements) to which it is a party.

MAXIMUM LINE AMOUNT. "Maximum Line Amount" shall mean the lesser of the available Borrowing Base, or \$ [REDACTED].

NOTE(S). "Note(s)" shall mean the Revolving Line of Credit Note and the Term Note, and each of them.

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

PENDING TRANSACTIONS. "Pending Transactions" means (a) the credit facilities being extended to Borrower by Lender and Subordinate Lender, (b) the equity investments being made in Borrower by [REDACTED] and [REDACTED], (c) the redemption of certain shares of Borrower's common stock held by [REDACTED] and [REDACTED], (d) the cancellation of the option held by Edward M. Young, and (e) other transactions and matters incidental to the foregoing.

PERMITTED INVESTMENTS. "Permitted Investments" means:

- (a) Investments held by Borrower in the form of cash or cash equivalents;
- (b) Investments existing as of the Closing Date and set forth under the heading "Permitted Investments" on Schedule I(A); and
- (c) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss.

PERMITTED LIENS. "Permitted Liens" means:

- (a) Liens created by or otherwise existing under or in connection with this Agreement or the other Loan Documents in favor of Lender;
- (b) Liens in favor of Subordinate Lender, provided that such Liens are subject to the Subordination Agreement;
- (c) Liens securing purchase money indebtedness and Capital Lease Obligations (and refinancings thereof), provided that (A) any such Lien attaches to such property and is perfected concurrently with or within 60 days after the acquisition thereof and (B) such Lien attaches solely to the property so acquired in such transaction;

LOAN AND SECURITY AGREEMENT - 6

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(d) Liens for ad valorem, income or property taxes or assessments and similar charges that either are not delinquent or are being Properly Contested;

(e) statutory Liens of carriers, warehousemen, mechanics suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being Properly Contested;

(f) Liens incurred or pledges or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, leases, appeal bonds and other obligations of like nature incurred by Borrower or any of its Subsidiaries in the ordinary course of business, and deposits made in the ordinary course of business securing liability to insurance carriers under insurance or self-insurance arrangements;

(g) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of Indebtedness), leases, or other similar obligations arising in the ordinary course of business;

(h) judgment and attachment Liens not giving rise to an Event of Default and notices of *lis pendens* and associated rights related to litigation being Properly Contested;

(i) Liens, deposits or pledges in the ordinary course of business to secure public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds or obligations; and Liens, deposits or pledges in the ordinary course of business in lieu of such bonds or obligations, or to secure such bonds or obligations, or to secure letters of credit in lieu of or supporting the payment of such bonds or obligations;

(j) Liens in favor of collecting or payor banks having a right of setoff, revocation, refund or chargeback with respect to money or instruments of Borrower or any Subsidiary on deposit with or in possession of such bank;

(k) any interest or title of a lessor, licensor or sublicensor in the property subject to any lease, license or sublicense;

(l) Liens arising from precautionary UCC financing statements regarding operating leases or consignments;

(m) Liens of franchisors in the ordinary course of business not securing Indebtedness;

(n) Liens in existence as of the Closing Date and set forth under the heading "Permitted Liens" on Schedule 1(B); and

(o) Liens incurred in the ordinary course of business that do not in the aggregate exceed \$25,000 at any one time outstanding; and

LOAN AND SECURITY AGREEMENT - 7

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(p) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses, provided that such extension, renewal or replacement Lien shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property).

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.

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

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

PRIME RATE. "Prime Rate" means that rate of interest designated as such in the "Money Rates" section of The Wall Street Journal, or any successor thereto, as the same may from time to time change on the date the Wall Street Journal changes or adjusts the Prime Rate to equal the then present published Prime Rate. If the Wall Street Journal ceases to announce or publish the Prime Rate, Lender will set the interest rate by using a comparable index or prime rate. The Prime Rate, as used herein, or any prime rate used as substitute therefor, is only a standard or index for measuring rates. It is not itself necessarily a rate commonly charged to any class of borrowers, nor is it necessarily the lowest or best rate offered by Lender.

PRIME RATE MARGIN. "Prime Rate Margin" means one percent (1.00%) per annum in excess of the Prime Rate.

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

PROPERLY CONTESTED. "Properly Contested" means, in the case of any amount that is not paid as and when due or payable by reason of Borrower's bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such amount is being properly contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) Borrower has established appropriate reserves as shall be required in conformity with GAAP; (iii) the non-payment of such amount will not have a Material Adverse Effect and will not result in a forfeiture of any property of Borrower unless such Lien is at all times junior and subordinate in priority to the Liens in favor of Lender securing the Obligations (except only with respect to property taxes that have priority as a matter of applicable state law) and enforcement of such Lien is stayed during the period prior to the final resolution or disposition of such dispute; (v) if such amount results from, or is determined by the entry, rendition or issuance against Borrower or any of its property of a judgment, writ, order or decree, execution on such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (vi) if such contest is abandoned, settled or determined adversely

LOAN AND SECURITY AGREEMENT - 8

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(in whole or in part) to Borrower, Borrower forthwith pays such amount and all penalties, interest and other amounts due in connection therewith.

QUALIFIED ACCOUNT. "Qualified Account" means an Account of Borrower generated in the ordinary course of Borrower's business from the sale of Inventory which Lender, in its reasonable 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 sixty (60) days past the claim or invoice date (but in no event more than ninety (90) days after the applicable services have been rendered); (b) any portion of the Account is subject to any defense, set-off, counterclaim, deduction, discount, credit, chargeback, freight claim, allowance, or adjustment of any kind; (c) if the Account arises from the performance of services and the services have not been actually performed or the services were undertaken in violation of any law; (d) the Account is subject to a Lien other than a Permitted Lien; (e) 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; (f) the Account is evidenced by chattel paper or an instrument of any kind, or has been reduced to judgment; (g) the Account is an Account of an Account Debtor having its principal place of business or executive office outside the United States; (h) the Account Debtor is an Affiliate or Subsidiary of Borrower; (i) the Account Debtor is an employee of Debtor; (j) any covenant, representation or warranty contained in the Loan Documents with respect to such Account has been breached; (k) the Account Debtor is a governmental entity; (l) 25% of the total outstanding balance of all Accounts owed by the Account Debtor with respect to such Account are more than sixty (60) days past due; 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.

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.

REVOLVING LINE OF CREDIT NOTE. "Revolving Line of Credit Note" means the Revolving Line of Credit Promissory Note executed by Borrower in favor of Lender in the amount of \$ [REDACTED] and delivered to Lender concurrently herewith.

REVOLVING LINE OF CREDIT NOTE MATURITY DATE. "Revolving Line of Credit Note Maturity Date" means [REDACTED].

SUBORDINATED DEBT. "Subordinated Debt" means indebtedness owed by Borrower to Subordinate Lender, and such other indebtedness owed by Borrower to any third party that has been expressly subordinated to the Obligations.

SUBORDINATE LENDER. "Subordinate Lender" means [REDACTED] and its successors and assigns.

SUBORDINATION AGREEMENT. "Subordination Agreement" means the Subordination Agreement dated as of the date hereof between Lender and Roynat Business Capital Inc.

SUBSIDIARY. "Subsidiary" with respect to any Person means any corporation or other entity of which more than fifty percent (50%) of the issued and outstanding capital stock entitled to vote for the election of directors or persons performing similar functions (other than by reason of default in the payment of dividends or other distributions) is at the time owned directly or indirectly by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of Borrower.

SWAP RATE. "Swap Rate" means the per annum rate that appears for 4-year interest swaps in the H.15 Release.

SWAP RATE MARGIN. "Swap Margin" means three percent (3.00%) per annum in excess of the Swap Rate.

TERM NOTE. "Term Note" means the Promissory Note executed by Borrower in favor of Lender in the amount of \$ [REDACTED] and delivered to Lender concurrently herewith, bearing interest, for the term thereof, at the Prime Rate plus the applicable Prime Rate Margin, or the Swap Rate plus the applicable Swap Margin, as selected by Borrower as provided therein.

TERM NOTE MATURITY DATE. "Term Note Maturity Date" means [REDACTED].

TOTAL DEBT TO EBITDA RATIO. "Total Debt to EBITDA Ratio" means interest-bearing Borrowed Money divided by EBITDA.

UCC. "UCC" shall mean Uniform Commercial Code, as adopted in the State of Washington, as the same may be amended from time to time.

SECTION 1.2 GENERAL RULES OF INTERPRETATION

(a) **Terms Generally.** The definitions in Section 1.1 apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" are deemed to be followed by the phrase "without limitation." All references herein to Articles, Sections, Exhibits and Schedules are deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, any reference in this Agreement to any Loan Document means such document as amended, restated, supplemented or otherwise modified from time to time.

(b) **Accounting Terms.** Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP applied on

a basis consistent with the most recent audited financial statements of Borrower delivered to the Lenders. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in this Agreement, and either Borrower or Lender shall so request, the Lender and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP; provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Lender financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

ARTICLE II LOAN

SECTION 2.1. **TERMS.** The Loan evidenced by the Note(s) shall have the following general terms:

(a) With respect to the Revolving Line of Credit Note, the maximum aggregate principal amount outstanding at any time shall be the Maximum Line Amount. Amounts owing under the Revolving Line of Credit Note shall bear interest at the Prime Rate. Once repaid, as long as Borrower is not in default on its obligations under the Loan Documents, and subject to the terms hereof, principal under the Revolving Line of Credit Note may be re-borrowed. Advances under the Revolving Line of Credit Note shall include sums advanced and other credit extended by Lender to or for the benefit of Borrower from time to time under this Section 2.1(a) up to the Maximum Line Amount. Such Advances shall be strictly subject to the availability of sufficient Borrowing Base to support the Advance requested. Any determination as to whether there is availability within the Borrowing Base for Advances shall be made by Lender in its good faith discretion and is final and binding upon Borrower.

(b) With respect to the Term Note, the maximum aggregate principal amount of credit outstanding at any time shall be \$ [REDACTED]. Subject to the terms and conditions set forth in the Term Note, amounts owing under the Term Note shall bear interest at the interest rate selected by Borrower as provided in the Term Note. Principal and interest shall be payable (i) in monthly payments of principal plus interest in an amount sufficient to fully amortize such principal and interest over a four (4) year term, and (ii) which shall be further reduced annually by the Cash Flow Recapture.

(c) At Closing (i) Borrower shall execute and deliver to Lender the Notes, evidencing Borrower's unconditional obligation to repay Lender for the Loan, and other extensions of credit made hereunder or under the Loan Documents, dated the date of this Agreement, payable to the order of Lender in accordance with the terms thereof; (ii) Borrower shall have executed and delivered to Lender this Agreement and the remaining Loan Documents; (iii) Borrower's representations and warranties as set forth herein and in the remaining Loan Documents shall be true and correct; and

(iv) Lender shall have a first priority security interest in the Collateral, subject only to Permitted Liens.

SECTION 2.2. ADMINISTRATION OF LOAN. The Term Note shall be fully advanced at Closing, subject to the satisfaction of all terms and conditions of this Agreement and the other Loan Documents.

(a) Advances under the Revolving Line of Credit Note shall be made as follows:

(i) A request for an Advance 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 (A) amount of the proposed borrowing, (B) the proposed borrowing date, and (C) the available Borrowing Base, with such notice to be given 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 Obligation shall be deemed irrevocably to be a request for an Advance on the day following the due date in the amount required to pay such Obligation if such was not paid by Borrower on the due date;

(ii) Borrower hereby irrevocably authorizes Lender to disburse the proceeds of each Advance under the Revolving Line of Credit Note requested, or deemed to be requested, as follows: (i) the proceeds of each Advance requested under subsection 2.2(a)(i) shall be deposited into a depository account of Borrower, maintained at one of Lender's depository bank branches or in such other manner or account as may be agreed upon in writing by Borrower and Lender from time to time; and (ii) the proceeds of each Advance under deemed to be requested under the Revolving Line of Credit Note pursuant to subsection 2.2(a)(i) shall be disbursed by Lender by way of direct payment of the relevant Obligation;

(b) All Advances with respect to the Term Note and Revolving Line of Credit Note and all 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;

(c) Lender shall enter all Advances respect to the Term Note and Revolving Line of Credit Note as debits to loan accounts in the name of Borrower and shall also record in said loan accounts 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. In its records, Lender shall specify whether payments received from or on behalf of Borrower relate to the Term Note or Revolving Line of Credit Note. 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;

LOAN AND SECURITY AGREEMENT - 12

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(d) Lender will account to Borrower monthly with a statement of Advances, 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 sixty (60) 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, (i) concurrently with the execution of the Revolving Line of Credit Note, a non-refundable fully earned fee in the amount of \$2,500.00; and (ii) concurrently with the execution of the Term Note, a non-refundable fully earned fee in the amount of \$6,250.00; and (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 the Loan, including, without limitation (i) the costs of perfection of Lender's security interest in the Collateral; (ii) the costs of all Collateral exams, pursuant to Lender's then-existing price and fee schedule for such exams; and (iii) the reasonable costs of preparation of the Loan Documents, including the reasonable attorneys fees of Lender's outside counsel. Except as otherwise expressly provided herein, 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, no payment shall be required or deemed required until ten (10) days after Lender delivers written notice to Borrower of the amount and basis for such charges.

SECTION 2.4. PAYMENTS. Principal and interest shall be paid in accordance with the terms of the Notes. In addition, principal and accrued interest shall be immediately due and payable upon the earliest of (a) with respect to the Revolving Line of Credit Note, on the Revolving Line of Credit Note Maturity Date; (b) with respect to the Term Note, on the Term Note Maturity Date; (c) the occurrence of an Event of Default if the Loan and the maturity of the payment of the Obligations are accelerated; or (d) with respect to the Revolving Line of Credit Note, the termination of this Agreement pursuant to Section 2.7 of this Agreement; provided, however, if the outstanding principal balance of the Revolving Line of Credit Note is at any time in excess of the available Borrowing Base, Borrower shall, immediately upon demand, repay such excess. 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 the Loan shall be used solely for (i) working capital; (ii) stock redemption and option cancellation; (iii) for other costs of Borrower arising in the ordinary course of Borrower's business; and (iv) 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 Notes 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 Notes 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 Prime 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 Notes had at all times been in effect.

SECTION 2.7. TERM OF REVOLVING LINE OF CREDIT NOTE. (a) Subject to Lender's right to cease making Advances to Borrower upon or after any Event of Default, Lender's obligation to make Advances shall be in effect until the Revolving Line of Credit Maturity Date (Borrower expressly recognizes that Lender has made no agreement or commitment to extend or otherwise renew this Agreement beyond the Revolving Line of Credit Maturity Date); (b) notwithstanding anything in this Agreement to the contrary, Lender may terminate this Agreement and its obligation to make Advances without notice upon or after the occurrence of an Event of Default. 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 Notes, repayment of Advances, 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 any extensions,

LOAN AND SECURITY AGREEMENT - 14

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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) on and security interest in, upon, and to all of Borrower's tangible and intangible assets, including the following described property whether now owned or hereafter acquired or arising (the "Collateral") (unless otherwise defined in this Agreement, all terms used in this Section 3.1 shall have the meanings given them in the UCC) in all of Borrower's now owned and hereafter acquired: (i) accounts; (ii) goods and equipment, and all replacements of, accessions and additions to, and substitutions for all such goods and equipment; (iii) general intangibles (including all of Borrower's good will and other tangible and intangible benefit associated therewith), payment intangibles, insurance policies and the proceeds thereof and payments made thereunder, rights to payment of every kind and nature, deposit accounts, chattel paper, commercial tort claims, instruments, securities, supplies, work in process, and Inventory; (iv) trade names and trade marks, service marks, trade dress, and patents; and (v) the proceeds and products of the foregoing.

SECTION 3.2. LIEN DOCUMENTS. At Closing and thereafter as Lender deems necessary in its reasonable judgment, Borrower shall execute and deliver to Lender, or have executed and delivered (all in form and substance reasonably satisfactory to Lender) any agreements, documents, instruments, certificates and writings deemed necessary by Lender or as Lender may otherwise request from time to time in its reasonable judgment to evidence, perfect, or protect Lender's Lien and security interest in the Collateral required under this Agreement. 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 the insurance on and condition, maintenance and location of the Collateral and shall submit to Lender, on such periodic basis as Lender shall request, a report for the preceding period, in form reasonably satisfactory to Lender; (b) 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 the execution and delivery of certificates of title, applications for certificates of title, registrations, 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 reasonable demand, join with Lender in notifying any third party of Lender's security interest in the

LOAN AND SECURITY AGREEMENT - 15

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Collateral; 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 reasonably determined by Lender), Lender will perform the searches described in clauses (a), (b), and (c) 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) UCC searches with the Secretary of State and local filing offices of the jurisdiction in which Borrower is organized, confirming that Lender's security interest in the personal property Collateral will be in a first priority position (subject to Permitted Liens); (b) 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 upon and during the continuance of an Event of Default: (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.

ARTICLE IV REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender, 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 legal entity, duly organized, validly existing, and in good standing under the laws of its state of formation; is duly qualified to do business and in good standing as a foreign entity in each jurisdiction in which a failure to be so qualified could reasonably be expected to have a Material Adverse Effect; has the necessary power and authority to own its and their assets and transact the business in which it is or they are 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 and their properties and transaction of all of its and their 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 signature block of this Agreement.

SECTION 4.3. AUTHORITY. Borrower has full 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 Notes and to incur and perform the obligations provided for in the Loan Documents, all of which have been duly authorized by all necessary entity action. No further consent or approval of members, managers, 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 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, subject to limitations imposed by bankruptcy, insolvency, moratoria or other similar laws affecting the rights of creditors generally or the application of general equitable principles.

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 reasonably be expected to have a Material Adverse Effect. 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 to which it is a party do not, and the performance of its obligations under such 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 Material Adverse Change since the date of the last financial statement delivered to Lender. The federal tax identification number and fiscal year of each entity comprising Borrower is set forth on Schedule 4.7 attached hereto.

LOAN AND SECURITY AGREEMENT - 17

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SECTION 4.8. NO DEFAULT. Borrower is not in default under or with respect to any obligation in any respect which could reasonably be expected to have a Material Adverse Effect. 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. Except as set forth on Schedule 4.9, Borrower has good, marketable and indefeasible title to, rights in and the power to transfer its properties and assets, including the Collateral, 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 Properly Contested.

SECTION 4.11. SECURITIES AND BANKING LAWS AND REGULATIONS. The use of the proceeds of the Loan and Borrower's issuance of the Notes will not directly or indirectly violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or any regulations issued pursuant thereto, including 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 of "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. 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 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 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 any statute, rule or regulation relating to employment practices or to environmental, occupational and health standards and controls) except to the extent that any noncompliance cannot reasonably be expected to have a Material Adverse Effect. Borrower has obtained all licenses, permits, franchises, and other governmental authorizations necessary for the ownership of its properties and the conduct of its business (other than where the failure to so obtain would not reasonably be expected to have a Material Adverse Effect). 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 except to the extent that any noncompliance cannot reasonably be expected to have a Material Adverse Effect.

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. To the best of Borrower's knowledge, after reasonable investigation, 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. 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 can reasonably be expected to have a Material Adverse Effect.

SECTION 4.16. INVESTMENTS AND CERTAIN CONTRACTS. Borrower does not own or hold any Investments other than the Permitted Investments. Borrower is not a party to any contract or agreement, or subject to any corporate restriction, that can reasonably be expected to have a Material Adverse Effect.

SECTION 4.17. 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 4.18. 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) than its own name and, as set forth in Schedule 4.18, any and all business done and invoices issued in such names are Borrower's business and invoices.

SECTION 4.19. 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 is 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 and to make Advances, is subject to the following conditions precedent: (a) Lender shall have received two (2) originals of this Agreement, 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 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 each Borrower, together with all attachments thereto, which

LOAN AND SECURITY AGREEMENT - 20

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attachments shall include, at a minimum, (i) copies, certified as true, correct and complete by the secretary of state of the state of formation of Borrower, of the articles of incorporation or certificate of formation of Borrower, together with any and all amendments thereto; (ii) copies, certified by the Secretary of Borrower, of the Bylaws or operating agreement of Borrower, together with any and all amendments thereto; (iii) the names and signatures of the officers of 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 or manager 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 Advances against the Loan under the Loan Documents; (g) Lender shall have received certificates of existence and authority 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, 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; and (i) Lender shall have received and accepted and approved such financial statements, reports, certifications, and other operational information required to be delivered under this Agreement, including an initial Borrowing Base Certificate calculating the Borrowing Base.

SECTION 5.2. CONDITIONS PRECEDENT TO ADVANCES. Notwithstanding any other provision of this Agreement, no Loan proceeds 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; (c) 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; and (d) no Material Adverse Change shall have occurred and be continuing since the date of this Agreement.

SECTION 5.3. CLOSING. Subject to the conditions of this Article V, disbursement of the Loan ("Closing") shall be made available on such date and time as are mutually agreed by the parties (the "Closing Date").

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

LOAN AND SECURITY AGREEMENT - 21

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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 Notes 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) Monthly, a Borrowing Base Certificate, certified as true and correct by an executive officer of Borrower, within fifteen (15) days after the end of each calendar month, certifying the then existing Borrowing Base; (b) monthly, within fifteen (15) days of the end of each calendar month, an accounts receivable report, including agings, itemizing and detailing Borrower's accounts receivable; (c) monthly, within thirty (30) calendar days of the end of each month, Borrower's internal financial statements, including balance sheets and profit and loss statements, certified as true and correct in all material respects by the chief financial officer of Borrower; (d) annual reviewed financial statements for Borrower prepared by a firm of independent public accountants satisfactory to Lender, within one hundred twenty (120) days after the end of each of Borrower's fiscal years, together with all notes to management accompanying such financial statements; (e) quarterly, within thirty (30) days of the end of each fiscal quarter, the Certificate of an executive officer of Borrower certifying to Lender Borrower's compliance in all material respects with all of the terms, conditions and covenants of this Agreement and the Loan Documents; (f) upon request by Lender, evidence satisfactory to Lender that all federal and state taxes, including payroll taxes, sales taxes, fuel taxes and excise taxes, that are due have been paid in full; and (g) such additional information, reports or statements as Lender may from time to time reasonably 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 be prepared on a consolidated basis and 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 of Borrower necessary to the ownership of its property or the conduct of its business (collectively, "Permits"), 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

LOAN AND SECURITY AGREEMENT - 22

G:\S\Storing Savings Bank #1316\Seattle - Pacific Bag\Docs 070706\Loan Agmt - SSB FN 070606.doc

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commissions, except to the extent that failure to so obtain, maintain or comply would not reasonably be expected to have a Material Adverse Effect; (b) to maintain and protect the properties used or useful in the conduct of the operations of Borrower, in a prudent manner, including 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, and shall not be prohibited by any governmental order or regulation applicable to Lender.

SECTION 6.5. 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 it is being Properly Contested; 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 6.6. INSURANCE. Until such time as the Obligations are paid in full, and Lender is under no further obligation or duty to advance additional funds to Borrower, Borrower will carry (i) liability and damage insurance on that portion of the Collateral consisting of goods and equipment in an amount not less than its fair market value, listing Lender as an additional insured under such policies, together with a lender's loss payable clause in favor of lender, which policies shall (A) include a Lender's loss payable endorsement; (B) shall not be cancelable except upon thirty (30) days written notice to Lender; (C) shall be issued by companies reasonably acceptable to Lender; and (D) the proceeds of which shall be paid to Lender for application to the then outstanding balance owing under the Loan; and (ii) 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.

SECTION 6.7. VISITS AND INSPECTIONS. Borrower shall 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.

LOAN AND SECURITY AGREEMENT - 23

GAS\Sterling Savings Bank 11316Seattle - Pacific Bag\Docs 070706\Loan Agmt - SSB FN 070606.doc

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REEL: 003386 FRAME: 0562

SECTION 6.8. 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, except to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

SECTION 6.9. 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 reasonably be expected to 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 reasonably be expected to have a Material Adverse Effect; (e) any default claimed by any other creditor for Borrowed Money of Borrower other than Lender, when the amount in default, either individually or in the aggregate, exceeds \$50,000.00; and (f) any other development in the business or affairs of Borrower which could reasonably be expected to have a Material Adverse Effect; 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 6.10. 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 6.11. 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

Permitted Liens and as otherwise 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 6.12. 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 6.13. 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 the Collateral is kept, or of the establishment of any new, or the discontinuance of any existing, places of business.

SECTION 6.14. 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 6.15. 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 \$500,000.00, in the aggregate.

SECTION 6.16. BANK ACCOUNTS. Borrower shall maintain with Lender its primary bank deposit accounts and shall use Lender as its primary bank for cash management services.

SECTION 6.17. OFFICER'S CERTIFICATES. No less frequently than quarterly, Borrower shall deliver to Lender a certificate of its chief financial officer, in substantially in the form attached hereto as Schedule 6.17: (a) setting forth the information (including detailed calculations) required to establish whether Borrower is in compliance with the requirements of Sections 6.18 and 6.19 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, with the passage of time or giving of notice or both, could reasonably be expected to 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 6.18. MAXIMUM TOTAL DEBT TO EBITDA RATIO. Borrower shall maintain a maximum Total Debt to EBITDA Ratio, measured as of the end of each fiscal quarter on a trailing

LOAN AND SECURITY AGREEMENT - 25

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twelve (12) month basis, commencing September 30, 2006, as follows: (i) [REDACTED] through the quarter ended September 30, 2007; (ii) [REDACTED] through the quarter ended September 30, 2008; (iii) [REDACTED] through the quarter ended September 30, 2009; and (iv) [REDACTED] thereafter.

SECTION 6.19. MINIMUM DEBT SERVICE COVERAGE RATIO. Borrower shall maintain a minimum Debt Service Coverage Ratio, measured as of the end of each fiscal quarter on a trailing twelve (12) month basis, commencing September 30, 2006, of not less than [REDACTED]; provided, however, that the Debt Service Coverage Ratio as of the end of any single fiscal quarter shall not be less than [REDACTED].

SECTION 6.20. FREE CASH FLOW RECAPTURE. At the end of each of its fiscal years, Borrower shall reduce the principal balance of the Term Note by an amount equal to Cash Flow Recapture.

SECTION 6.21. ZERO BALANCE REVOLVING LINE OF CREDIT NOTE. After its first Advance under the Revolving Line of Credit Note, there shall be a period of at least thirty (30) calendar days during each twelve month period ending on June 30 when there shall be no outstanding unpaid Advances under the Revolving Line of Credit Note.

SECTION 6.22. 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, (i) any changes in any existing law, regulation, treaty or directive or in the interpretation or application thereof, (ii) any new law, regulation, treaty or directive enacted or any interpretation or application thereof, or (iii) 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, gross receipt 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 fees payable hereunder or changes in the rate of tax on the overall gross receipts or 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

LOAN AND SECURITY AGREEMENT - 26

G:\S\Storing Savings Bank 81316\Seattle - Pacific Dept\Docs 070706\Loan Agmt - SSB FN 070606.doc

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amount receivable, as reasonably 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, less than \$1,000.00, payable pursuant to the foregoing sentence submitted by Lender to Borrower shall, absent manifest error, be final, conclusive and binding for all purposes.

SECTION 6.23. SUBORDINATE DEBT. All Subordinate Debt, including that owed to Subordinate Lender, and all debt from Borrower owing to its stockholders, former stockholders, Affiliates and other related parties shall have been subordinated to the Obligations pursuant to such subordination agreements as Lender may require.

SECTION 6.23. FURTHER DOCUMENTATION. In the event any further documentation or information is (a) reasonably 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 reasonably necessary or appropriate by Lender in the exercise of its rights under the Loan Documents or to correct patent mistakes in the Loan Documents 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 as is reasonably required by Lender and/or the prospective transferee for the foregoing purposes; provided, however, that Borrower shall not be required to do anything that has the effect of changing the terms of the Loan set forth in the Loan Documents.

ARTICLE VII NEGATIVE COVENANTS

Borrower, and each entity comprising Borrower, covenants and agrees that so long as Borrower may borrow under this Agreement and until payment in full of the Notes 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) indebtedness to Subordinate Lender under the Investment Agreement and related documents; (b) accounts payable to trade creditors and for current operating expenses 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 Properly Contested; (c) indebtedness secured by Permitted Liens, (d) the endorsement of negotiable instruments payable to the Credit Parties for deposit or collection in the ordinary course of business; (e) Borrowed Money outstanding on the Closing Date and listed on Schedule 7.1; (g) obligations of Borrower owing under documentary letters of credit for the purchase of goods or other merchandise (but not under standby, direct pay or other letters of credit) generally; (h) indebtedness incurred in connection with any new or existing Project; (i) guaranty obligations with respect to Borrowed Money described in the foregoing

LOAN AND SECURITY AGREEMENT - 27

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clauses of this Section 7.1; and (j) other unsecured Borrowed Money that does not exceed \$25,000 in the aggregate at any time outstanding.

SECTION 7.2. CONTINUITY OF OPERATIONS. (a) Engage in any business activities substantially different than those Projects 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. INVESTMENTS. Make any Investment other than Permitted Investments.

SECTION 7.4. LIENS. Borrower shall not permit any Lien on the Collateral other than Permitted Liens and those contemplated or permitted under the Loan Documents.

SECTION 7.5. 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 7.6. TRANSACTIONS WITH AFFILIATES. Borrower will not enter into any transaction, including 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 7.6.

SECTION 7.7. 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, (b) there shall occur no pledge, assignment or hypothecation of or Lien or encumbrance on any of the legal or beneficial equity interests held by Borrower, and (c) Borrower shall not consent to or acknowledge any of the transactions described in the foregoing subparts (a) and (b) of this sentence; provided, however, Lender consents to transfers of Borrower's capital stock solely to facilitate the estate planning of any shareholder.

SECTION 7.8. CONTRACTS AND AGREEMENTS. Borrower will not become or be a party to any contract or agreement which would breach this Agreement or any other material instrument, agreement, or document to which Borrower is a party or by which it is or may be bound.

SECTION 7.9. 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 7.10. 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

LOAN AND SECURITY AGREEMENT - 28

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REEL: 003386 FRAME: 0567

that omits to state a material fact necessary to make it not misleading in light of the circumstances under which it was furnished.

SECTION 7.11. 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 the Notes when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise; (b) a default in the payment of any interest on the Notes when and as the same becomes due and payable, and such default continues unremedied for a period of two (2) Business Days; (c) 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, and such default continues unremedied for a period of thirty (30) days after written notice of the default from Lender to Borrower; (d) a default in the due observance or performance by Borrower 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 thirty (30) days after written notice of the default from Lender to Borrower; (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 \$50,000 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; (g) 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; (h) Borrower (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 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 any substantial part of its property, or suffers any such receivership or trusteeship to continue undischarged for a period of sixty (60) days;

LOAN AND SECURITY AGREEMENT - 29

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or (v) admits in writing its inability to pay its debts as they become due; (i) one or more (i) final judgments against Borrower or attachments against its property, in either case involving amounts in excess of \$250,000, 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 involving amounts in excess of \$250,000, in any event not fully and unconditionally covered by insurance, shall remain unpaid, unstayed on appeal, undischarged, unbonded and undismissed for a period of thirty (30) days; (j) 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; (k) upon the issuance of any execution or distraint process against Borrower or any of its property or assets in excess of \$250,000 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 material property of Borrower to any Governmental Authority, which default shall have continued unremedied for a period of thirty (30) 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; (q) Borrower shall default on any of its obligations to Subordinate Lender or under any covenant required of it under the documents evidencing the Subordinate Debt; or (r) 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 Notes which default shall have continued unremedied for a period of ten (10) days after written notice from Lender.

SECTION 8.2. ACCELERATION. Upon the occurrence of any of the foregoing Events of Default, the Obligations, 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(h), 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 Uniform Commercial Code 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: (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 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 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; and (c) Lender shall have no obligation to marshal any assets in favor of Borrower, or against or in payment of the Notes, 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 and continuance 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 any other

LOAN AND SECURITY AGREEMENT - 31

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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.

ARTICLE IX MISCELLANEOUS

SECTION 9.1. EXPENSES AND TAXES. (a) Borrower agrees to pay a reasonable documentation preparation fees, 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 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; (b) Upon an Event of Default, 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, including reasonable attorneys' fees and costs incurred by Lender in connection with any bankruptcy proceedings, 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 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; and (c) Borrower shall pay all taxes (other than taxes based upon or measured by Lender's income, gross receipts, or revenues or any personal property tax), if any, in connection with the issuance of the Notes 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

LOAN AND SECURITY AGREEMENT - 32

C:\S\Sterling Savings Bank 81316Seattle - Pacific Reg\Doc 070706\Loan Agmt - SSB FN 070606.doc

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REEL: 003386 FRAME: 0571

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:

[REDACTED]
 [REDACTED]
 Sterling Savings Bank
 [REDACTED]
 [REDACTED]

Copy to:

[REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

If to Borrower:

Pacific Bag, Inc.
 Attn: [REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

Copy to:

[REDACTED]
 [REDACTED]
 [REDACTED]
 [REDACTED]

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 Notes, 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 upon notice to, but without the 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. Each party may rely upon the facsimile signature of the other. If any party executes this Agreement and sends it to any other party by facsimile transmission, such party agrees to send a hard copy original, including an original execution signature, to the other party, by next day delivery service.

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.

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 Loan contemplated by this Agreement and the execution and delivery to Lender of the Notes, and shall continue in full force and effect until all liabilities and obligations of Borrower to Lender are satisfied in full.

SECTION 9.10. 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 9.11. 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.

LOAN AND SECURITY AGREEMENT - 34

G:\S\Sterling Savings Bank \11316\Seattle - Pacific Bag\Docs 070706\Loan Agmt - 558 FN 070606.doc

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SECTION 9.12. 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 Collateral as required under Section 6.6 of 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 9.13. 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 9.14. 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), 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 9.14 shall survive the payment in full of the Obligations and the termination of this Agreement.

SECTION 9.15. 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 9.16. 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 9.17. ARBITRATION. Except for compulsory counterclaims that arise from Lender's exercise of its remedies to sue upon the Notes and foreclose upon the Collateral, by reason of Borrower's failure to pay as required under any Loan or the Obligations, Lender and Borrower each agree that all other disputes, claims and controversies between them, whether individual, joint, or class in nature, arising from this Agreement or otherwise, including 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 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, 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 9.17 shall be entitled to recover from the other party its costs and reasonable attorneys fees.

SECTION 9.18. CHOICE OF LAW; CONSENT TO JURISDICTION. THIS AGREEMENT, THE NOTES AND LOAN DOCUMENTS 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 NOTES IS COMMENCED BY LENDER IN THE STATE COURTS OF THE STATE OF WASHINGTON OR IN THE U.S. DISTRICT COURT FOR THE WESTERN 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.

SECTION 9.19. WAIVER OF RIGHT TO JURY TRIAL. LENDER AND BORROWER 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. LENDER AND BORROWER AGREE 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.

BORROWER AGREES THAT IT HAS RECEIVED VALUABLE CONSIDERATION HEREUNDER, THAT IT SIGNS THIS AGREEMENT AS A BORROWER AND NOT AS A SURETY, AND THAT ANY AND ALL SURETYSHIP DEFENSES ARE HEREBY WAIVED.

[Execution Signatures Appear on Following Page.
The Balance of this Page has been Left Intentionally Blank.]

LOAN AND SECURITY AGREEMENT - 37
G:\S\Sterling Savings Bank 11316\Seattle - Pacific Bag\Docs 070706\Loan Agmt - SSB FN 070606.doc

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ORAL PROMISES, COMMITMENTS OR AGREEMENTS TO LOAN MONEY,
EXTEND CREDIT OR FORBEAR FROM ENFORCEMENT 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.

PACIFIC BAG, INC.,
a Washington corporation,

By: MARK H. Howley
Its: PRES / CEO

STERLING SAVINGS BANK

By: _____
Its: _____

ORAL PROMISES, COMMITMENTS OR AGREEMENTS TO LOAN MONEY, EXTEND CREDIT OR FORBEAR FROM ENFORCEMENT 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.

PACIFIC BAG, INC.,
a Washington corporation,

By: _____
Its: _____

STERLING SAVINGS BANK

By:  _____
Its: vice president

SCHEDULE 1

A. **PERMITTED INVESTMENTS**

None.

B. **PERMITTED LIENS**

1.

2.

3.

4.

LOAN AND SECURITY AGREEMENT
SCHEDULES - i

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REEL: 003386 FRAME: 0579

SCHEDULE 4.1 - SUBSIDIARIES

None.

LOAN AND SECURITY AGREEMENT
SCHEDULES - ii

SCHEDULE 4.5 - LITIGATION

1.

LOAN AND SECURITY AGREEMENT
SCHEDULES - iii

SCHEDULE 4.7
(Borrower Tax Identification Number)

LOAN AND SECURITY AGREEMENT
SCHEDULES - iv

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REEL: 003386 FRAME: 0582

SCHEDULE 4.14 - ENVIRONMENTAL MATTERS

None.

LOAN AND SECURITY AGREEMENT
SCHEDULES - v

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REEL: 003386 FRAME: 0583

SCHEDULE 4.16
INVESTMENTS AND CERTAIN CONTRACTS

None.

LOAN AND SECURITY AGREEMENT
SCHEDULES - vi

SCHEDULE 4.18 - ASSUMED BUSINESS NAMES

1.

LOAN AND SECURITY AGREEMENT
SCHEDULES - vii

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REEL: 003386 FRAME: 0585

SCHEDULE 6.17
(Attach form of Officer's Certificates)

LOAN AND SECURITY AGREEMENT
SCHEDULES - viii

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OFFICER'S CERTIFICATE
PACIFIC BAG, INC.

_____, Chief Financial Officer of Pacific Bag, Inc. (the "Company" or "Borrower") hereby certifies to Sterling Savings Bank ("Sterling" or "Lender"), that, to the best of his knowledge, the following information is true and correct in all material respects:

1. Attached hereto are the financial statements, for the period ending _____, required under Section 6.1 of the Loan and Security Agreement dated as of July 13, 2006 (the "Loan Agreement") between the Company and Sterling (the "Company Financial Statements"). The Company Financial Statements fairly and accurately reflect the financial condition of the Company as of the date thereof and the undersigned has no knowledge of a Material Adverse Change in the financial condition of the Company since the date of the Company Financial Statements.

2. As of the calendar quarter ending _____, the Total Debt to EBITDA Ratio, measured as of the end of such fiscal quarter on a trailing twelve (12) month basis, of the Company is _____.

3. As of the calendar quarter ending _____, the Debt Service Coverage Ratio, measured as of the end of such fiscal quarter on a trailing twelve (12) month basis, of the Company is _____.

4. The undersigned has reviewed the Loan 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 and throughout the accounting period covered by the Company Financial Statements being delivered concurrently with this 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 under the Loan Agreement or, with the passage of time or giving of notice or both, could reasonably be expected to become an Event of Default, except the following, if any (specify the nature and period of existence thereof and what action Borrower has taken or proposes to take with respect thereto):

5. Capitalized terms used herein, which are not otherwise defined, shall have the meaning ascribed to such terms by the Loan Agreement.

[signature page to follow]

Executed and delivered as of the _____ day of _____, 200_____.

_____, in his/her capacity as Chief
Financial Officer (and not in his/her individual capacity)

SCHEDULE 7.1 - BORROWED MONEY

None.

LOAN AND SECURITY AGREEMENT
SCHEDULES - ix

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EXHIBIT A

TRADEMARKS, SERVICE MARKS AND COPYRIGHTS

<u>Country</u>	<u>Mark</u>	<u>Application or Serial Number</u>	<u>Application or Filing Date</u>	<u>Registration No.</u>	<u>Date of Issue</u>
USA	Pacific Bag, Inc.	75404003	12/11/97	2204042	11/17/98