

02-11-2004



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TRADEMARKS ONLY

Form PTO-1594
(Rev. 10/02)
OMB No. 0651-0027 (exp. 6/30/2005)
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U.S. DEPARTMENT OF COMMERCE
U.S. Patent and Trademark Office

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

1. Name of conveying party(ies): 2-9-04
California Pacific Rice Milling, Ltd.
 Individual(s) Association
 General Partnership Limited Partnership
 Corporation-State
 Other _____
Additional name(s) of conveying party(ies) attached? Yes No

2. Name and address of receiving party(ies)
Name: Cal Pac Investments, LLC
Internal Address: _____
Street Address: 194 West Main Street #100
City: Woodland State: CA Zip: 95776
 Individual(s) citizenship _____
 Association _____
 General Partnership _____
 Limited Partnership _____
 Corporation-State _____
 Other California Limited Liability Co.
If assignee is not domiciled in the United States, a domestic representative designation is attached: Yes No
(Designations must be a separate document from assignment)
Additional name(s) & address(es) attached? Yes No

3. Nature of conveyance:
 Assignment Merger
 Security Agreement Change of Name
 Other Bankruptcy Order and Purchase Agree
Execution Date: 07/09/2001

4. Application number(s) or registration number(s):
A. Trademark Application No.(s) 75/650,313
B. Trademark Registration No.(s) _____
Additional number(s) attached Yes No

6. Total number of applications and registrations involved: 8

5. Name and address of party to whom correspondence concerning document should be mailed:
Name: Heisler & Associates
Internal Address: Attention: Bradley P. Heisler
Street Address: 3017 Douglas Blvd., Suite 300
City: Roseville State: CA Zip: 95661

7. Total fee (37 CFR 3.41).....\$ 320.00
 Enclosed
 Authorized to be charged to deposit account

8. Deposit account number: _____

DO NOT USE THIS SPACE

9. Signature.
Bradley P. Heisler 2-5-04
Name of Person Signing Signature Date
Total number of pages including cover sheet, attachments, and document: 41

02/10/2004 LMUELLER 00000059 75650313

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

01 FC:8521
02 FC:8522

40.00 OP
175.00 OP

TRADEMARK
REEL: 002911 FRAME: 0065

— CONTINUATION OF ITEM 4 —

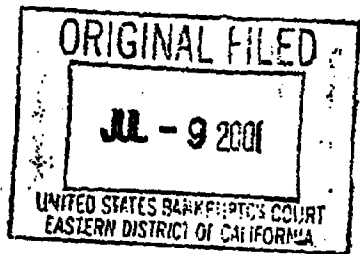
TRADEMARK	REGISTRATION NO.	REGISTRATION DATE
Grain (Design Only)	1,438,252	4/28/1987
Pacific Gateway	1,438,253	4/28/1987
Cal Pac	1,463,796	11/3/1987
Rice/Bridge (Design Only)	1,464,766	11/10/1987
Pacific Blossom	1,756,197	3/2/1993
Hito-Aji	1,877,817	2/7/1995
Il Mee	2,283,065	10/5/1999
Hito-Aji Gold	75/650,313 (Serial No.)	2/26/1999 (Application Date)

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2 ANTHONY ASEBEDO, ESQ. - NO. 155105
3 ROBERT S. BARDWIL
4 A PROFESSIONAL CORPORATION
5 555 CAPITOL MALL, SUITE 640
6 SACRAMENTO, CA 95814

7 TELEPHONE: (916) 446-5060
8 FACSIMILE: (916) 446-1547

9 Attorneys for the Debtor



10 UNITED STATES BANKRUPTCY COURT
11 EASTERN DISTRICT OF CALIFORNIA
12 SACRAMENTO DIVISION

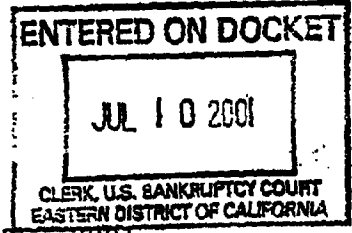
13 In re:

CASE NO. 01-25416-A-11

MOTION CONTROL NO. RSB-7

14 CALIFORNIA PACIFIC RICE
15 MILLING, LTD.
16 a California limited
17 partnership,

18 P.O. Box 725
19 Arbuckle, CA 95912
20 TIN 68-0070525



21 DATE: June 25, 2001
22 TIME: 2:00 p.m.
23 DEPT: A (Courtroom 28)

24 Debtor.

25 ORDER AUTHORIZING DEBTOR TO SELL PROPERTY FREE AND
26 CLEAR OF LIENS, ENCUMBRANCES, AND INTERESTS PURSUANT TO
27 11 U.S.C. § 363, TO ASSUME AND ASSIGN EXECUTORY CONTRACTS
28 PURSUANT TO 11 U.S.C. § 365, AND APPROVING SALE PROCEDURE

The Debtor's Motion to Sell Property Free and Clear of Liens,
Encumbrances, and Interests Pursuant to 11 U.S.C. Section 363, to
Assume and Assign Executory Contracts Pursuant to 11 U.S.C. Section
365, and to Establish Sale Procedures, including supplements and



2001-25416



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rt S. Bardwil
neys at Law
amento, CA

1 clarifications filed thereto ("the Motion"), filed in the above-
2 captioned bankruptcy case by California Pacific Rice Milling, Ltd., as
3 debtor in possession ("the Debtor"), came on for hearing on June 25,
4 2001 at 2:00 p.m. before the Honorable Michael S. McManus.
5 Appearances were noted on the record.

6 Having considered the Motion, the supporting declarations and the
7 exhibits thereto, the objections to the Motion, the pleadings and
8 papers on file in this Chapter 11 case, and the statements of counsel;
9 having been advised in the premises; and there having been no
10 competing offers or bids made; based upon the accompanying findings of
11 fact and conclusions of law and any findings made on the record at the
12 hearing; and good cause appearing,

13 IT IS HEREBY ORDERED AS FOLLOWS:

14 1. All objections to the Motion are withdrawn, overruled, or
15 otherwise resolved as reflected in the record or herein, and the
16 Motion, as modified by the resolution of such objections, is granted
17 in its entirety.

18 2. The Debtor is authorized to sell and convey, to Cal Pac
19 Investments, LLC, or designee (the "Buyer"), for the purchase price of
20 no less than \$11,500,000.00 cash and pursuant to the terms of the
21 Asset Purchase Agreement Dated June 18, 2001 (the "Purchase
22 Agreement"), in a form substantially in the form attached hereto as
23 Exhibit 1, the real and personal property described in the Purchase
24 Agreement (collectively, the "Property").

25 3. The Purchase Agreement, including all amendments thereto, is
26 hereby authorized and approved pursuant to 11 U.S.C. sections 363 and
27 365 in its entirety. The execution of the Purchase Agreement by the
28 Debtor is approved. The Debtor is hereby authorized and directed to

1 execute any and all additional agreements as contemplated by the
2 Purchase Agreement, and to execute and deliver such additional
3 conveyances, assignments, agreements, instruments, amendments,
4 schedules, and documents as may be necessary to consummate the
5 Purchase Agreement and effect the transaction contemplated therein.
6 The Debtor is authorized to execute the Settlement Agreement and
7 Release, between the Debtor and Union Bank of California, N.A. ("the
8 Bank"), as previously prepared by the Bank and approved by the Debtor.

9 4. The executory contracts and/or leases identified for
10 assumption and assignment in the schedules to the Purchase Agreement,
11 as the same may be amended in accordance with this order
12 (collectively, "the Assigned Contracts"), may be assumed and assigned
13 in accordance with and under the terms of the Purchase Agreement, as
14 modified by this order, and stipulations entered into between the
15 Debtor and certain contracting third parties and orders thereon. The
16 Debtor and the Buyer reserve the right to not assume and not assign
17 any executory contract and/or lease, notwithstanding this order. The
18 transfer of the Property may be effected by any means appropriate for
19 the purpose consistent with the terms and conditions of the Purchase
20 Agreement.

21 5. The Debtor is authorized and directed to execute and deliver
22 other documents and to do other things and take further actions as may
23 be necessary or appropriate to the performance of its obligations as
24 contemplated by the Purchase Agreement, including, but not limited to,
25 executing additional or supplemental agreements as may be reasonably
26 required to effect the transactions authorized hereby.

27 6. Effective at the close of escrow, all of the Debtor's right,
28 title, and interest in and to the Property, shall be sold, conveyed,

1 assigned, transferred, and delivered to the Buyer or its designee free
2 and clear of any and all liens, mortgages, pledges, security
3 interests, restrictions, prior assignments, liabilities, obligations,
4 encumbrances, charges, and claims of any and every kind, nature, and
5 description whatsoever.

6 7. Pursuant to the Purchase Agreement, the Buyer shall assume
7 those liabilities and obligations of the Debtor under the terms of the
8 Assigned Contracts. The assumption and assignment of the Assigned
9 Contracts is subject to the following: (a) assumption is conditioned
10 upon the close of the sale to the Buyer; (b) the Debtor is entitled to
11 the benefits of 11 U.S.C. section 365(k); and (c) the assumption is
12 conditioned upon the Buyer notifying the Debtor in writing of its
13 acceptance of each contract and/or lease so assumed and assigned.

14 8. From funds generated from its operations before the close of
15 escrow, the Debtor shall set aside the sum of \$338,000 for the benefit
16 of parties asserting grower's liens on the year 2000 rice inventory
17 currently held by the Debtor, and the Debtor shall deposit such
18 proceeds into a segregated, interest-bearing bank account pending
19 resolution of the disputed growers' liens. In the manner described on
20 page nine of the Motion, the Debtor shall be authorized to resolve the
21 claims for year 2000 growers' liens on the year 2000 rice inventory.

22 9. The Bank shall be paid the amount of \$11,137,000 from sale
23 proceeds at close of escrow, which closing shall occur on or before
24 July 20, 2001. Such payment shall be in full and final satisfaction
25 of its claim against the Debtor and its bankruptcy estate, but shall
26 not be considered satisfaction of any claim of the Bank against any
27 other party, including the general partner in the Debtor.

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1 10. Ordinary and necessary closing costs shall be payable by the
2 Buyer, including applicable escrow, title, and recording fees, and
3 satisfied from the sales proceeds, as applicable, at close of escrow.

4 11. After payment of the sums set forth in paragraph 9 above,
5 the remaining net sale proceeds shall be paid to the Debtor.

6 12. Promptly after the close of escrow, the Debtor shall deposit
7 the net sale proceeds into a segregated, interest-bearing debtor-in-
8 possession bank account at an authorized depository.

9 13. From and after the entry of this order, the Debtor, the
10 Debtor's creditors, and each of them, shall not take or cause to be
11 taken any action, other than a motion brought pursuant to the Federal
12 Rule of Bankruptcy Procedure 8005, which would interfere with the
13 transfer of the Property to the Buyer, or with the assumption and
14 assignment of the Assigned Contracts to the Buyer, in accordance with
15 the terms of the Purchase Agreement.

16 14. This order: (a) is and shall be effective as a
17 determination that, upon closing, all liens existing as to the
18 Property have been unconditionally released, discharged, and
19 terminated, and that the conveyances described herein have been
20 effected; and (b) is and shall be binding upon and govern the acts of
21 all entities, including, without limitation, all filing agents, filing
22 officers, title agents, title companies, recorders of mortgages,
23 recorders of deeds, registrars of deeds, administrative agencies,
24 governmental departments, secretaries of state, federal, state, and
25 local officials, and all other persons and entities who may be
26 required by operation of law, the duties of their office, or contract,
27 to accept, file, register, or otherwise record or release any

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1 documents or instruments, or who may be required to report or insure
2 any title or state of title in or to any of the Property.

3 15. The Purchase Agreement and this order shall be binding upon
4 and shall inure to the benefit of the parties thereto and their
5 respective successors and assigns including, without limitation, any
6 trustee who may subsequently be appointed in Debtor's Chapter 11 case
7 or any subsequent Chapter 7 case.

8 16. The Buyers are good faith purchasers under 11 U.S.C. section
9 363(m), and is entitled to the protection of that section. Further,
10 there is no evidence of any conduct of the type described in 11 U.S.C.
11 section 363(n).

12 17. Given the circumstances presented in this case, Federal Rule
13 of Bankruptcy Procedure 6004(g) shall not apply to this Order, and
14 this order shall be effective and enforceable upon entry.

15 18. This court shall retain jurisdiction to resolve all disputes
16 under or relating to the Purchase Agreement and this Order, including
17 without limitation, disputes relating to interpretation or enforcement
18 of the Purchase Agreement or this Order, and disputes by third parties
19 regarding title to or interest in any of the Property and/or the
20 Assigned Contracts; provided, however, that this paragraph shall not
21 be construed to create jurisdiction over disputes between third
22 parties that otherwise would not be subject to this court's
23 jurisdiction.

24 19. The transfer of assets authorized by this Order shall not be
25 subject to taxation, to the extent 11 U.S.C. section 1146(c) is
26 applicable.

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1 20. This order and the accompanying findings of fact and
2 conclusions of law shall be served by counsel for the debtor.

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4 Dated: 9 July 2001



5 MICHAEL S. McMANUS
6 CHIEF UNITED STATES BANKRUPTCY JUDGE

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ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement") is made as of the 18th day of June, 2001, by and between CAL PAC INVESTMENTS, LLC, A CALIFORNIA LIMITED LIABILITY COMPANY ("Buyer") and CALIFORNIA PACIFIC RICE MILLING, LTD., A CALIFORNIA LIMITED PARTNERSHIP (herein "Seller").

ASSET PURCHASE AGREEMENT

BETWEEN

**CAL PAC INVESTMENTS, LLC
BUYER
A CALIFORNIA LIMITED LIABILITY COMPANY**

AND

**CALIFORNIA PACIFIC RICE MILLING, LTD
SELLER
A CALIFORNIA LIMITED PARTNERSHIP**

RECITALS

- A. Seller owns a rice MILL, in the State of California (the "MILL").
- B. Seller desires to sell, and Buyer desires to purchase, substantially all of the assets comprising the MILL, on the terms and conditions set forth in this Agreement.
- C. Seller has on May 3, 2001 filed a voluntary petition in bankruptcy in the U.S. Eastern District Bankruptcy Court, Sacramento, CA, Case No. 01-25416-R-11.

AGREEMENTS

In consideration of the mutual promises and covenants hereinafter set forth, Buyer and Seller hereby agree as follows:

1. CERTAIN DEFINITIONS.

As used in this Agreement, the following terms, whether in singular or plural form, shall have the following meanings:

- 1.1 "Accounts Receivable" means the rights of Seller to payment for services rendered limited to, product sales, as reflected on the billing records of Seller.
- 1.2 "A Millsite" shall mean as in any Person, any other Person controlling, controlled by, or under common control with, such Person.
- 1.3 "Assumed Contracts" means (i) all Contracts listed in Schedule 2.1.3 hereto designated with an asterisk to indicate that such Contracts will be assumed by Buyer; (ii) any Contracts entered into by Seller in the ordinary course of business and which are permitted by this Agreement between the date hereof and the Closing Date which would have been listed on Schedule 2.1.3 had they been in existence on the date hereof and which Buyer agrees in writing to assume.
- 1.4 "Closing" means the consummation of the transactions contemplated by this Agreement in accordance with the provisions of Section 7.

- 1.13 "Hazardous Substances" means (i) any "hazardous waste" as defined by the Resources Conservation and Recovery Act of 1976 ("RCRA") (42 U.S.C. §6901 et seq.), as amended, and rules and regulations promulgated thereunder; (ii) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. § 9601 et seq.) ("CERCLA"), as amended, and rules and regulations promulgated thereunder; (iii) any substances regulated by the Toxic Substances Act ("TSCA") (42 U.S.C. §2601 et seq.), as amended, and rules and regulations promulgated thereunder; (iv) asbestos; (v) polychlorinated biphenyls; (vi) any substances regulated under the provisions of Subtitle I of RCRA relating to underground storage tanks; (vii) any substance the presence, use, treatment, storage or disposal of which on the Real Property is regulated or prohibited by any Legal Requirements; (viii) petroleum and petroleum products; and (ix) any other substances which by any Legal Requirements require special handling, reporting or notification of any Governmental Authority in its collection, storage, use, treatment, or disposal.
- 1.14 "Judgment" means any judgment, writ, order, injunction, award or decree of any court, judge, justice or magistrate, including any bankruptcy court or judge, arbitrator or panel of arbitrators, and any order of or by any Governmental Authority.
- 1.15 "Knowledge" of any Person or of with respect to any matter means that such Person (if a natural person) or any of the officers, directors, and senior managers of such Person (if not a natural Person) has actual awareness or knowledge of such matter with a duty of reasonable investigation.
- 1.16 "Legal Requirements" means applicable common law and any applicable statute, ordinance, code or other law, rule, regulation, order, technical or other standard, requirement or procedure enacted, adopted, promulgated, applied or followed by any Governmental Authority, including judgments.
- 1.17 "Lease" means any security agreement, financing statement filed with any Governmental Authority, conditional sale or other title retention agreement, any lease, consignment or bailment given for purposes of security, any lien, mortgage, indenture, pledge, option, encumbrance, adverse interest, constructive trust or other trust, claim, attachment, exception to or defect in title or other ownership interest (including, but not limited to, reservations, rights of entry, possibilities of reverter, accretions, easements, rights-of-way, restrictive covenants, leases and licenses) of any kind, which otherwise constitutes an interest in or claim against property, whether arising pursuant to any Legal Requirement, Contract or otherwise.
- 1.18 "Litigation" means any claim, action, suit, proceeding, arbitration, investigation, hearing or other activity or procedure that could result in a judgment, and any notice of any of the foregoing.
- 1.19 "Losses" means any claims, losses, liabilities, damages, liens, penalties, costs, and expenses, including, but not limited to, interest which may be imposed in connection therewith,

- 1.5 "Closing Date" means the date of the Closing of the sale of the MILL.
- 1.6 "Code" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder, or any subsequent legislative enactment thereof, as in effect from time to time.
- 1.7 "Consents" means all of the consents, permits or approvals required under the Franchises, Licenses, Assumed Contracts or under any Legal Requirement or otherwise for (i) Seller to transfer the Assets to Buyer or otherwise to lawfully consummate the transaction contemplated hereby; (ii) Buyer to conduct the business of the MILL and to own, lease, use and operate the Assets at the places and in the manner in which the business of the MILL are conducted as of the date of this Agreement and on the Closing Date; and (iii) Buyer to assume and perform the Franchises, Licenses and Assumed Contracts.
- 1.8 "Contract" means all leases, private easements, private rights-of-way, contracts, agreements, and other agreements, written or oral (including any amendments and other modifications thereto) to which Seller is a party and which affect the Assets or the business or operations of the MILL, and (i) which are in effect on the date hereof, or (ii) which are entered into by Seller in the ordinary course of business as permitted by this Agreement between the date of this Agreement and the Closing Date.
- 1.9 "Environmental Laws" means any federal, state or local law or regulation relating to the pollution contamination or protection of air, or the environment, including land or water, or any combination thereof.
- 1.10 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and rules and regulations promulgated thereunder and published interpretations with respect thereto.
- 1.11 "Franchise" means all municipal, county, state and any other quasi governmental entity franchises, franchise applications (if any), authorizations, ordinances, permits and agreements relating to the MILL.
- 1.12 "Governmental Authority" means (i) the United States of America, any state, commonwealth, territory, or possession thereof and any political subdivision or quasi-governmental authority of any of the same, including but not limited to courts, tribunals, departments, commissions, boards, bureaus, agencies, counties, municipalities, provinces, parishes, and other instrumentalities, and (ii) any foreign (as to the United States of America) sovereign entity, including but not limited to nations, states, republics, kingdoms and principalities, any state, province, commonwealth, territory or possession thereof and any political subdivision, quasi-governmental authority, or instrumentality of any of the same.

expenses of investigation, reasonable fees and disbursements of counsel and other experts, and the cost to any Person making a claim or seeking indemnification under this Agreement with respect to funds expended by such Person by reason of the occurrence of any event with respect to which indemnification is sought.

1.20 "Permitted Liens" means (a) Liens for Taxes not yet subject to penalties for nonpayment and Liens for taxes the payment of which is being contested or the time for doing so has not yet expired, and for which adequate reserves have been provided; (b) other Liens arising pursuant to (i) zoning and subdivision laws and ordinances; or (ii) rights reserved to any Governmental Authority to regulate the affected property which, individually or to the aggregate, do not materially detract from the value or transferability of the Assets subject thereto, or interfere in any material respect with the present use of the Assets subject thereto; (c) purported lien of Boeger Land Company on 25,000 cwt of M-401 rice now in inventory of Seller. Seller is and will contest the claim of Boeger Land Company, and if the contest is successful, the 25,000 cwt of M-401 will be delivered to Buyer.

1.21 "Person" means any natural person, Governmental Authority, corporation, limited liability company, general or limited partnership, limited liability general or limited partnership, joint venture, trust, association or unincorporated entity of any kind.

1.22 "Personal Property" means all of the equipment (including any computer software or other comparable computer hardware products in the individual MILL), plant, inventory, vehicles, spare parts, supplies and other tangible personal property which are owned, leased, or subleased by Seller and used or useful in the conduct of the business or operations of the MILL, including, without limitation, all of Seller's motor vehicles, office equipment, furniture and fixtures, supplies, inventory and other physical assets, plus such additions thereto and deletions therefrom arising in the ordinary course of business and permitted by this Agreement between the date of this Agreement and the Closing Date.

1.23 "Real Property" means all of fee estates, and all buildings, fixtures, and all other improvements located thereon, leasehold interests in real estate, private easements, private rights to access, private rights-of-way, and other real property interests which are owned or used by Seller in the conduct of the business or operations of the MILL, plus such additions thereto and deletions therefrom arising in the ordinary course of business and permitted by this Agreement between the date of this Agreement and the Closing Date.

1.24 "Tax or Taxes" means all levies and assessments of any kind or nature imposed by any Governmental Authority, including but not limited to all customs, duties, and all income, sales, use, ad valorem, value added, franchise, severance, net or gross proceeds, withholding, payroll, employment, excise, property or other taxes, together with any interest thereon and any penalties, additions to tax or additional amounts applicable thereto.

1.25 "Tax Return" means any return, report, information return or other document (including, without limitation, any amendments thereto and related or supporting information) filed or required to be filed with respect to Taxes.

1.26 "Transaction Documents" means all instruments and documents executed and delivered by Buyer or Seller or any officer, director or affiliate of either of them in connection with this Agreement or the transaction contemplated hereby.

2. PURCHASE AND SALE OF THE ASSETS

2.1 Agreement to Purchase and Sell. Subject to the terms and conditions set forth in this Agreement, at Closing Seller shall sell, convey, assign, transfer and deliver to Buyer, and Buyer shall purchase from Seller, free and clear of all Liens (other than Permitted Liens), and with full warranties of title and with full substitution and subrogation to all rights and actions of warranty against all preceding owners, the following described tangible and intangible assets used or useful in connection with the conduct of the business or operations of the MILL (collectively, the "Assets"):

2.1.1 the Personal Property;

2.1.2 the Real Property;

2.1.3 the Assumed Contracts;

2.1.4 the Accounts Receivable;

2.1.5 all of Seller's proprietary information, technical information and data, machinery and equipment warranties, maps, computer disks and tapes, plans, diagrams, blueprints and schematics relating to the MILL;

2.1.6 all of Seller's files and correspondence and lists and records concerning past, present and prospective customers of the MILL (the "Customer List"), all books and records relating to the business or operations of the MILL, including executed copies of the Assumed Contracts subject to the right of Seller to have such books and records made available to Seller for a reasonable period, not to exceed three years from the Closing Date;

2.1.7 the goodwill and going concern value generated by Seller with respect to the MILL, if any;

2.1.8 all intangible assets owned by Seller including, but not limited to, any computer or comparable software products and the trademarks, trade names, service marks, and all other information and similar intangible assets of Seller relating to the business or operations of the MILL, and specifically described above; and

2.1.9 All other tangible and intangible assets of Seller used or held for use in connection with the business or operations of the MILL, including cash and cash equivalents, except as otherwise specifically excluded in Section 2.2.

2.1.10 The use of the "CAL PAC" name on the MILL and related trademarks, trade names and service marks from date of Closing.

2.2 Excluded Assets. The following assets shall not be transferred to Buyer by Seller and are specifically excluded from the Assets (collectively, the "Excluded Assets"):

2.2.1 any employment contracts, consulting contracts, employee benefit plans or other Plans (as defined in Section 3.5), and any other Contracts other than the Assumed Contracts;

2.2.2 any books and records that Seller is required by law to retain, subject to the right of Buyer to have access to and to copy for a reasonable period, not to exceed three years from the Closing Date, and Seller's corporate minute books and other books and records retained to internal corporate matters and financial relationships with Seller's lenders;

2.2.3 any claims, rights and interests in and to any refunds of federal, state or local franchise, income or other taxes or fees for periods prior to the Closing Date;

2.2.4 any cause of action which arises out of the bankruptcy proceeding shall be retained by Seller;

2.2.5 Seller shall retain Three Hundred Thirty-Eight Thousand Dollars (\$338,000) in a segregated account which sum is due to Growers on June 15, 2001 for the 2000 crop account.

2.3 Deposit. Upon execution and delivery of this Agreement by Seller and Buyer, Buyer shall deliver to PLACER TITLE COMPANY, Davis, California ("Escrow Agent") the sum of Two Million Dollars (\$2,000,000) (the "Deposit") to be held and applied pursuant to the terms of this Agreement. The deposit shall be increased to the total sum of Three Million Five Hundred Thousand Dollars (\$3,500,000) upon the approval of the United States Eastern District Bankruptcy Court and consent of the UNION BANK OF CALIFORNIA as herein provided.

Purchase Price. Subject to the terms and conditions of this Agreement, at Closing, Buyer shall deliver to Placer Title Company for the benefit of Seller by wire transfer of immediately available funds, the sum of Eleven Million Five Hundred Thousand Dollars (\$11,500,000) as allocated in Schedule 2.5 (including the Deposit) (the "Purchase Price"). The Purchase Price shall be delivered to Buyer at Closing or shall be disbursed according to Buyer's instructions at Closing.

2.4 Assumption of Liabilities. As of the Closing Date, Buyer shall assume, pay, discharge, and perform the following (the "Assumed Liabilities"): (i) all obligations and liabilities arising out of Buyer's ownership of the Assets, or operation of the MILL, after the Closing Date. All other debts, liabilities, and obligations arising out of or relating to the Assets, including any liabilities associated with the operation of the MILL, other than the Assumed Liabilities shall remain and be the sole obligations and liabilities of Seller (the "Retained Liabilities"). Seller shall be responsible to pay all employee compensation through Closing Date. Seller shall be solely responsible for all the Retained Liabilities. Seller agrees that accrued vacation pay shall be considered earned and due on all of Seller's employees on the Closing Date not withstanding Seller's vacation pay policy. Without limiting the foregoing, Buyer shall assume no liability or obligation with respect to the payment of (i) salary, bonus or severance or provision of benefits, including but not limited to the benefits payable under any employee benefit plan or other plan, with respect to the employment of any current or former employees, officers, director, or independent contractor of the MILL, or former employee of the MILL, prior to Closing and (ii) any taxes except as provided under the Agreement for real property taxes and withholding taxes with respect to employees hired by the Buyer, each to the extent reflected on the Closing Balance Sheet. Without limiting the generality of the foregoing, Seller shall be responsible for compliance with the COBRA notice with respect to all employees (and their beneficiaries) experiencing a qualifying event (as defined in Section 603 of ERISA) on account of the transactions contemplated by this Agreement or occurring prior to the Closing.

2.5 Allocation. For federal income and other applicable tax purposes, the Purchase Price and any adjustments thereto shall be allocated among the Assets as provided for on Schedule 2.5. Seller and Buyer shall endeavor in good faith to agree upon a purchase price allocation within 60 days of the execution of this agreement.

3. SELLERS REPRESENTATIONS. Seller represents, warrants and covenants to Buyer as follows:

3.1 Organization and Qualification. Seller CAL PAC is a California limited partnership, duly organized, validly existing, and in good standing under the laws of the State of California, and QUALITY RICE MANAGEMENT, INC., is a California corporation, duly organized, validly existing and in good standing under the laws of the State of California and each has all requisite power and authority to own and lease the properties and assets it currently owns and leases and to conduct its activities and to carry on its business as such activities and business are currently conducted. Schedule 3.1 sets forth a list of all facilities and/or trade names which Seller is currently using or in the past has used in connection with the conduct of the business of the MILL.

3.2 Authorization. Conditioned on Bankruptcy Court approval, Seller CAL PAC has full partnership power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated in this Agreement. Conditioned on Bankruptcy Court approval, Seller's General Partner QUALITY RICE MANAGEMENT, INC., has full corporate power and authority to execute, deliver, and perform this Agreement and to consummate the

transactions contemplated in this Agreement. The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated in this Agreement on the part of Seller have been duly and validly authorized and approved by all necessary action on the part of Seller, including by all necessary actions of the Persons and by Board of Directors action of Directors of QUALITY RICE MANAGEMENT, INC. This Agreement has been duly and validly executed and delivered by Seller and is the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms.

3.3 Title and Condition of Personal Property. Schedule 3.3 contains a complete description and inventory of all material items of Personal Property, other than the Excluded Assets. The Personal Property constitutes all personal property used and necessary to lawfully and properly conduct the business or operations of the MILL, as now conducted. Except as described in Schedule 3.3 Seller is in possession of all of the Personal Property. At Closing Buyer will acquire good and marketable title to all of the Personal Property free and clear of any Liens. Seller expresses no specific warranty respecting the condition of the Personal Property, plant and/or facilities, except that they are in good operating condition, subject to reasonable wear and tear, and are limited to the scope and nature of their age and design. Schedules 3.5 also includes a list of all material items of Personal Property that have been removed from the MILL in the immediately preceding 12 months.

3.4 No Conflicting Contracts. Except as described on Schedule 3.4, the execution, delivery, and performance by Seller in this Agreement does not and will not: (i) violate any provision of any Legal Requirement applicable to the Seller or by which any of the Assets may be bound or affected; (ii) conflict with or violate any provision of the certificate of formation or the limited partnership agreement of Seller; (iii) conflict with, violate, result in a breach of, constitute a default under (without regard to requirements of notice, lapse of time, or elections of other Persons, or any combination thereof), accelerate, or permit the termination, modification or acceleration of the performance required by, any Contract, License, Indenture or other agreement by which Seller or any of its properties or assets may be bound or affected; (iv) result in the creation or imposition of any Lien against or upon any of the Assets; or (v) require any consent, approval, or authorization of, or filing of any certificate, notice, application, report, or other document with, any Governmental Authority or other Person. Except as set forth in Schedule 3.4, no consent, approval or authorization of, or filing with, any Governmental Authority or Person is required in connection with the execution, delivery, or performance of the Agreement.

3.5 Employment Matters.

3.5.1 CAL PAC Employee Benefits Plans. ERISA. Schedule 3.5.1 contains a true and complete list of each employment, bonus, deferred compensation, incentive compensation, stock purchase, stock option, stock appreciation right or other stock based incentive, severance or termination pay, hospitalization or other medical, life, disability or other insurance, supplemental unemployment benefits, profit-sharing, pension, or retirement plan, program, agreement or arrangement, and each other employee benefit plan, program, agreement or arrangement,

sponsored, maintained or contributed to or required to be contributed to by Seller, the MILL or by any entity (an "ERISA Affiliate") that, together with Seller or the MILL, would be deemed a "single employer" for purposes of Section 4001(d)(1) of ERISA, for the benefit of any current or former employee or director of the Seller, the MILL, or any ERISA Affiliate, whether formal or informal and whether legally binding or not (the "Plans").

(a) Compliance with Applicable Law. To Knowledge of Seller each of the Plans has been operated and administered in all material respects in accordance with all applicable laws, including but not limited to ERISA and the Internal Revenue Code of 1986, as amended (the "Code"). Each Plan that is intended to be qualified under Section 401(a) of the Code has been determined by the Internal Revenue Service to be so qualified, each trust related to any such Plan has been determined to be exempt under Section 501(c)(3) of the Code, and to the Knowledge of the Seller and the MILL, no act or omission has occurred that could materially adversely affect the qualified status of each such Plan or related trust. There are no actions, suits or claims pending, nor to Knowledge of Seller threatened or anticipated with respect to the Plans or their operation, administration or maintenance, other than routine claims for benefits.

(b) No Title IV or Multiemployer Plans. Neither Seller, the MILL, nor any ERISA Affiliate has at any time sponsored, maintained, contributed to or been required to make contributions to any "multiemployer plan" (as defined in Sections 3(37) and 4001(d)(3) of ERISA) or to any other "pension plan" (as defined in Section 3(2) of ERISA) subject to Title IV of ERISA. No liability under Title IV of ERISA has been incurred by Seller, the MILL, or any ERISA Affiliate since the effective date of ERISA, and neither Seller, the MILL, nor any ERISA Affiliate has any actual or potential withdrawal liability for any complete or partial withdrawal (as defined in Sections 4203 and 4205 of ERISA) from any multiemployer plan.

(c) No Loss of Deductibility under Section 280C. No amounts payable under any of the Plans or any other contract, agreement or arrangement with respect to which Seller or the MILL may have any liability which could reasonably be expected to fail to be deductible for federal income tax purposes by virtue of Section 280C of the Code.

(d) No Benefit Plan Liabilities to Seller's Knowledge. No event has occurred in connection with any Plan that has, will or may result in any fine, penalty, assessment or other liability for which any transferee of the Assets of the MILL may be responsible, whether by operation of law or by contract.

3.5.2 Collective Bargaining. There are no collective bargaining agreements applicable to any persons employed by Seller that render services in connection with the MILL, and Seller has no duty to bargain with any labor organization with respect to any such Persons. There is not pending or to the Knowledge of Seller threatened any demand for recognition or any other request or demand from a labor organization for representative status with respect to any Persons employed by Seller that render services in connection with the MILL.

3.5.3 Legal Compliance: With respect to any Persons employed by Seller that render services in connection with the MILL, to the best of Seller's Knowledge, Seller is in compliance with all applicable Legal Requirements respecting employment conditions and practices, has withheld all amounts required by any applicable Legal Requirements or Contracts to be withheld from wages or salaries, and is not liable for any arrears of wages or any payroll related taxes or penalties for failure to comply with any of the foregoing.

3.5.4 No Unfair Practices: With respect to any Persons employed by Seller that render services in connection with the MILL, to the best of Seller's Knowledge, (i) Seller has not engaged in any unfair labor practices within the meaning of the National Labor Relations Act and has not violated any Legal Requirements prohibiting discrimination on the basis of race, color, national origin, sex, religion, age, marital status, or handicap in its employment conditions or practices; and (ii) there are no pending or, to Seller's Knowledge, threatened unfair labor practice charges or discrimination complaints relating to race, color, national origin, sex, religion, age, marital status, or handicap against Seller before any Governmental Authority nor, to Seller's Knowledge, does any basis therefore exist.

3.5.5 No Labor Controversies: There are no existing or, to Seller's Knowledge, threatened, labor strikes, disputes, or grievances affecting the MILL or other labor controversies which could reasonably be expected to have a material adverse effect on the financial condition or operations of the MILL. There are no pending or, to the Knowledge of Seller, threatened arbitration proceedings under any Contracts, Licenses or Franchises respecting Seller's employees, nor to the Knowledge of Seller, does any basis therefore exist.

3.5.6 Employee Information: Schedule 3.5.6 contains a true and complete list of the names, positions and dates of initial employment of all employees of the MILL. Seller has delivered to Buyer a true and correct list setting forth the present rates of compensation, bonus or other direct or indirect compensation and employee benefits of all employees of the MILL and any agreements, commitments or arrangements, whether written or oral, affecting such employees.

3.6 Taxes: Except as described on Schedule 3.6 (i) Seller has duly and timely paid all Taxes with respect to the MILL and the Assets which have become due and payable by it; (ii) Seller has received no notice of, nor does Seller have any Knowledge of, any notice of delinquency or assessment, or of any proposed delinquency or assessment, from any taxing Governmental Authority with respect to the Assets or the MILL; (iii) there are no audits pending with respect to the Assets or the MILL and there are no outstanding agreements or waivers by Seller that extend the statutory period of limitations applicable to any federal, state, local, or foreign tax returns or Taxes with respect to the MILL; (iv) Seller has duly and timely filed all Tax Returns required to be filed by Seller and all such Tax Returns are accurate and complete in all material respects; and (v) and to the best of Seller's Knowledge no Tax is required to be withheld pursuant to Section 1445 of the Code as a result of the transactions contemplated by this Agreement.

3.7 Financial Statements: Seller has delivered to Buyer copies of the following financial statements, which are in accordance with all books, records, and accounts of Seller and substantially in accordance with GAAP consistently applied throughout the periods indicated:

3.7.1 Balance Sheets: Audited balance sheets as of the fiscal year ended September 30, 2000, and the unaudited balance sheet of Seller for the fiscal six month period ending May 3, 2001, (the "Balance Sheet"), each of which (subject, in the case of unaudited statements, to normal year-end adjustments) fairly and accurately present in accordance with GAAP consistently applied, as of the respective dates thereof, the financial condition, cash flow operations, equity, assets, and liabilities of the MILL; and

3.7.2 Statements of Operations: Audited statements of operations and cash flows for the twelve-month periods ended September 30, 2000, and the unaudited statement of operations and cash flows of Seller for the fiscal six-month period ending May 3, 2001, all of which (subject, in the case of unaudited statements, to normal year-end adjustments) fairly and accurately present in accordance with GAAP consistently applied the results of the operations of the MILL for the respective periods indicated.

3.7.3 Pre-Closing Financial Statements: Seller will deliver to Buyer at the Closing copies of the following financial statements, which will be in accordance with all books, records, and accounts of Seller and substantially in accordance with GAAP consistently applied through the periods indicated:

(a) An unaudited balance sheet of Seller for the most recent fiscal month period ending within not less than thirty (30) days prior to the Closing Date (the "Pre-Closing Balance Sheet") which (subject to normal year-end adjustments) will fairly and accurately present in accordance with GAAP consistently applied, as of the date thereof, the financial condition, cash flow operations, equity, assets, and liabilities of the MILL; and

(b) An unaudited statement of operations of Seller for the year to date fiscal periods ending the date of the Pre-Closing Balance Sheet which (subject to normal year-end adjustments) will fairly and accurately present in accordance with GAAP consistently applied the results of the operations of the MILL for each period.

As of the date thereof, Seller was the owner of all the properties and assets set forth in the Balance Sheet, and there are no material liabilities, accrued, absolute, contingent or otherwise, that are not reflected in the Balance Sheet.

3.8 Compliance with Legal Requirements

3.8.1 No Violation of Legal Requirements: Seller to the best of its Knowledge holds all Licenses, Franchises, certificates, consents, permits, qualifications and authorizations from all Governmental Authorities necessary for the lawful conduct of the business and operations of the

MILL. The operation of the MILL as currently conducted does not violate or infringe, in any material respect, any Legal Requirements. Seller has received no notice of any violation by Seller or the MILL of any Legal Requirements applicable to the operation of the MILL, as currently conducted, and knows of no basis for the allegation of any such violation. Seller is not in default of, or in violation with respect to, any judgment of any court, administrative agency, arbitrator, or other Governmental Authority. Seller is not, nor has it at any time within the last three (3) years been, nor has it received any notice that it is or has at any time within the last three (3) years been, in violation of or in default under, in any material respect, any legal Requirements applicable to the business and operations of the MILL.

3.9 Environmental Laws and Regulations

3.9.1 To the best of Seller's Knowledge, all Real Property owned or leased by Seller in connection with the MILL currently complies in all material respects with and has previously been operated in compliance with all Environmental Laws. Seller has not, either directly or indirectly: (a) generated, released, stored, used, treated, handled, discharged or disposed of any Hazardous Substances at, on, under, in or about, or in any manner affecting, any Real Property owned or leased by Seller in connection with the MILL; (b) transported any Hazardous Substances to or from any Real Property owned or leased by Seller in connection with the MILL; (c) undertaken or caused to be undertaken any other activities relating to any Real Property owned or leased by Seller in connection with the MILL which could reasonably give rise to any liability under any Environmental Law, and to Seller's Knowledge, no other present or previous owner, tenant, occupant or user of any Real Property owned or leased by Seller in connection with the MILL, or any other Person, has committed or suffered the foregoing. Except as set forth on Schedule 3.9, (i) No release of Hazardous Substances outside any Real Property owned or leased by Seller in connection with the MILL has entered or threatens to enter any Real Property owned or leased by Seller; nor (ii) is there any pending or threatened claim based upon any Environmental Law which arises from any condition upon any Real Property owned or leased by Seller in connection with the MILL or any property adjacent to or immediately surrounding any Real Property owned or leased by Seller. Except as set forth on Schedule 3.9, no litigation based upon Environmental Laws which relates to any Real Property owned or leased by Seller or any operations or conditions on it (a) has been asserted or conducted in the past or is currently pending against or with respect to Seller or, to Seller's Knowledge, any other Persons or (b) to Seller's Knowledge is threatened or contemplated.

3.9.2 Except as set forth on Schedule 3.9, no aboveground or underground storage tanks are currently, or, to the best of Seller's Knowledge, have been previously located upon any Real Property owned or leased by Seller in connection with the MILL. No Real Property owned or leased by Seller in connection with the MILL has been used at any time as a gasoline service station or any other facility for storing, pumping, dispensing or producing gasoline or any other petroleum products or wastes. No building or other structure on any Real Property owned or leased by Seller in connection with the MILL contains asbestos, asbestos containing materials, or materials presumed to be asbestos containing material under Environmental Laws.

3.9.3 Seller has provided Buyer with complete and correct copies, if any, of: (a) all studies, reports, surveys, or other written materials in Seller's possession or, to Seller's Knowledge to which it has access, relating to the presence or alleged presence of Hazardous Substances; (b) all notices or other materials in Seller's possession or to Seller's Knowledge, to which it has access, that were received from any Governmental Authority having the power to administer or enforce any Environmental Law relating to the current or past ownership, use or operation of any Real Property owned or leased by Seller in connection with the MILL or activities at the Real Property owned or leased by Seller; and (c) all materials in Seller's possession or, to Seller's Knowledge to which it has access, relating to any litigation or allegation by any private third party concerning any Environmental Law.

3.10 Real Property. Schedule 3.10 contains descriptions of all the Real Property utilized by Seller in the operation of the MILL as now conducted. Seller has good and marketable title to all of the fee estates (including improvements thereon) included in the Real Property, and, in the case of leasehold interests included in the Real Property, valid leasehold interests, and, in the case of easements, rights of access, rights-of-way, licenses and other interests included in the Real Property, such title or other interest as is necessary to permit the use and enjoyment of such properties substantially in the manner such properties are used on the date of this Agreement. The Real Property is free and clear of all Liens, except for Permitted Liens and other Liens which are described in Schedule 3.10 and announced to indicate that such Liens shall be removed prior to or at Closing. There are no options or rights of first refusal to purchase any of the Real Property by any third party. The Real Property includes all real property interests necessary to operate the MILL. In all material respects as the MILL is presently operated, the Real Property is in compliance in all material respects with all Legal Requirements, including, but not limited to, local zoning and subdivision ordinances. All leases of real property to which Seller is a party as either lessor or lessee are valid and binding obligations of the parties thereto, are in full force and effect, there exists no defaults under such leases, and all material improvements to be constructed or alterations required by Seller under such leases have been completed and are fully paid for. Neither the whole or any portion of the Real Property is subject to any decree or order of any Governmental Authority to be sold or is being condemned, expropriated or otherwise taken by any Governmental Authority.

3.11 Books and Records. All of the books, records, accounts, and accounts of the MILL are in all material respects true and complete, are maintained in accordance with good business practices and all applicable Legal Requirements, accurately present and reflect in all material respects all of the transactions therein described, and are reflected accurately in the financial statements provided to Buyer.

3.12 Accounts Receivable. Seller is the true and lawful owner of the Accounts Receivable and shall deliver to Buyer such Account Receivable, free and clear of all Liens. Each such Account Receivable is (i) a valid obligation of the account debtor enforceable in accordance with its terms, and (ii) in all material respects, a true and correct statement of the account for merchandise actually sold and delivered to, or for actual services performed for and accepted by, such account debtor.

3.13 **Insurance.** All insurance policies pertaining to the MILL, which are required to be obtained by Seller are in full force and effect on the date hereof, are valid and enforceable in accordance with their terms, are issued by financially sound and reputable insurance companies, and collectively insure all of the Assets of the MILL which are of an insurable character against loss or damage to the extent and in the manner customary and prudent for companies engaged in similar businesses or as required by any of the Assumed Covenants or applicable Legal Requirements.

3.14 **Sufficiency of Assets.** Except as disclosed in Schedule 3.14, the Assets collectively constitute all assets and rights that relate directly or indirectly to, are used or usable in, and are reasonably necessary to enable Buyer to operate the MILL as a going enterprise.

3.15 **Accuracy of Schedules.** All Schedules to this Agreement are accurate and complete in all material respects as of the date of this Agreement.

3.16 **Disclosures.** No representation or warranty by Seller, or any statement or certificate furnished by Seller to Buyer pursuant to this Agreement or in connection with the transaction contemplated by this Agreement, contains or will at Closing contain any untrue statement of a material fact or omits or will at Closing omit to state a material fact necessary to make the statements contained therein not misleading.

4. **BUYER'S REPRESENTATIONS.** Buyer hereby represents, warrants and covenants to Seller as follows:

4.1 **Organization.** Buyer is a Limited Liability Company duly organized, validly existing and in good standing under the laws of the State of California, and has all requisite power and authority to own and lease the properties and assets it currently owns and leases and to conduct its activities and to carry on its business as such activities and businesses are currently conducted. Buyer is or will be at Closing, duly qualified to do business as a Limited Liability Company and is in good standing in the State of California.

4.2 **Authorization.** Buyer has full power and authority to execute, deliver, and perform this Agreement and to consummate the transactions contemplated in this Agreement, and perform approval of the members or managers of Buyer, the execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated in this Agreement on the part of Buyer. This Agreement has been duly and validly executed and delivered by Buyer, and, subject to the approval of the members or managers of Buyer, is the valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except insofar as the enforceability hereof may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity.

4.3 **Disclosures.** No representation or warranty of Buyer, or any statement or certificate furnished by Buyer to Seller pursuant to this Agreement or in connection with the transaction contemplated by this Agreement, contains or will contain at the Closing any untrue statement of a material fact or omits or will at the Closing omit to state a material fact necessary to make the statements contained therein not misleading.

5. **PRE-CLOSING ACTIVITIES.**

5.1 **Seller's Pre-Closing Obligations.** Seller covenants and agrees that, from and after the execution and delivery of this Agreement until and including the Closing Date:

5.1.1 **Access.** Upon reasonable prior notification, Seller shall give Buyer and its representatives full access during normal business hours to all of the properties, books, and records relating to the MILL, and furnish Buyer with such information concerning the Assets and the MILL as Buyer may reasonably request. Notwithstanding any investigation that Buyer may conduct of the Assets, Buyer may fully rely on Seller's representations, warranties and covenants herein, which will not be waived or affected by or as a result of any such investigation, unless Buyer has actual knowledge of a misrepresentation and does not disclose that knowledge to Seller before Closing.

5.1.2 **Conduct of Business.** Under the jurisdiction of the United States Eastern District Bankruptcy Court Seller shall operate the MILL in the ordinary and usual course and in accordance with past practices, which shall include, without limitation: (i) maintaining appropriate staff and management personnel at the MILL, consistent with past practices; (ii) maintaining adequate inventories consistent with past practices; and (iii) making capital expenditures reflected in the current budget and any other capital expenditures reasonably necessary to operate the MILL as it is currently being operated. Seller shall duly comply in all material respects with all applicable Legal Requirements, perform all of its material obligations under all of the Licenses, and Contracts without default, and maintain the books, records, and accounts relating to the MILL in the usual, regular, and ordinary manner on a basis consistent with past practices. Seller shall use reasonable efforts to keep available the services of its employees providing services in connection with the MILL, continue normal marketing, advertising, and promotional activities and expenditures with respect to the MILL and preserve beneficial business relationships with all customers, suppliers, and others having business or other dealings with Seller relating to the MILL, including Governmental Authorities having jurisdiction over Seller. Seller shall maintain the Assets in good condition and repair, ordinary wear excepted, and keep in effect the casualty and liability insurances covering the Assets in force on the date of this Agreement.

5.1.3 **Negative Covenants.** Seller shall not, except as Buyer may otherwise consent to in writing, (i) modify, terminate, renew, suspend, or abrogate any Assumed Contract, (ii) modify, terminate, renew, suspend, or abrogate any License, (iii) transfer, convey, or otherwise dispose of any of the Assets (except that Seller may use inventory not disposed of damaged or defective equipment or material in the normal course of business), (iv) take any action that would result in the creation of a Lien on any of the Assets, (v) engage in any marketing, or collection

practices that are inconsistent with the past practices of Seller, (vi) take or omit to take any action that would cause Seller to be in breach of its representations or warranties in this Agreement in any material respect; (vii) enter into any single Contract involving a commitment of more than \$10,000 or any Contracts which in the aggregate involve a commitment of more than \$30,000 or (viii) take any action except as provided in this agreement or fail to take any action that (with or without notice or lapse of time or both) would constitute a material violation or breach of, or default under any term or provision of any Assumed Contract or License.

5.1.4 Contracts. Except as otherwise provided herein, Seller shall, at Seller's own cost and expense, use commercially reasonable efforts to obtain as promptly as possible, all approvals, authorizations, and Consents required in order to consummate the transactions contemplated by this Agreement, including the approval and order of the United States District Court Bankruptcy Court, Sacramento, California, Case No. 01-24116-B-11 and the consent of the Union Bank of California and other Persons to the transfer or assignment by Seller to Buyer of all assets covered by this agreement and of all rights under and pursuant to the Licenses, and Assumed Contracts without material modification or change.

5.1.5 Leases. Seller shall pay current on any leases included in the Assets, and ensure that at Closing, such leases may be assumed by Buyer. A Schedule of the Leases is contained in Schedule 5.1.5.

5.1.6 Financial Statements. Seller shall promptly deliver to Buyer true and complete copies of all monthly operating reports of Seller and any reports with respect to the operation of the MILL, prepared by or for Seller at any time from the date of this Agreement until the Closing.

5.2 Employees of Seller. Except for regularly scheduled Cost of Living Increases under Seller's Employment Policy, without Buyer's prior written consent, Seller shall make no change in the compensation or benefits payable or to become payable by Seller to any Person employed in connection with the conduct of the business or operations of any of the MILL. Seller has delivered to Buyer a list of current employees together with a description of the compensation currently paid to each employee. Seller shall comply with the provisions of the Worker Adjustment and Retraining Notification Act, as amended, 29 U.S.C. § 2101, et seq., as it relates to the transaction contemplated hereby, including, without limitation, providing all affected employees and other necessary persons with any notice that may be required under such Act. Seller shall terminate all of the employees of the MILL, as of the Closing Date. Seller shall remain solely responsible for (i) all salaries and bonuses, (ii) all severance, vacation, sick, holiday, and other benefits to which hereby, the termination of such employees, or otherwise, (iii) all Liabilities arising under or otherwise related to the Plans, and (iv) any other Liabilities claimed by any of Seller's employees, officers, directors and independent contractors for periods prior to the Closing Date. Seller acknowledges that Buyer may, but shall have no obligation to, hire any of Seller's employees that render services in connection with the operation of the MILL.

5.3 Title and Survey

5.3.1 Title Commitments. Buyer shall obtain at Buyer's sole cost and expense, a current commitment to issue title insurance for: (a) each parcel of Real Property owned by Seller and used in conjunction with the MILL (the "Owned Property") (the "Title Commitment"). The Title Commitment shall: (i) be on the 1992 ALTA owner or lessor's form, as appropriate; (b) be issued by or on behalf of a nationally recognized title insurance company reasonably acceptable to Buyer; (c) contain policy limits and other terms reasonably acceptable to Buyer; (d) insure such interest subject only to the Permitted Liens; (e) insure any easements or rights-of-way that provide access to such property. Seller shall provide Buyer with legible copies of all exceptions to title shown on such Title Commitments. Buyer shall cause the Title Company to issue title insurance policies based upon such Title Commitments within ten days of Closing at Buyer's sole cost and expense.

5.3.2 Title Defects. If Buyer notifies Seller within 10 days of the receipt of the Title Commitment and the Survey of any Lien (other than a Permitted Lien) or any other matter affecting the Owned Property or the Leased Property which prevents access to, or which could prevent or impede in any way the use, operation or marketability of the Owned Property (a "Title Defect"), Seller will use commercially reasonable efforts to remove or, with the consent of Buyer, not to be unreasonably withheld, cause the Title Company to commit to insure over, each such Title Defect prior to Closing.

5.4 Lien Searches. Seller has provided to Buyer (i) the results of lien searches conducted by a professional search company of records in the offices of the secretaries of state in each state, and county clerks in each county, where there exists tangible Assets, and in the state and county where the principal offices of Seller are located, including copies of all financing statements or similar notices of filings (not any continuation statements) discovered by such search company; and (ii) the results of searches of the dockets of the clerk of each federal and state court sitting in the city, county or other applicable political subdivision where the principal office or any material Assets of Seller may be located, with respect to judgments against or affecting Seller or any of the Assets. Such searches will be conducted under the name of Seller and any and all fictitious or trade names used by Seller in connection with the operation of the MILL, including, but not limited to Ardwick, California.

6. CONDITIONS PRECEDENT

6.1 Conditions Precedent to Buyer's Obligations. The obligations of Buyer under this Agreement with respect to the purchase and sale of the Assets shall be subject to the fulfillment on or prior to the Closing Date of each of the following conditions, any of which may be waived by Buyer:

6.1.1 Accuracy of Representations. Performance of Agreement and Officer Certificates. All of the representations and warranties of Seller contained in this Agreement or any Transaction Document shall be true and correct at and as of the Closing Date. Seller shall have

compiled with and performed all of the agreements, covenants, and conditions required by this Agreement to be performed or complied with by it on or prior to the Closing. Seller shall have furnished Buyer with an executed certificate of its General Partner dated as of the Closing, certifying to the fulfillment of the foregoing conditions.

6.1.2 Consents. Seller shall have obtained and delivered to Buyer each of the Consents identified on Schedule 3.4 in each case, pursuant to the terms of Section 3.1.4 as material consents ("Material Consents") with no adverse conditions imposed by such Consents.

6.1.3 No Litigation. There shall be no Legal Requirement, (pending or threatened) and no Judgment shall have been entered and not vacated by any Governmental Authority of competent jurisdiction in any litigation or arising therefrom, for any action or proceeding pending or threatened by any third party which seeks to (i) enjoin, restrain, make illegal, or prohibit consummation of the transaction contemplated by this Agreement or (ii) prohibit Buyer's ownership or operation of any portion of the MILL or the Assets.

6.1.4 Deliveries. Seller shall have made or stand willing to and able to make all of the deliveries to Buyer set forth in Section 7.2.

6.1.5 No Adverse Change. Between May 31, 2001 and the Closing Date, there shall have been (i) no material adverse change in the financial condition of, the Assets, liabilities, operations or prospects of the MILL, whether or not caused by conditions beyond the control of Seller, and (ii) no material loss, damage, impairment, confiscation or condemnation of any of the Assets that has not been repaired or replaced.

6.1.6 Legal Matters. All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters shall be reasonably satisfactory to and approved by Buyer's counsel, and such counsel shall have been furnished with such certified copies of actions and proceedings and such other instruments and documents as it reasonably shall have requested.

6.1.7 Approval of Members and Managers. Buyer shall have obtained the approval of the transaction contemplated by this Agreement from Buyer's members or managers on or before June 30, 2001.

6.1.8 Title Defects. Seller shall have cured all Title Defects in a manner reasonably acceptable to Buyer.

6.2. Conditions Precedent to Seller's Obligations. The obligations of Seller under this Agreement with respect to the purchase and sale of the Assets shall be subject to the fulfillment on or prior to the Closing of each of the following conditions, which may be waived by Seller:

6.2.1 Accuracy of Representations. Performance of Agreements and Officers' Certificate. All of the representations and warranties of Buyer contained in this Agreement shall be

true and correct at and as of the Closing Date, and Buyer shall have complied with and performed all of the agreements, covenants, and conditions required by this Agreement to be performed or complied with by it on or prior to the Closing. Buyer shall have furnished Seller with an executed certificate of its members or managers, dated as of the Closing, certifying to the fulfillment of the foregoing conditions.

6.2.2 No Litigation. There shall be no Legal Requirement (pending or threatened), and no Judgment shall have been entered and not vacated by any Governmental Authority of competent jurisdiction in any litigation or arising therefrom, which enjoins, restrains, makes illegal, or prohibits consummation of the transactions contemplated by this Agreement.

6.2.3 Deliveries. Buyer shall have made or stand willing and able to make all the deliveries to Seller set forth in Section 7.3.

6.2.4 Legal Matters. All actions, proceedings, instruments and documents required to carry out this Agreement or incidental thereto and all related legal matters shall be reasonably satisfactory to and approved by Seller's counsel, and such counsel shall have been furnished with such certified copies of actions and proceedings and such other instruments and documents as it reasonably shall have requested.

7. CLOSING.

7.1 Time and Place. The consummation of the transfer and delivery of the Assets to Buyer and the receipt of the consideration therefrom by Seller shall constitute the "Closing." Unless otherwise mutually agreed to by the parties, the Closing shall take place by mail, overnight courier service and/or facsimile. The parties agree that a signature on a document received by the other party via facsimile shall be deemed valid and binding if the original executed document is sent for delivery to the other party by an overnight courier service that guarantees overnight delivery. Closing shall occur within ten (10) business days immediately following the day which all conditions set forth in Sections 6.1 and 6.2 have been satisfied or waived or on such other date as Buyer and Seller shall mutually agree (the "Closing Date"). All allocations provided for hereunder shall be made as of the Adjustment Time on the Closing Date except as otherwise agreed in writing by the parties.

7.2 Seller's Deliveries. At the Closing, Seller shall deliver or cause to be delivered to Buyer the following:

7.2.1 Bill of Sale. An executed Bill of Sale, Assignment and Assumption Agreement in the form attached hereto as Exhibit D;

7.2.2 Vehicle Titles. Title certificates to all vehicles included among the Assets, endorsed for transfer of title to Buyer, and separate bills of sale therefor if required by the laws of the states in which such vehicles are titled;

7.2.3 Officer's Certificate. The certificate described in Section 6.1.1;

7.2.4 Licenses, Assumed Contracts, and Business Records. To the extent not previously delivered, copies of all Licenses, Assumed Contracts, customer and vendor lists, blueprints, schedules, drawings, plans, projections, engineering records, and all files and records used by Seller in connection with its operation of the MILL;

7.2.5 An affidavit in form and substance reasonably acceptable to Buyer, sufficient to establish that the transactions contemplated by this Agreement are exempt under Section 1445(b)(2) of the Code and from withholding under Section 1445(a) of the Code.

7.2.6 Other Documents. Such other documents and instruments as shall be necessary to effect the intent of this Agreement and consummate the transaction contemplated by this Agreement.

7.3 Buyer's Obligations. At the Closing, Buyer shall deliver or cause to be delivered to Seller the following:

7.3.1 Purchase Price. The Purchase Price, payable as provided in Section 2.3;

7.3.2 Officer's Certificate. The certificate described in Section 6.2.1;

7.3.3 Other Documents. Such other documents and instruments as shall be necessary to effect the intent of this Agreement and consummate the transaction contemplated by this Agreement.

8. TERMINATION

8.1 Termination Events. This Agreement may be terminated and the transaction contemplated by this Agreement may be abandoned:

(i) at any time, by the mutual agreement of Buyer and Seller;

(ii) by either Buyer or Seller, at any time, if the other is in material breach or default of its respective covenants, agreements, or other obligations in this Agreement, or if any of its representations in this Agreement or any Transaction Document are not materially true and accurate when made or when otherwise required by this Agreement to be true and accurate, provided that such breach or default is incapable of cure or has not been cured within 30 calendar days after receipt of written notice of such breach, default or misrepresentation from the other party;

(iii) by either Buyer or Seller, upon written notice to the other, if any of the conditions to its obligations set forth in Sections 6.1 and 6.2, respectively, which have not been waived by the party not responsible for fulfillment of the condition(s) shall not have been satisfied on or before the Outside Closing Date for any reason other than a breach or default by such party of its (a) respective covenants, agreements, or other obligations hereunder, or (b) any of its representations herein not being true and accurate when made or when otherwise required by this Agreement to be true and accurate in all material respects; and

(iv) by Buyer if approved is not obtained from the United States Eastern District Bankruptcy Court for the transaction contemplated by this Agreement on or before June 30, 2001 or if the Union Bank of California does not agree to the sale by June 25, 2001 unless extended by the mutual agreement of Seller and Buyer.

8.2 Effect of Termination

8.2.1 Costs and Return of Information. Without limiting any other provision of this Section 8.2, if the transaction contemplated by this Agreement is terminated and abandoned as provided herein: (i) each party shall pay the costs and expenses incurred by it in connection with this Agreement, and no party (or any of its officers, directors, members, employees, agents, representatives or shareholders) shall be liable to any other party for any costs, expenses or damages except as expressly specified herein; (ii) each party shall re-deliver all documents, work papers and other materials of the other party relating to the transaction contemplated hereby, whether so obtained before or after the execution hereof, to the party furnishing the same; and (iii) neither party hereto shall have any liability or further obligation to the other party to this Agreement except (a) as stated in subparagraph (ii) of this Section 8.2.1, and (b) solely to the extent applicable, as set forth in Sections 8.2.2 and 8.2.3 below.

8.2.2 Buyer's Remedies. If both (a) this Agreement is terminated by Buyer pursuant to Section 8.1 (ii) or (iv) and (b) Seller is in breach in any material respect of any of its representations and warranties made herein or its covenants or agreements made herein (and Buyer is not in breach in any material respect of any of its representations and warranties made herein or its covenants or agreements made herein), Buyer shall have the right to seek monetary damages, and such other relief or remedies as may be available to Buyer. Further, in the event this Agreement is terminated as a result of (i) Seller's failure to obtain their requisite corporate approval (whether the result of the General Partner, Shareholders' or the Seller's partners failure to ratify this Agreement) or (ii) any action or proceeding by preliminary or permanent injunction, Seller shall pay a termination fee to Buyer of 2.5% of Purchase Price or \$287,500, in addition to the foregoing. In the event Seller willfully refuses to perform under the provisions of this Agreement, money damages alone may not be adequate. Buyer shall therefore be entitled, in addition to any other remedies which may be available to Buyer, including money damages, to obtain specific performance of the terms of this Agreement to the extent permitted by law by a court having jurisdiction. In the event of an action by Buyer to obtain specific performance of the terms of this

Agreement, Seller hereby waives the defense that there is an adequate remedy at law.

8.2.3 Seller's Remedies. If both (a) this Agreement is terminated by Seller pursuant to Section 7.1, Section 8.1(ii) or (iii) and (b) Buyer is in breach in any material respect of any of its representations and warranties made herein or its covenants or agreements made herein (and Seller is not in breach in any material respect of any of its representations and warranties made herein or its covenants or agreements made herein), then Seller shall have as its sole and exclusive remedy the right to One Million Dollars (\$1,000,000) of the Deposit held by Escrow Holder, provided that in no event shall Seller be entitled to the right of specific performance. If Buyer is unsuccessful in purchasing the MILL by reason of an overbid in the Bankruptcy Court then the Deposit will immediately be returned to Buyer upon Buyer's written demand.

9. SURVIVAL OF REPRESENTATIONS AND INDEMNITY.

9.1 Survival of Representations, Warranties and Covenants. All representations, warranties, covenants and agreements contained in this Agreement and in any Transaction Document shall be deemed continuing representations, warranties, covenants and agreements and shall survive the Closing Dates as specified herein. The representations, warranties contained in this Agreement and in any Transaction Document shall survive for a period ending on the date which is eleven (11) months after the respective Closing Dates, except for representations and warranties set forth in Section 3.3 (Title and Condition of Personal Property; Section 3.5 (Employment Matters); Section 3.6 (Taxes) and Section 3.9 (Environmental Laws and Regulations), which shall survive for the period of the applicable statute of limitations.

9.2 Seller's Indemnity. Notwithstanding the Closing or the provision of Section 9.1 above, and regardless of any investigation made at any time by or on behalf of Buyer or any information Buyer may have, Seller shall indemnify and hold Buyer, its respective affiliates, officers, directors, employees, agents, and representatives, and any Person claiming by or through any of them, as the case may be, harmless from and against any Losses arising out of or resulting from:

- (i) all actual or purported liabilities and obligations of Seller, and all claims and demands made in respect thereof whether or not known or asserted at or prior to the Closing (except the Assumed Liabilities), relating to the MILL or otherwise including any liabilities arising under a failure to pay creditors in accordance with Section 13.15.
- (ii) the operation of the MILL prior to the Adjustment Time;
- (iii) any misrepresentation, breach of warranty, or nonfulfillment of any agreement or covenant on the part of Seller under this Agreement or any Transaction Document; provided that notice of such claim for indemnity is delivered to Seller on or before the date that corresponds with applicable survival period as provided for in Section 9.1;

9.3 Buyer's Indemnity. Notwithstanding the Closing, and regardless of any investigation made at any time by or on behalf of Seller or any information Seller may have, Buyer shall indemnify and hold Seller, its affiliates, officers, directors, employees, agents, and representatives, and any Person claiming by or through any of them, as the case may be, from and against any Losses arising out of or resulting from:

- (i) the Assumed Liabilities; and
- (ii) any misrepresentation, breach of warranty, or nonfulfillment of any agreement or covenant on the part of Buyer under this Agreement or any Transaction Document provided that notice of such claim for indemnity is delivered to Buyer on or before the date that corresponds with applicable survival period as provided for in Section 9.1.

9.4 Procedure for Indemnified Third Party Claims. Promptly after receipt by a party entitled to indemnification under this Agreement (the "Indemnifier") of written notice of the assertion or the commencement of any litigation with respect to any matter referred to in Sections 9.2 and 9.3, the Indemnifier shall give written notice thereof to the party from whom indemnification is sought pursuant hereto (the "Indemnitee") and thereafter shall keep the Indemnitee reasonably informed with respect thereto; provided, however, that failure of the Indemnitee to give the Indemnifier notice as provided herein shall not relieve the Indemnifier of its obligations hereunder. In case any litigation shall be brought against any Indemnitee, the Indemnifier shall be entitled to participate in such litigation and, at the request of the Indemnifier, shall assume the defense thereof with counsel satisfactory to the Indemnitee, at the Indemnifier's sole expense. If the Indemnifier shall assume the defense of any litigation, it shall not settle the litigation unless the settlement shall include as an unconditional term thereof the giving by the claimant or the plaintiff of a release of the Indemnitee, satisfactory to the Indemnifier, from all liability with respect to such litigation.

10. BROKERAGE FEES. Each party hereto represents and warrants to the other that it has not incurred any obligations or liabilities, contingent or otherwise, for brokerage or finder's fees or agent's commissions or other like payment in connection with this Agreement or the transactions contemplated hereby for which it will have any liability. Buyer shall have no liability or responsibility for any commission payable to Seller's Broker. Buyer shall indemnify and hold the other harmless from and against any Losses incurred by Seller with respect to any breach by it of the provisions of this Section 10 and Seller shall indemnify and hold Buyer harmless from and against any Losses incurred by Buyer with respect to any breach by Seller of the provisions of this Section 10.

12. CASUALTY LOSSES. The risk of any loss or damage to the Assets resulting from fire, theft or any other casualty (except reasonable wear and tear) shall be borne by Seller at all times prior to the Adjustment Time. If any such loss or damage shall be sufficiently substantial so as to preclude and prevent within 5 days from the occurrence of the event resulting in such loss or damage resumption of normal operations of any material portion of the MILL or replacement or

restoration of the lost or damaged Assets, Seller shall immediately notify Buyer in writing of its inability to resume normal operations or to replace or restore the lost or damaged Assets, and Buyer, at any time within 10 days after receipt of such notice, may elect by written notice to Seller to either (i) waive such defect and proceed toward consummation of the transaction in accordance with terms of this Agreement, or (ii) terminate this Agreement, if Buyer elects to terminate this Agreement, Buyer and Seller shall stand fully released and discharged of any and all obligations hereunder. If Buyer shall elect to consummate the transaction contemplated by this Agreement notwithstanding such loss or damage and does so, all insurance proceeds payable as a result of the occurrence of the event resulting in such loss or damage shall be delivered by Seller to Buyer, or the rights thereto shall be assigned by Seller to Buyer if not yet paid over to Seller. The Purchase Price shall be reduced by the amount of any deductible payable in conjunction with such insurance.

13. MISCELLANEOUS.

13.1 Further Assurances. From time to time after the Closing, Seller shall, if requested by Buyer, make, execute and deliver to Buyer such additional assignments, bills of sale, deeds and other instruments of transfer, as may be necessary or proper to transfer to Buyer all of Seller's right, title, and interest in and to the Assets. Such efforts and assistance shall be without cost to Buyer and to the full extent permitted by law to put Buyer in actual possession and operating control of the business and operations of the MILL, and to assist Buyer in exercising all rights with respect thereto. Effective on the Closing Date, except as otherwise provided herein, Seller hereby constitutes and appoints Buyer the true and lawful attorney of Seller, with full power of substitution, in the name of Seller or Buyer, but on behalf of and for the benefit of Buyer: (i) to demand and receive from time to time any and all the Assets and to make endorsements and give receipts and releases for and in respect of the same and any part thereof; (ii) to institute, prosecute, compromise and settle any and all Legal Requirements that Buyer may deem proper in order to collect, assert or enforce any claim, right or title of any kind in or to the Assets; (iii) to defend or compromise any or all Legal Proceedings in respect of any of the Assets; and (iv) to do all such acts and things in relation to the matters set forth in the preceding clauses (i) through (iii) as Buyer shall deem desirable. Seller hereby acknowledges that the appointment hereby made and the powers hereby granted are coupled with an interest and are not and shall not be revocable by it in any manner or for any reason.

13.2 Notices. All notices, requests, demands, and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (i) mailed, registered or certified mail, return receipt requested, postage prepaid, (ii) delivered by hand, (iii) sent by facsimile transmission, or (iv) delivered by reputable overnight courier, to the following addresses, or at such other address as a party may designate by notice given in accordance with this Section 13.2.

(i) If to Buyer:

CAL. PAC INVESTMENTS, LLC
C/O THOMAS S. ATKINSON
P. O. BOX 8560
WOODLAND, CA 95776
FAX NO. (916) 666-0441

With a copy to:

Gray and Thurn, Inc.
195 Chadwell Drive
Sacramento, CA 95825
Attn: Richard L. Thurn, Esq.
Fax No.: (916) 920-3409

(ii) If to Seller:

CALIFORNIA PACIFIC RICE MILLING, LTD.
P. O. BOX 725
ARBUCKLE, CA 95912
FAX NO. (530) 976-2714
ATTENTION: CRANT P. CHAPPELL

And copy to:

Robert S. Biedt, Esq.
Law Offices of Robert S. Biedt
555 Capitol Mall, Suite 640
Sacramento, CA 95814
Fax No. (916) 446-1547

Notices delivered personally, by overnight courier or by registered or certified mail shall be effective upon receipt by the intended recipient. Notices transmitted by facsimile transmission shall be effective when confirmation of transmission is received.

13.3 Assignments. Binding Effect. Neither party may assign this Agreement or any interest hereunder without the prior written consent of the other party; provided, however, that Buyer shall have the right, upon written notice to Seller, to assign, in whole or in part, its rights and obligations hereunder to (i) any Affiliate of Buyer, including, without limitation, any limited partnership of which Buyer or any Affiliate of Buyer is a general partner, or any joint venture or general partnership of which Buyer, or any Affiliate of Buyer, or any of such limited partnerships is a co-venturer, (ii) any lender to the Buyer, any subsidiary or Affiliate thereof or any agent on behalf thereof as security for obligations to such lender in respect of its financing arrangements and any refinancing, extension, re-advance or renewals thereof and (iii) on or after the Closing, any

successor of the Buyer in the event of a merger, consolidation or sale of stock or to any purchaser of all or substantially all of the assets of the Buyer, and to any transferee of all or a substantial part of any of the Buyer's assets or business and any such transferee shall be entitled to enforce the Buyer's rights on an individual basis. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns. Any such assignment by Buyer will not terminate or effect Buyer's obligation under this Agreement.

13.4 **Expenses.** Except as otherwise provided herein, each party shall bear its own expenses and the fees and expenses of its legal counsel, accountants, and other experts incurred in connection with the preparation of this Agreement and the consummation of the transactions contemplated by this Agreement.

13.5 **Collection of Accounts.** From and after the Closing Date, Buyer shall have the right and authority, at its expense, to collect for its account all items to which it is entitled as provided in this Agreement and to endorse with the name of Seller any checks or drafts received on account of any such items.

13.6 **Entire Agreement, Amendments and Waiver.** This Agreement merges all previous negotiations between the parties hereto and constitutes the entire agreement and understanding between the parties with respect to the subject matter of this Agreement. No alteration, modification or change of this Agreement shall be valid except by an agreement in writing executed by the parties hereto. No failure or delay by any party in exercising any right, power or privilege hereunder (and no course of dealing between or among any of the parties) shall operate as a waiver of any such right, power, or privilege. No waiver of any default on any one occasion shall constitute a waiver of any subsequent or other default. No single or partial exercise of any such right, power, or privilege shall preclude the further or full exercise thereof.

13.7 **Counterparts.** This Agreement may be executed in one or more counterparts with the same effect as if all of the signatures on such counterparts appeared on one document. All executed counterparts shall together constitute one and the same agreement.

13.8 **Severability.** If any provision of this Agreement or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

13.9 **Schedules and Exhibits, Headings.** All references herein to Schedules and Exhibits are to the Schedules and Exhibits attached hereto, which shall be incorporated in and constitute a part of this Agreement by such reference. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning of this Agreement.

13.10 **Governing Law.** The validity, performance, and enforcement of this Agreement and all Transaction Documents, unless expressly provided to the contrary, shall be governed by the laws of the State of California, without giving effect to the principles of conflicts of law of such State.

13.11 **Third Parties, Joint Ventures.** This Agreement constitutes an agreement solely among the parties hereto for their benefit, and except as otherwise provided herein, is not intended to and will not confer any rights, remedies, obligations, or liabilities, legal or equitable, including any right of employment, on any Person (including but not limited to any employee or former employee of Seller) other than the parties hereto, and their respective successors, or assigns, or otherwise constitute any Person a third party beneficiary under or by reason of this Agreement. Nothing in this Agreement, expressed or implied, is intended to or shall constitute the parties hereto partners or participants in a joint venture.

13.12 **Construction.** This Agreement has been negotiated by Buyer and Seller and their respective legal counsel, and legal or equitable principles that might require the construction of this Agreement or any provision of this Agreement against the party drafting this Agreement shall not apply in any construction or interpretation of this Agreement.

13.13 **Commercially Reasonable Efforts.** For the purposes of this Agreement, "commercially reasonable efforts" will not be deemed to require a party to undertake extraordinary measures, including the initiation or prosecution of legal proceedings or the payment of amounts in excess of normal unit usual filing fees and processing fees, if any.

13.14 **Books and Records.** Buyer and Seller each agrees that it will cooperate with and make available to the other, during normal business hours, all books and records, information and employees (without substantial disruption of employment) which are necessary or useful in connection with any tax inquiry, audit, investigation or dispute, any litigation or investigation or any other matter requiring any such books and records, information or employees for any reasonable business purpose; it being understood that all books and records shall be maintained by Buyer and Seller for three (3) years following the Closing. The party to which such books and records are made available shall bear all of the out-of-pocket costs and expenses (including, without limitation, attorneys' fees, but excluding reimbursements for salaries and employee benefits) reasonably incurred in connection with providing such books and records, information or employees.

13.15 **Bulk Sales.** Buyer and Seller agree to waive compliance with any "Bulk Sales", "Bulk Transfers", or other similar provision of the law of any state or political subdivision thereof. Seller shall hold Buyer harmless for all liabilities not assumed by Buyer. Said liabilities shall include, but not limited to, all of the MILL, trade debts, advertising and promotional expenses, insurance premiums, profit sharing, federal and state employer taxes, withholding taxes, retirement or other employee benefits as well as wages and fringe benefits of all employees employed at the MILL which are not included as an assumed liability on the Closing Balance Sheet.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

**SCHEDULE 2.13
ASSUMED CONTRACTS**

SELLER: CALIFORNIA PACIFIC RICE MILLING, L.T.D.
A CALIFORNIA LIMITED PARTNERSHIP

BY QUALITY RICE MANAGEMENT, INC.
ITS GENERAL PARTNER

BY *Grant F. Chappell*
GRANT F. CHAPPELL, PRESIDENT

BUYER: CAL PAC INVESTMENTS, LLC
A CALIFORNIA LIMITED LIABILITY COMPANY

BY *Thomas S. Atkinson*
THOMAS S. ATKINSON, MANAGER

SCHEDULE 15

ALLOCATION OF PURCHASE PRICE

SCHEDULE 31

FICTITIOUS & TRADE NAMES

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32

EXHIBIT 1
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SCHEDULE 33

DESCRIPTION & INVENTORY OF PERSONAL PROPERTY

SCHEDULE 34

CONTRACTS & CONSENTS

SCHEDULE 3.51

EMPLOYEE BENEFIT PLANS

SCHEDULE 3.56

EMPLOYER INFORMATION

35

EXHIBIT 1
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36

SCHEDULE 3A

TAXES

SCHEDULE 3B

ENVIRONMENTAL LAWS AND REGULATIONS

37

38

EXHIBIT 1
Page 19 of 21

**SCHEDULE 310
REAL PROPERTY SCHEDULE**

**SCHEDULE 314
EXCLUDED ASSETS**

39

40

**EXHIBIT 1
Page 20 of 21**

SCHEDULE 5.1.5

LEASES

EXHIBIT D

BILL OF SALE

42

EXHIBIT 1

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41

1 which may be construed to be a finding of fact is hereby deemed
2 to be a finding of fact.

3 FINDINGS OF FACT

4 1. On May 3, 2001, the Debtor filed a voluntary petition
5 for relief under chapter 11 of the United States Bankruptcy Code.
6 No trustee having been appointed in the Debtor's chapter 11 case,
7 the Debtor is a debtor in possession. The Debtor is owner of the
8 real and personal property which is subject of the Motion
9 (collectively, "the Assets").

10 2. The Bank is secured by the Assets excluding the
11 Debtor's real estate. It is secured, however, by the equipment
12 and fixtures located on and affixed to the real estate and used
13 in connection with the Debtor's business. Its lien in the rice
14 inventory is likely junior to claims secured by producer's liens.
15 California Food & Agriculture Code sections 55631 and 55634.

16 3. Both before and during this case, the Debtor has
17 actively sought to sell the Assets, which consist essentially of
18 its business as a going concern, for the highest purchase price
19 available. The Asset Purchase Agreement proposed by the Debtor
20 in the Motion, as amended ("the Purchase Agreement"), was
21 negotiated at arm's length and in good faith. There is no
22 evidence of any conduct of the type described in 11 U.S.C.
23 section 363(n). The terms set forth in the Purchase Agreement
24 represent the highest and best offer for the Assets as of the
25 time the Motion was filed. Cal Pac Investments, LLC ("the
26 Buyer"), is not an insider of the Debtor.

27 4. Pursuant to the court's order shortening time, notice
28 of the Motion was given to all creditors and parties in interest

1 in accordance with the court's prior orders and the Federal Rules
2 of Bankruptcy Procedure, including but not limited to all parties
3 to executory contracts which the Debtor sought authority to
4 assume and assign.

5 5. Such notice of the Motion was proper, timely, and
6 adequate under the circumstances of this case. These
7 circumstances included the Debtor's announced intention, stated
8 in connection with its motion to use cash collateral, to attempt
9 to sell its assets as soon as possible. A reasonable opportunity
10 to object or be heard regarding the Motion was afforded to all
11 creditors and interested parties entitled to notice.

12 6. No higher or better offer to purchase the Assets was
13 received despite the Debtor's adequate and proper efforts, both
14 before and during the case, to solicit offers.

15 7. An immediate sale of substantially all of the assets of
16 the Debtor pursuant to 11 U.S.C. section 363, rather than a sale
17 at a later date through a plan of reorganization, is justified on
18 the grounds, among others, that: (a) the return to creditors on a
19 piecemeal liquidation which might occur upon relief from stay in
20 favor of secured creditor Union Bank of California, N.A. ("the
21 Bank"), is projected to be much less than the return to creditors
22 under the sale proposed in the Motion; (b) the Bank has consented
23 to the sale proposed in the Motion, conditioned upon the Bank
24 receiving a minimum of \$11,137,000 at close of escrow to occur on
25 or before July 20, 2001, thereby satisfying 11 U.S.C. section
26 363(f)(2), and the Bank's consent was not forthcoming for a sale
27 under a plan of reorganization; (c) the court was prepared to
28 grant the Bank's pending motion for relief from stay, set for

1 hearing on June 25, 2001, to foreclose on its personal property
2 collateral; (d) the court was prepared to deny the Debtor's
3 further use of the Bank's cash collateral because its interest in
4 it could not be adequately protected by the Debtor; and (e)
5 further delay in a sale would increase the costs of
6 administration and thereby decrease the potential recovery to
7 unsecured creditors.

8 8. As indicated above, were the court to not approve the
9 sale of the Assets to the Buyer, it would terminate the automatic
10 stay in favor of the Bank. It is owed approximately
11 \$28,732,461.00. The Assets, net of the real estate (see
12 paragraph 10 below), net of \$338,000 to be paid to growers
13 selling year 2000 rice to the debtor (see paragraph 12 below),
14 and net of the book value for the year 1999 rice (see paragraph
15 11 below), have a value of approximately \$11,460,427.¹ The Bank
16 is undersecured by approximately \$17,272,034. The likelihood of
17 confirming a plan over the objection of the Bank is very small.
18 Thus, the prerequisites for relief under 11 U.S.C. § 362(d)(2)
19 are easily demonstrated.

20 9. In connection with the sale, the Bank is agreeing to
21 accept less than it might receive in a liquidation of the

22

23 ¹ This was calculated as follows:

Cash	\$3,431,675
Less Payment for Year 2000 rice	(338,000)
A/R	4,016,658
Inventory	3,557,094
Less Value of 1999 Rice	(1,563,000)
Equip. & Fixtures	1,460,427
Total	11,460,427

1 Debtor's assets. It will receive \$11,137,000 of the sale
2 proceeds. It will also waive its claim for a deficiency against
3 the bankruptcy estate. The deficiency claim of approximately
4 \$17,272,034 is estimated to be at least 90% of the remaining
5 unsecured claims against the estate.

6 10. In the event of a conversion to chapter 7 or a
7 liquidation under chapter 11, the Debtor's real estate would have
8 an estimated liquidation value of \$1,200,000. At first blush, it
9 appears unsecured creditors would be better off if the Bank were
10 permitted to foreclose on its collateral and the estate
11 liquidated the real estate for the benefit of creditors.
12 However, even if no allowance is made for the cost of selling the
13 real estate and refurbishing it to repair any damage caused by
14 the removal of the fixtures and equipment, after paying
15 administrative expenses, approximately \$1,000,000 would be
16 available to creditors. The Bank would receive approximately 90%
17 of this amount by virtue of its deficiency claim, leaving
18 approximately \$100,000 to be shared by other unsecured creditors.
19 In connection with this sale the Bank is permitting the Debtor to
20 retain \$363,000 of the sale proceeds, \$338,000 in cash in order
21 to pay growers selling year 2000 rice to the Debtor, and all of
22 the year 1999 rice inventory.² And, by virtue of not asserting a
23 deficiency claim, it will receive nothing from any preferential
24 transfers avoided by the debtor. The prospects of recovery by
25

26 ² At book value this inventory is worth approximately
27 \$1,563,000 but the evidence indicates that its actual value is
28 closer to \$430,000. The inventory values in footnote 1 are based
on book values.

1 unsecured creditors is much improved if the sale goes forward.

2 11. The Debtor proposed that its 1999 rice crop inventory
3 be excluded from the property to be conveyed to the Buyer, and
4 such inventory was in fact excluded from the property subject to
5 purchase. The producer's liens asserted pursuant to California
6 Food & Agriculture Code sections 55631 and 55634 by growers for
7 the sale of year 1999 rice to the Debtor extend only to the
8 specific variety of year 1999 rice sold to the Debtor for
9 processing because the Debtor has segregated rice by year grown
10 and variety.

11 12. The Debtor proposed and shall be required to set aside
12 from funds generated from its operations before the close of
13 escrow, the sum of \$338,000 for the benefit of parties asserting
14 producer's liens pursuant to California Food & Agriculture Code
15 sections 55631 and 55634 on the Debtor's year 2000 rice, and the
16 Debtor shall deposit such proceeds into a segregated, interest-
17 bearing bank account pending resolution of the disputed
18 producers' liens, in the manner described on page nine of the
19 Motion.

20 13. Good cause exists for granting the Motion as modified
21 and supplemented by the Debtor.

22 14. In accordance with 11 U.S.C. section 365(b), the Debtor
23 has demonstrated adequate assurance of prompt payment of all
24 amounts, if any, necessary to cure defaults arising before
25 closing under the Purchase Agreement under any executory or
26 contract or lease to be assumed and assigned to the Buyer, in
27 that the Buyer is to cure any defaults under contract or leases
28 it wishes to assume. In accordance with 11 U.S.C. section

1 365(f), either the Buyer has demonstrated adequate assurance of
2 future performance under any executory contract or lease to be
3 assumed and assigned to the Buyer from and after the closing
4 under the Purchase Agreement, or the nondebtor party to any such
5 executory contract or lease has consented to the assignment.

6 15. The assumption, assignment, sale, and transfer of each
7 executory contract or lease to be assumed and assigned under the
8 Purchase Agreement is within the exercise of the Debtor's sound
9 business judgment.

10 16. The Wadham Energy Limited Partnership maintains that
11 the sale is a de facto rejection of its executory contract with
12 the Debtor. Wadham hauls rice hulls from the Debtor's mill and
13 then uses the hulls as a fuel to generate electricity. It wants
14 to maintain the continuity of its supply of rice hulls. The
15 court assumes that the sale will effectively preclude the debtor
16 from performing its contract with Wadham. This is not, however,
17 a reason to disapprove the sale. If the court did not approve
18 the sale, it would deny the Debtor's further use of the Bank's
19 cash collateral and grant the Bank relief from the automatic stay
20 to foreclose upon its collateral. This would also effectively
21 and completely terminate the Debtor's business operation and
22 ability to supply Wadham.

23 17. Without approval of the sale subject of the Motion, the
24 Debtor would not be able to continue for a significant time to
25 operate its business as a going concern.

26 **CONCLUSIONS OF LAW**

27 1. This court has jurisdiction over this proceeding under
28 28 U.S.C. sections 1334 and 157(a). This is a core proceeding

1 under 28 U.S.C. section 157(b).

2 2. The sale subject of the Motion meets all the
3 requirements of In re Lionel Corp., 722 F.2d 1063 (2nd Cir.
4 1983), for a sale of substantially all of the assets of the
5 Debtor pursuant to 11 U.S.C. section 363, instead of a sale at a
6 later date through a plan of reorganization.

7 3. The Purchase Agreement and the transactions
8 contemplated thereby are within the exercise of the Debtor's
9 sound business judgment, and comply with the provisions of 11
10 U.S.C. sections 363 and 365.

11 4. In accordance with 11 U.S.C. section 365(b), the Debtor
12 or the Buyer has demonstrated adequate assurance of prompt
13 payment of any and all amounts necessary to cure any defaults
14 arising under those executory contracts to be assumed and
15 assigned under the Purchase Agreement ("collectively, the
16 Assigned Contracts"). In accordance with 11 U.S.C. section
17 365(f), either the Buyer has demonstrated adequate assurance of
18 future performance under each Assigned Contract from and after
19 the close of escrow, or the nondebtor party under such contract
20 has consented to the assignment.

21 5. The assumption, assignment, sale, and transfer of each
22 Assigned Contract and of the Property to the Buyer is within the
23 exercise of the Debtor's sound business judgment and is for fair
24 consideration. The Debtor is entitled to the benefits of 11
25 U.S.C. section 365(k).

26 6. Good business reasons and cause exist for granting the
27 relief requested in the Motion and approving the Purchase
28 Agreement.

1 7. The terms of the Purchase Agreement are fair and
2 reasonable. The consideration to the estate: (a) represents the
3 highest and best value realizable for the Assets, and (b)
4 constitutes the full and highest fair market value for the
5 Assets.

6 8. Approval of the sale of the Assets pursuant to the
7 Purchase Agreement is in the best interests of the Debtor's
8 estate and its creditors.

9 9. The sale of the Assets may be effected pursuant to the
10 provisions of sections 363(b) and 363(f) of the Bankruptcy Code,
11 11 U.S.C. Sections 363(b) and 363(f). The sale of the Assets may
12 take place outside of a plan of reorganization due to the fact
13 that a valid business purpose exists for the sale.

14 10. California Food & Agricultural Code § 55631 protects
15 the financial interests of growers who sell farm products to
16 processors by granting them a producer's lien. That section
17 provides:

18 Every producer of any farm product that sells any
19 product which is grown by him to any processor under
20 contract . . . has a lien upon such product and upon
21 all processed or manufactured forms of such farm
22 product for his labor, care and expense in growing and
23 harvesting such product.

24 Cal. Food & Agric. Code § 55631 [emphasis added]. The statutory
25 lien for growers created in section 55631 is extended by section
26 55634:

27 Every lien which is provided for in this article is on
28 every farm product and any processed form of the farm
product which is in the possession of the processor
without segregation of the product.

Cal. Food & Agric. Code § 55634 [emphasis added]. Section 55631
provides for a lien on the produce that is produced by the grower

1 and is sold to the processor. This is clear from the fact that
2 the phrase "has a lien upon such product" is modified by the
3 previous phrase "any product which is grown by him." It does not
4 extend, by virtue of this section 55631, to all products produced
5 by other producers.

6 11. Section 55631 is, however, modified by section 55634
7 which provides that the lien extends beyond that product which is
8 produced by the producer to product in the possession of the
9 processor which is produced by other producers "without
10 segregation." That which is not segregated is commingled. The
11 phrase "without segregation" is properly interpreted to mean
12 "with commingling" or "that is commingled." Section 55634 may be
13 paraphrased to read: Every producer has a lien on any farm
14 product in the possession of a processor that is commingled with
15 product that the producer has sold to the processor. Contrary to
16 the assertion of the objecting growers, section 55634 does not
17 stand for the proposition that a grower's lien attaches to all
18 farm product in the processor's possession. When section 55634
19 is read as modifying section 55631 to extend the lien to
20 commingled product, it becomes apparent that the purpose of
21 section 55634 is to ensure that the producer's lien will continue
22 to attach to the grower's product and will not be destroyed by
23 the process of commingling. So, if the Debtor commingled a
24 grower's 1999 M401 rice with 1999 M401 rice sold to it by other
25 growers, the commingling would not limit or extinguish the
26 grower's lien. The lien would extend to all of the 1999 M401
27 rice. This is only true to the extent that the product is
28 commingled.

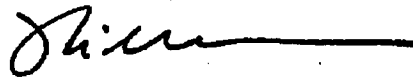
1 12. Because the debtor segregated rice by year and by
2 variety, to the extent growers claim producer's liens on rice of
3 a different variety than sold by to the Debtor or that was grown
4 in a different year, the lien is in bona fide dispute.

5 13. Those entities asserting an interest in any or all of
6 the Assets will be adequately protected within the meaning of 11
7 U.S.C. section 363(e), by virtue of the attachment of their
8 interests to the proceeds of sale.

9 14. The Buyer is a good faith purchaser entitled to the
10 protections of 11 U.S.C. section 363(m) and will be acting in
11 good faith within the meaning of 11 U.S.C. section 363(m) in
12 closing the transaction contemplated by the Purchase Agreement at
13 all times after entry of this Order.

14 Dated: *9 July 2001*

15 By the Court

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18 Michael S. McManus, Chief Judge
United States Bankruptcy Court

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